U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
Securities and Exchange act of 1934
For the fiscal year ended December 31, 2001
Commission file number 0-23881

COWLITZ BANCORPORATION
(Exact name of registrant as specified in its charter)

Washington	**91-152984**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

927 Commerce Ave., Longview, Washington 98632
(Address of principal executive offices) (Zip Code)

(360) 423-9800
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act
Common Stock, No par value
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form of this form 10-K.[X]

The aggregate market value of Registrant's Common Stock held by non-affiliates of the Registrant on February 28, 2002, was $14,633,200.

Common Stock, no par value on February 28, 2002: 3,692,560

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K into which the document is incorporated: Portions of the registrant's proxy statement dated April 19, 2002, for the 2002 annual meeting of shareholders is incorporated by reference in Part III hereof.

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Note: This document has not been reviewed, or confirmed for accuracy or relevancy by the Federal Deposit Insurance Corporation.

PART I

Item 1. Business

Introduction

Cowlitz Bancorporation (the "Company") was organized in 1991 under Washington law to become the holding company for Cowlitz Bank (also the "Company" or the "Bank"), a Washington state chartered bank that commenced operations in 1978. The principal executive offices of the Company are located in Longview, Washington.

The Company offers or makes available a broad range of financial services to its customers, primarily small and medium-sized businesses, professionals and retail customers. The Bank's commercial and personal banking services include commercial and real estate lending, consumer lending, mortgage origination and trust services. From 1998 through 2001, the Company also provided asset-based lending services to companies throughout the Western United States through its subsidiary, Business Finance Corporation ("BFC"). Pursuant to a formal plan of disposal that was finalized in January 2002, management decided to sell the assets of BFC subsequent to year-end. See additional disclosure of the sale of BFC in item 7 under "Results of Operations for the Year Ended December 31, 2001" and in Note 2 to the financial statements, "Business Acquisitions and Sales."

The Company's goal is to expand its position as a community-based provider of financial services. The Company's growth strategy is based on providing both exceptional personal service and a wide range of financial services to its customers. This is done by emphasizing personal service and developing strong community ties, offering financial products and services that are focused on small and medium-sized businesses, and increasing business volume in existing markets. In accordance with this strategy, during 1999 and 2000, the Company acquired or opened several mortgage and escrow branches. Bay Mortgage and Bay Escrow of Bellevue, Washington, Bay Mortgage and Bay Escrow of Seattle, Washington, Bay Mortgage of Silverdale, Washington, and Bay Mortgage of Vancouver, Washington (collectively "Bay Mortgage") have joined together with the Longview mortgage operations as a division of Cowlitz Bank. Bay Mortgage serves customers throughout the greater Bellevue/Seattle market area, Cowlitz County, and through the Vancouver office, the greater Portland, Oregon market. The Bank also expanded its commercial banking activities in the Seattle/Bellevue area with the September 1999 opening of a branch in Bellevue, Washington, which is doing business as Bay Bank. In mid-2000, the Company acquired Northern Bank of Commerce ("NBOC") of Portland, Oregon, which operates as a branch of the Bank doing business as Northern Bank of Commerce. NBOC operates its main office in downtown Portland, and has 12 limited service branches located within retirement centers in the Portland metropolitan area.

Products and Services

The Company offers a broad portfolio of products and services tailored to meet the financial needs of targeted customers in its market areas. It believes this portfolio is generally competitive with the products and services of its competitors, including major regional and national banks. These products and services include:

Deposit Products. The Company provides a range of deposit products for customers, including non-interest-bearing checking accounts, interest-bearing checking and savings accounts, money market accounts and certificates of deposit. These accounts generally earn interest at rates established by management based on competitive market factors and management's desire to increase certain types or maturities of deposit liabilities. During times of asset growth, or as liquidity needs arise, the Company will utilize broker deposits as a source of funding. The Company strives to establish customer relations to attract core deposits in non-interest-bearing transactional accounts and thus to reduce its cost of funds.

Loan Products. The Company offers a broad range of loan products to its retail and business customers. The Company maintains loan underwriting standards with written loan policies, conservative individual and branch limits and reviews by the loan committee. Further, in the case of particularly large loan commitments or loan participations, loans are reviewed by the Company's board of directors. Underwriting standards are designed to achieve a high-quality loan portfolio, compliance with lending regulations and the desired mix of loan maturities and industry concentrations. Management seeks to minimize credit losses by closely monitoring the financial condition of its borrowers and the value of collateral.

Commercial Loans. Commercial lending is the primary focus of the Company's lending activities, and a significant portion of its loan portfolio consists of commercial loans. The Company offers specialized loans for its business and commercial customers. These include equipment and inventory financing, operating lines of credit and accounts receivable financing. For regulatory purposes, a substantial portion of the Company's commercial loans are designated as real estate loans, as the loans are secured by mortgages and trust deeds on real property, although the loans may be made for purposes of financing commercial activities, such as accounts receivable, equipment purchases and inventory or other working capital needs. Lending decisions are based on careful evaluation of the financial strength, management and credit history of the borrower, and the quality of the collateral securing the loan. Commercial loans secured by real property are generally limited to 80% of the value of collateral. In some cases, the Company may require personal guarantees and secondary sources of repayment. In competing with major regional and national banks, the Company is limited by its single borrower lending limits imposed by law. See "Risk Factors" for further discussion.

Real Estate Loans. Real estate loans are available for construction, purchasing and refinancing residential owner-occupied and rental properties. Borrowers can choose from a variety of fixed and adjustable rate options and terms. Real estate loans reflected in the loan portfolio also include loans made to commercial customers that are secured by real property.

The Company provides customers access to long-term conventional real estate loans primarily through Bay Mortgage. Bay Mortgage specializes in all facets of residential lending from single family homes to small multi-plexes, including FHA and VA loans, construction and bridge loans.

Consumer Loans. The Company provides loans to individual borrowers for a variety of purposes, including secured and unsecured personal loans, home equity, personal lines of credit and motor vehicle loans. Consumer loans can carry significantly greater risks than other loan products, even if secured, if the collateral consists of rapidly depreciating assets such as automobiles and equipment. Repossessed collateral securing a defaulted consumer loan may not provide an adequate source of repayment of the loan. Consumer loan collections are dependent on borrowers' continuing financial stability, and are sensitive to job loss, illness and other personal factors. The Company attempts to manage the risks inherent in consumer lending by following strict credit guidelines and conservative underwriting practices. The Company also offers Visa and MasterCard credit cards to its customers.

Other Banking Products and Services. In support of its focus on personalized service, the Company offers additional products and services for the convenience of its customers. These services include a retirement home branch network, a debit card program, automated teller machines at five branch locations and an automated telephone banking service with 24-hour access to accounts that also allows customers to speak directly with a customer service representative during normal banking hours. The Company does not currently charge fees for any of these services, with the exception of ATM transactions through other financial institutions. The Company provides drive-through facilities at four of its branches, including the Triangle Mall branch in Longview, which is exclusively a drive-up facility. In 2001, the Company implemented a website, internet banking, and cash management system to enhance the services available to both business and private account holders. Account inquires, wire transfers, bill pay services, and general management of account portfolios are services now available on line.

Trust Services. Cowlitz Bank is the only bank in Cowlitz County to offer complete trust services. The trust department, located in the offices of the main branch in Longview, WA, focuses on the needs of the customer, providing trust services to individuals, partnerships, corporations and institutions and acting as fiduciary of living trusts, estates and conservatorships. The trust department also acts as trustee under wills, trusts, and other plans. The Company believes these services add to the value of Cowlitz Bank as a community bank by providing local access to services that have been previously sought from out of the area institutions.

Internet Banking. Continuing the Company's desire to provide valuable financial services to its customers, a website and Internet banking and cash management system was introduced in the second quarter of 2001. Through this upgrade of our technology capabilities, the Company is able to provide our clients secure access, information, and services while enhancing the advantages they presently enjoy. Business clients can avail themselves of a comprehensive cash management program which allows them to easily and securely move money between accounts, wire funds, receive funds, pay bills, and generally manage their financial resources. Retail customers now have the ability to access account information, pay bills, and manage their accounts from the comfort of their homes. By offering on-line banking services, the Company hopes to strengthen existing customer relationships and to attract new customers in the future.

Other Financial Services. The Company believes that providing its customers a full range of financial services is an important element of its strategy to attract and retain customers. To this end, the Company has entered into a lease arrangement with Raymond James Financial Services, Inc., a securities broker. This organization maintains an office on the main floor of the Cowlitz Financial Center, where the main office of the Company is located, and has access to space in the Company's other branches to allow representatives of Raymond James to meet with clients. The Company has no financial interest in Raymond James Financial Services, Inc.

Acquisitions

On July 1, 2000, the Company acquired Northern Bank of Commerce (NBOC), of Portland, Oregon for approximately $3.8 million in cash, including acquisition costs. The Company has accounted for the transaction using the purchase method of accounting. Under the terms of the agreement, the shareholders of NBOC received $2.48 in cash for each share of NBOC stock.

The following table summarizes the acquisition of NBOC.

(dollars in thousands)		
Fair value of assets acquired	$	46,246
Goodwill recorded		946
Total assets acquired		47,192
Less liabilities assumed		43,357
Cash paid for acquisition		(3,835)
Less cash acquired		7,023
Net cash received in acquisition	$	3,188

The following unaudited pro forma financial information for the Company gives effect to the acquisitions of NBOC, as if it had occurred on January 1, 2000. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the acquisition occurred on the dates indicated, or which may result in the future for the combined companies under the ownership and management of the Company. The pro forma results include certain adjustments, such as additional expense, as a result of goodwill amortization.

(dollars in thousands, except per share amounts)		**2001**		**2000 (Pro forma)**
Net interest income	$	13,845	$	14,326
Net loss	$	(1,450)	$	(279)
Net interest income per share	$	3.72	$	4.49
Losses per share	$	(.39)	$	(0.20)

During 1999, the Company acquired Bay Mortgage, of Bellevue, Washington, Bay Mortgage of Seattle, and Bay Escrow of Seattle, Washington. The acquisitions were accounted for using the purchase method of accounting and included cash payments of $1.8 million and issuance of 148,810 shares of common stock with a value of $977,000. The shares' value was determined from the average closing bid price and ask price of the Company's common stock for the five trading days preceding and five trading days following the public announcement of this acquisition on May 13, 1999. Goodwill of $2.3 million was recorded as part of these transactions. During 2001, additional cash payments of $562,000 were recorded, and 38,112 shares of the Company's common stock were issued to the seller in connection with the acquisitions, pursuant to a performance earn-out agreement. The shares were valued at $210,000 based on the Company's closing bid price on December 31, 2001. The earn-out agreement required fixed and profit sharing payments to the sellers if the mortgage segment's net earnings over a two year measurement period were in excess of a specified target net income. This target was not reached during 2000, so no amounts were paid or accrued for the year ended December 31, 2000. Because these additional acquisition costs were contingent on future earnings, no additional payments were made or accrued at the date of acquisition. The earn-out payments, totaling $772,000, have been recorded in 2001 as additional goodwill associated with the purchase in accordance with the provisions of APB 16 "*Business Combinations*."

Market areas

The Company's primary market areas from which it accepts deposits and makes loans are Cowlitz County, in southwest Washington, King County, Washington, the Portland metropolitan area in Oregon, and the surrounding counties in Washington and northwest Oregon. As a community bank, Cowlitz Bank has certain competitive advantages due to its local focus, but is also more closely tied to the local economy than many of its competitors, which serve a number of geographic markets. Bay Mortgage is concentrated in western Washington and northwest Oregon.

Employees

As of December 31, 2001, the Company employed a total of 199 full-time equivalent employees. None of the employees are subject to a collective bargaining agreement and the Company considers its relationships with its employees to be favorable.

Risk Factors

Exposure to Regional Economy

Historically, the Company has been extremely dependent upon and sensitive to the economy of Cowlitz County, which is firmly dependent on three industries, pulp and paper, wood products, and aluminum. These industries have been in a state of decline for the past 15 years, and Cowlitz County felt the impact particularly in 2001. The impact of the permanent loss of at least 800 manufacturing jobs, double-digit unemployment, two contentious strikes, and increasing power rates, are factors that have severely dampened the local economy. The Company's expansion into the Seattle, Washington, and Portland, Oregon markets has greatly reduced its dependence on the economy of Cowlitz County. However, the Company is still dependent on the economy in the Pacific Northwest region, which has experienced similar challenges in unemployment, increased utility costs, and general economic weakness in the Portland and Seattle metro areas.

Credit Risk

The Company, like other lenders, is subject to credit risk, which is the risk of losing principal and interest due to customers' failure to repay loans in accordance with their terms. Although the Company has established lending criteria and most loans are secured by collateral, the downturn in the economy and the real estate market or a rapid increase in interest rates could have a negative effect on collateral values and borrowers' ability to repay. The Company's targeted customers are small to medium-size businesses, professionals and retail customers that may have limited capital resources to repay loans during an economic downturn.

Interest Rate Risk

The Company's earnings are largely derived from net interest income, which is interest income and fees earned on loans and investment income, less interest expense paid on deposits and other borrowings. Interest rates are highly sensitive to many factors which are beyond the control of the Company's management, including general economic conditions, and the policies of various governmental and regulatory authorities. As interest rates change, net interest income is affected. With fixed rate assets (such as fixed rate loans) and liabilities (such as certificates of deposit), the effect on net interest income depends on the maturity of the asset and liability. Although the Company strives to minimize interest rate risk through asset/liability management policies, from time to time maturities are not balanced. Further, an unanticipated rapid decrease or increase in interest rates could have an adverse effect on the spreads between the interest rates earned on assets and the rates of interest paid on liabilities and, therefore, on the level of net interest income.

Regulation

The Company is subject to extensive regulations under federal and state laws. These laws and regulations are intended primarily to protect depositors and the deposit insurance fund, rather than shareholders. Cowlitz Bank is a state chartered commercial bank which is not a member of the Federal Reserve System and is subject to primary regulation and supervision by the Director of Financial Institutions of the State of Washington (the "Washington Director") and by the Federal Deposit Insurance Corporation (the "FDIC"), which also insures bank deposits. The Company is also subject to regulation and supervision by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). Federal and state regulations place banks at a competitive disadvantage compared to less regulated competitors such as finance companies, credit unions, mortgage banking companies and leasing companies. Although the Company has been able to compete effectively in its market area in the past, there can be no assurance that it will be able to continue to do so. Further, future changes in federal and state banking regulations could adversely affect the Company's operating results and ability to continue to compete effectively. See "Regulation and Supervision."

Competition

Competition in the banking industry has intensified for deposits and loans over the last few years. Competition from outside the traditional banking system from credit unions, investment banking firms, insurance companies and related industries offering bank-like products has increased the competition for deposits and loans.

The banking industry in the market areas in which the Company operates is generally characterized by well established, large banks. There are also thrift institutions, other community banks and credit unions within the market areas that are very competitive in deposit and consumer lending areas.

The major competition for commercial and mortgage banking services in Cowlitz County comes from U.S. Bank, Key Bank, Bank of America and Columbia State Bank. None of these competitors are headquartered in Cowlitz County and many have relocated key functions (e.g., loan decisions) into regional offices outside of the area. However, within the past two years, competition has increased with the start-up of two community banks in Longview. In the Company's greater Seattle market area, the main sources of competition are U.S. Bank, Key Bank, Bank of America, Wells Fargo, Washington Mutual, Evergreen State Bank, Western Bank, Columbia Bank, First Horizon, and other community banks and mortgage companies located in the greater Seattle/Bellevue area. For NBOC in the Portland area, competition comes from banks such as Washington Mutual, US Bank, Bank of America, Wells Fargo, Centennial Bank, Bank of the Northwest, and Key Bank. The retirement center branches compete with smaller, in-store branches (such as Washington Mutual branches in Fred Meyer stores) and credit unions.

Offices of the major financial institutions have competitive advantages over the Company in that they have high public visibility, may offer a wider variety of products and are able to maintain advertising and marketing activities on a much larger scale than the Company can economically maintain. Since single borrower lending limits imposed by law are dependent on the capital of the institution, the branches of larger institutions with substantial capital bases also have an advantage with respect to loan applications that are in excess of the Company's legal lending limits.

In competing for deposits, the Company is subject to certain limitations not applicable to non-bank financial institution competitors. Previous laws limiting the deposit instruments and lending activities of savings and loan associations have been substantially eliminated, thus increasing the competition from these institutions. In the Company's Cowlitz County market area, the main source of competition for deposits is the relatively large number of credit unions.

With significant competition in the Company's market areas, there can be no assurance that the Company can continue to attract significant loan and deposit customers. The inability to attract these customers could have an adverse effect on the Company's financial position and results of operations.

Regulation and Supervision

The Company and the Bank are subject to extensive regulation under federal and state laws. The laws, together with the regulations promulgated under them, significantly affect respective activities of the Company and the Bank and the competitive environment in which they operate. The laws and regulations are primarily intended to protect depositors and the deposit insurance fund, rather than shareholders.

The description herein of the laws and regulations applicable to the Company and the Bank, does not purport to be a complete description of the laws and regulations mentioned herein or of all such laws and regulations. Any change in applicable laws or regulations may have a material effect on the business and prospects of the Company and the Bank. The operations of the Company and the Bank may be affected by legislative and regulatory changes as well as by changes in the policies of various regulatory authorities. The Company cannot accurately predict the nature or the extent of the effects that such changes may have in the future on its business and earnings.

Bank Holding Company Regulation. The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended ("BHCA") and, as such, is subject to the regulations of the Federal Reserve. Bank holding companies are required to file periodic reports with, and are subject to periodic examination by, the Federal Reserve. The Federal Reserve has issued regulations under the BHCA requiring a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. It is the policy of the Federal Reserve that, pursuant to this requirement, a bank holding company should stand ready to use its resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity. Additionally, under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), a bank holding company is required to guarantee the compliance of any insured depository institution subsidiary that may become "undercapitalized" (as defined in the statute) with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal banking agency up to the lesser of (i) an amount equal to 5% of the institution's total assets at the time the institution became undercapitalized, or (ii) the amount that is necessary (or would have been necessary) to bring the institution into compliance with all applicable capital standards as of the time the institution fails to comply with such capital restoration plan. Under the BHCA, the Federal Reserve has the authority to require a bank holding company to terminate any activity or relinquish control of a non-bank subsidiary (other than a non-bank subsidiary of a bank) upon the Federal Reserve's determination that such activity or control constitutes a serious risk to the financial soundness and stability of any bank subsidiary of the bank holding company.

Capital Adequacy Guidelines for Bank Holding Companies. The Federal Reserve is the federal regulatory and examining authority for bank holding companies. The Federal Reserve has adopted capital adequacy guidelines for bank holding companies. These guidelines are similar to, although not identical with, the guidelines applicable to banks. See "Bank Capital Requirements." At December 31, 2001, the Company's Tier 1 leverage capital ratio was 6.51%, its Tier 1 risk-based capital ratio was 8.84% and its total risk-based capital ratio was 10.10%.

Bank Regulation. The Bank is organized under the laws of the State of Washington and is subject to the supervision of the Department of Financial Institutions ("DFI"), whose examiners conduct periodic examinations of state banks. Cowlitz Bank is not a member of the Federal Reserve System, so its principal federal regulator is the FDIC, which also conducts periodic examinations of the Bank. The Bank's deposits are insured, to the maximum extent permitted by law, by the Bank Insurance Fund ("BIF") administered by the FDIC and are subject to the Federal Deposit Insurance Corporation's ("FDIC") rules and regulations respecting the insurance of deposits. See "Deposit Insurance."

Both federal and state laws extensively regulate various aspects of the banking business such as reserve requirements, truth-in-lending and truth-in-savings disclosures, equal credit opportunity, fair credit reporting, trading in securities and other aspects of banking operations. Current federal law also requires banks, among other things, to make deposited funds available within specified time periods.

Insured state-chartered banks are generally prohibited under FDICIA from engaging as principal in activities that are not permitted for national banks, unless (i) the FDIC determines that the activity would pose no significant risk to the appropriate deposit insurance fund, and (ii) the bank is, and continues to be, in compliance with all applicable capital standards. The Company does not believe that these restrictions will have a material adverse effect on its current operations.

Bank Capital Requirements. The FDIC has adopted risk-based capital ratio guidelines to which the Bank is subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk.

These guidelines divide a bank's capital into two tiers. Tier 1 includes common equity, certain non-cumulative perpetual preferred stock (excluding auction rate issues) and minority interest in equity accounts of consolidated subsidiaries, less goodwill and certain other intangible assets (except mortgage servicing rights and purchased credit card relationships, subject to certain limitations). Supplementary (Tier 2) capital includes, among other items, cumulative perpetual and long-term, limited-life, preferred stock, mandatory convertible securities, certain hybrid capital instruments, term-subordinated debt and the allowance for loan and lease losses, subject to certain limitations, less required deductions. Banks are required to maintain a total risk-based capital ratio of 8%, of which 4% must be Tier 1 capital. The FDIC may, however, set higher capital requirements when a bank's particular circumstances warrant. Banks experiencing or anticipating significant growth are expected to maintain capital ratios, including tangible capital positions, well above the minimum levels.

In addition, the FDIC has established guidelines prescribing a minimum Tier 1 leverage ratio (Tier 1 capital to adjusted total assets as specified in the guidelines). These guidelines provide for a minimum Tier 1 leverage ratio of 3% for banks that meet certain specified criteria, including that they have the highest regulatory rating and are not experiencing or anticipating significant growth. All other banks are required to maintain a Tier 1 leverage ratio of not less than 4%.

Certain regulatory capital ratios for the Company and the Bank at December 31, 2001 are set forth below:

	Company	Bank
Total-Risk Based Capital to Risk-Weighted Assets	10.10%	10.72%
Tier 1 Capital to Risk-Weighted Assets	8.84%	9.46%
Tier 1 Leverage Ratio	6.51%	6.99%

Dividends. The principal source of the Company's cash revenues is dividends from Cowlitz Bank. Under Washington law, Cowlitz Bank may not pay dividends in an amount greater than its retained earnings as determined by generally accepted accounting principles. In addition, the DFI has the authority to require a state-chartered bank to suspend payment of dividends. The FDIC has the authority to prohibit a bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice in light of the financial condition of the bank or if it would cause a bank to become undercapitalized.

Lending Limits. Under Washington law, the total loans and extensions of credit by a Washington-chartered bank to a borrower outstanding at one time may not exceed 20% of such bank's capital and surplus. However, this limitation does not apply to loans or extensions of credit which are fully secured by readily marketable collateral having market value of at least 115% of the amount of the loan or the extension of credit at all times.

Branches and Affiliates. Establishment of bank branches is subject to approval of the DFI and FDIC and geographic limits established by state laws. Washington's branch banking law permits a bank having its principal place of business in the State of Washington to establish branch offices in any county in Washington without geographic restrictions. A bank may also merge with any national or state chartered bank located anywhere in the State of Washington without geographic restrictions.

Under Oregon law, an out-of-state bank or bank holding company may merge with or acquire an Oregon state chartered bank or bank holding company if the Oregon bank, or in the case of a bank holding company, the subsidiary bank, has been in existence for a minimum of three years, and the law of the state in which the acquiring bank in located permits such merger. Branches may not be acquired or opened separately, but once an out-of-state bank has acquired branches in Oregon, either through a merger with or acquisition of substantially all of the assets of an Oregon bank, the bank may open additional branches.

The Bank is subject to Sections 22 (h), 23A and 23B of the Federal Reserve Act, which restrict financial transactions between banks and affiliated companies. The statute limits credit transactions between a bank and its executive officers and its affiliates, prescribes terms and conditions for bank affiliate transactions deemed to be consistent with safe and sound banking practices, and restricts the types of collateral security permitted in connection with a bank's extension of credit to an affiliate.

FDICIA. FDICIA requires, among other things, federal bank regulatory authorities to take "prompt corrective action" with respect to banks which do not meet minimum capital requirements. For these purposes, FDICIA establishes five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized.

The FDIC has adopted regulations to implement the prompt corrective action provisions of FDICIA. Among other things, the regulations define the relevant capital measures for the five capital categories. An institution is deemed to be "well capitalized" if it has a total, risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a leverage ratio of 5% or greater, and is not subject to a regulatory order, agreement or directive to meet and maintain a specific capital level for any capital measure. At the end of the 1st and 2nd quarters of 2001, Cowlitz Bank had dropped below well capitalized in the total risk-based capital category. By the 3rd quarter of 2001, the Bank had increased capital to a level that brought the ratios back into the well-capitalized category. Cowlitz Bank currently exceeds all of these ratios.

FDICIA further directs that each federal banking agency prescribe standards for depository institutions and depository institution holding companies relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, management compensation, a maximum ratio of classified assets to capital, minimum earnings sufficient to absorb losses, a minimum ratio of market value to book value of publicly traded shares and such other standards as the agency deems appropriate.

The Federal Reserve Board classifies a bank holding company as "well capitalized" if it has a total, risk-based capital ratio of 10% or greater and a Tier 1 risk-based capital ratio of 6% or greater. At the end of the 2nd quarter of 2001, the Company had dropped below well capitalized in the total risk-based capital category. By the 3rd quarter of 2001, the Company had increased capital to a level that brought the ratios back into the well capitalized category. The Company currently exceeds all of these ratios.

Deposit Insurance. The Bank's deposits are insured up to $100,000 per insured account by the Bank Insurance Fund (BIF). As an institution whose deposits are insured by BIF, Cowlitz Bank is required to pay deposit insurance premiums to BIF.

FDICIA required the FDIC to issue regulations establishing a system for setting deposit insurance premiums based upon the risks a particular bank or savings association poses to the deposit insurance funds. This system bases an institution's risk category partly upon whether the institution is well capitalized, adequately capitalized or less than adequately capitalized. Each insured depository institution is also assigned to one of three "supervisory" categories based on reviews by regulators, statistical analysis of financial statements and other relevant information. An institution's assessment rate depends upon the capital category and supervisory category to which it is assigned. Annual assessment rates currently range from zero per $100 of domestic deposits for the highest rated institution to $0.27 per $100 of domestic deposits for an institution in the lowest category. In the first and second quarters of 2001, the Bank paid an assessment rate of $0.10 per $100 of domestic deposits, which decreased to $0.03 for the third and fourth quarters of 2001. Beginning in the first quarter of 2002, the assessment rate for Cowlitz Bank will increase to $.17 per $100 of domestic deposits. Under legislation enacted in 1996 to recapitalize the Savings Association Insurance Fund, the FDIC is authorized to collect assessments against insured deposits to be paid to the Financing Corporation ("FICO") to service FICO debt incurred in the 1980's. The current FICO assessment rate for BIF insured deposits is $1.82 cents per $100 of deposits per year. Any increase in deposit insurance of FICO assessments could have an adverse effect on Cowlitz Bank's earnings.

Gramm-Leach-Bliley Act. On November 12, 1999, the Gramm-Leach-Bliley Act (the "GLB Act") was signed into law, which significantly reforms various aspects of the financial services business. Among the provisions in the GLB Act are those which:

- establish a new framework under which bank holding companies and banks can own securities firms, insurance companies and other financial companies; and

- provide consumers with new protections regarding the transfer and use of their non-public personal information by financial institutions; and

- change the Federal Home Loan Bank ("FHLB") system in numerous ways including a change in the manner of calculating the Resolution Funding Corporation obligations payable by the FHLB and a broadening of the purposes for which FHLB advances may be used.

Community Reinvestment Act. The Community Reinvestment Act ("CRA") requires financial institutions regulated by the federal financial supervisory agencies to ascertain and help meet the credit needs of their delineated communities, including low-income and moderate-income neighborhoods within those communities, while maintaining safe and sound banking practices. The regulatory agency assigns one of four possible ratings to an institution's CRA performance and is required to make public an institution's rating and written evaluation. The four possible ratings are "outstanding," "satisfactory," "needs to improve" and "substantial non-compliance."

Under new regulations that apply to CRA performance ratings after July 1, 1997, many factors play a role in assessing a financial institution's CRA performance. The institution's regulator must consider its financial capacity and size, legal impediments, local economic conditions and demographics and the competitive environment in which it operates. The evaluation does not rely on absolute standards and financial institutions are not required to perform specific activities or to provide specific amounts or types of credit.

The Company's most recent rating under CRA is "outstanding." This rating reflects the Company's commitment to meeting the credit needs of the communities it serves. No assurance can be given, however, that the Company will be able to maintain an "outstanding" rating under the new regulations in the future.

Additional Matters. In addition to the matters discussed above, the Company and Cowlitz Bank are subject to additional regulation of their activities, including a variety of consumer protection regulations affecting their lending, deposit and collection activities and regulations affecting secondary mortgage market activities.

The earnings of financial institutions, including the Company and Cowlitz Bank, are also affected by general economic conditions and prevailing interest rates, both domestic and foreign and by the monetary and fiscal policies of the U.S. Government and its various agencies, particularly the Federal Reserve.

Additional legislation and administrative actions affecting the banking industry may be considered by the United States Congress, the Washington Legislature and various regulatory agencies, including those referred to above. It cannot be predicted with certainty whether such legislation or administrative action will be enacted or the extent to which the banking industry in general or the Company and Cowlitz Bank in particular would be affected.

Item 2. Properties

The Company owns its main office space at the Cowlitz Financial Center (CFC). Cowlitz Bank occupies approximately 27,500 square feet of this facility. The Company leases space in the CFC to Raymond James Financial Services, Inc. which provides service to Cowlitz Bank customers. The Company owns branches in Kelso and Kalama and leases facilities for branches in the Triangle Mall in Longview, Castle Rock, Bellevue, Seattle, Silverdale, and Vancouver, all in Washington. Five of these offices have automated teller machines and four provide drive-up services, including the Triangle Mall location, which is exclusively a drive-up branch facility. Business Finance Corporation leased its facilities in Bellevue, Washington, until it was sold in the 1st quarter of 2002. In the Portland, Oregon metropolitan area, the Company operates 13 Northern Bank of Commerce branches, 12 of which are located within retirement centers. These 12 locations offer limited service and limited hours of operation. The retirement communities typically provide the office space to NBOC without written agreements, for a nominal monthly rent.

Cowlitz Bancorporation/CFC
927 Commerce Ave.
Longview, Wa 98632
(360) 423-9800

Cowlitz Bank - Kalama Branch
195 N. 1st St.
Kalama, Wa 98625
(360) 673-2226

Cowlitz Bank-Triangle Mall Branch
800 Triangle Mall
Longview, Wa 98632
(360) 577-6067

Cowlitz Bank - Kelso Branch
1000 South 13th
Kelso, Wa 98626
(360) 423-7800

Cowlitz Bank - Castle Rock Branch
202 Cowlitz St. W.
Castle Rock, Wa 98611
(360) 274-6685

Bay Bank
10500 NE 8th Street, STE 1750
Bellevue, Wa 98004
(425) 452-1543

Bay Mortgage & Escrow -Bellevue
10500 NE 8th Street, STE 1550
Bellevue, Wa 98004
(425) 635-6151

Bay Mortgage & Escrow - Seattle
2825 Eastlake E., STE 300
Seattle, Wa 98102
(206) 324-7777

Bay Mortgage - Vancouver
201 NE Park Plaza Drive STE 296
Vancouver, Wa 98684
(360) 944-9431

Bay Mortgage - Silverdale
9230 Bay Shore Dr. NW STE 201
Silverdale, Wa 98383
(360) 308-0959

Northern Bank of Commerce
1001 SW 5th Ave., Suite 250
Portland, Or 97204
(360) 308-0959

Northern Bank of Commerce Retirement Centers:
Gresham Manor (Gresham, Or)
Springridge at Charbonneau (Wilsonville, Or)
Creekside Retirement (Beaverton, Or)
Carman Oaks (Lake Oswego, Or)
Beaverton Lodge (Beaverton, Or)
Parkrose Chateau (Portland, Or)
Royal Marc (Milwaukie, Or)
Vinyard Place (Milwaukie, Or)
Somerset Lodge (Gladstone, Or)
Edgewood Downs (Beaverton, Or)
Summerfield Estates (Tigard, Or)
Rock Creek (Hillsboro, Or)

Item 3. Legal Proceedings

The Company from time to time enters into routine litigation resulting from the collection of secured and unsecured indebtedness as part of its business of providing financial services. In some cases, such litigation will involve counterclaims or other claims against the Company. Such proceedings against financial institutions sometimes also involve claims for punitive damages in addition to other specific relief. Currently, the Company is not a party to any litigation other than in the ordinary course of business, except as noted below. In the opinion of management, the ultimate outcome of all pending legal proceedings will not individually or in the aggregate have a material adverse effect on the financial condition or the results of operations of the Company.

On March 8, 2002, a lawsuit was filed in the King County, Washington Superior Court against the Company by Independent Financial Network, Inc. ("IFN"), and one of IFN's shareholders, Scott Rerucha. The Company acquired certain assets and operations from IFN in 1999 pursuant to a purchase agreement with IFN, Mr. Rerucha, and other individuals. The operations acquired from IFN are the core of the Company's Bay Mortgage division. The complaint alleges, among other things, that the Company has materially breached its obligations under the purchase agreement and requests that the plaintiffs be awarded unspecified damages and that Mr. Rerucha be relieved of his non-competition obligations under the purchase agreement. The Company does not believe it has breached its obligations under the IFN agreement and intends to vigorously defend this action. The Company believes the potential damages awarded, if any, will not materially affect the Company's financial position, results of operation or cash flows. However, if Mr. Rerucha is relieved of his non-competition obligations, it is difficult to assess the potential impact on the earning potential of the Company's mortgage segment. The non-competition obligation currently extends through July 2004.

Item 4. Submission of matters to a vote of securities holders

None.

PART II

Item 5. Market price and dividends on the registrant's common equity and related stockholder matters

Effective March 12, 1998, Cowlitz Bancorporation stock began trading on the Nasdaq National Market under the symbol "CWLZ". Prior to that date, there had been no organized market for the Common Stock, and to the knowledge of the Company, no third party bid and ask information was available.

	2001			2000		
	Market Price			Market Price		
	High	Low	Cash Dividend Declared	High	Low	Cash Dividend Declared
1st Quarter	$6.00	$4.56	$.018	$5.25	$4.50	$.018
2nd Quarter	$5.50	$5.00	$.018	$5.75	$4.44	$.018
3rd Quarter	$6.00	$5.01	$.000	$4.88	$4.28	$.018
4th Quarter	$6.00	$5.25	$.000	$5.13	$4.38	$.018

During 2001, the Company paid three dividends, including the $.018 declared in the fourth quarter of 2000, which was paid in the first quarter of 2001. The Company suspended dividends indefinitely after the 2nd quarter of 2001. Based upon the number of record holders, there were 3,692,560 shares of common stock outstanding, held by 329 shareholders of record, which excludes shares held in street name, as of February 28, 2002.

Item 6. Selected Financial Data

(dollars in thousands except per share data)	2001	2000	1999	1998	1997
	As of and for the Year ended December 31,				
Income Statement Data					
Interest income	$ 27,227	$ 22,848	$ 15,276	$ 15,838	$ 15,032
Interest expense	13,382	9,940	5,248	5,973	6,889
Net interest income	13,845	12,908	10,028	9,865	8,143
Provision for loan loss	5,262	1,155	1,349	509	375
Net interest income after provision for loan loss	8,583	11,753	8,679	9,356	7,768
Non-interest income	9,591	5,219	3,191	978	749
Non-interest expense	19,474	15,492	10,794	6,927	5,284
Income (loss) before provision for income taxes	(1,300)	1,480	1,076	3,407	3,233
Provision for income taxes	150	611	420	1,181	1,109
Net income (loss)	$ (1,450)	$ 869	$ 656	$ 2,226	$ 2,124
Dividends					
Cash	200	281	281	212	126
Ratio of dividends to net income	N/A	32.34%	42.84%	9.52%	5.93%
Per Share Data					
Diluted earnings per share	$ (0.39)	$ 0.22	$ 0.16	$ 0.57	$ 0.78
Cash dividends per common share	$ 0.05	$ 0.07	$ 0.07	$ 0.06	$ 0.05
Weighted average shares outstanding	3,691,728	3,885,946	4,054,657	3,715,901	2,601,650
Balance Sheet Data (at period end)					
Investment securities	$ 34,303	$ 12,071	$ 12,991	$ 11,530	$ 8,481
Loans, net	229,215	229,078	147,105	129,160	129,993
Total assets	370,660	296,898	198,495	178,345	173,293
Total deposits	315,490	241,216	137,607	122,361	136,209
Total short-term borrowings	2,750	1,275	3,825	2,275	725
Total long-term borrowings	19,009	21,348	24,281	21,799	21,900
Total shareholders' equity	28,748	30,409	31,490	30,920	13,887
Selected Ratios					
Return on average total assets	(0.41)%	0.34%	0.37%	1.24%	1.28%
Return on average shareholders' equity	(4.72)%	2.82%	2.08%	8.34%	16.65%
Net interest margin	4.21%	5.51%	6.31%	6.08%	5.33%
Efficiency ratio (1)	83.09%	85.46%	81.66%	63.89%	59.42%
Asset Quality Ratios					
Allowance for loan losses to:					
Ending total loans	2.55%	1.95%	1.53%	1.39%	1.49%
Non-performing assets (2)	80.09%	58.18%	76.88%	54.66%	81.51%
Non-performing assets to ending total assets	2.02%	2.64%	1.49%	1.86%	1.39%
Net loan charge-offs to average loans	1.60%	0.43%	0.67%	0.54%	0.23%
Capital Ratios					
Shareholders' equity to average assets	8.14%	11.93%	17.73%	17.29%	8.37%
Tier 1 capital ratio (3)	8.84%	9.74%	17.51%	22.21%	9.61%
Total risk-based capital ratio (4)	10.10%	10.99%	18.76%	23.46%	11.34%

1. Efficiency ratio is non-interest expense divided by the sum of net interest income plus non-interest income.
2. Non-performing assets consist of non-accrual loans, loans contractually past due 90 days or more, other real estate owned, and other repossessed assets.
3. Tier 1 capital divided by risk-weighted assets.
4. Total risk-based capital divided by risk-weighted assets.

Certain interest income, non-interest income, and non-interest expense amounts have been restated from prior years to conform to the current year presentation. These reclassifications have no effect on the Company's previously stated results of operation or earnings per share.

Item 7.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations includes a discussion of certain significant business trends and uncertainties as well as other forward-looking statements and is intended to be read in conjunction with and is qualified in its entirety by reference to the consolidated financial statements of the Company and accompanying notes included elsewhere in this report. For a discussion of important factors that could cause actual results to differ materially from such forward-looking statements, see "Risk Factors."

Reclassifications

For all periods reported, the Company has reclassified certain income and expense items relating to the loans funded or processed by Bay Mortgage in order to conform with changes in the current period presentation. Fees collected on loans brokered, but not funded, by Bay Mortgage to outside lenders had been recorded as interest income but are now properly classified as non-interest income. Similarly, loan origination fees related to loans held-for-sale and previously reported as interest income have been reclassified. Loan origination fees on loans held-for-sale, net of certain direct origination costs, are deferred and amortized as an adjustment of the yield on the related loan using the interest method. Such net deferred loan origination fees are recognized when the related loans are subsequently sold or repaid. These reclassifications have no effect on the Company's previously reported financial position, results of operations, or earnings per share.

The restatements defined above, reduced interest income by $3.2 million from $26.0 million to $22.8 million in 2000, and by $1.4 million from $16.7 million to $15.3 million in 1999. Non-interest expense was reduced by $1.2 million from $16.7 million to $15.5 million in 2000, and by approximately $100,000 from $10.9 million to $10.8 million in 1999. Non-interest income was increased by the net effect of the interest income and non-interest expense reclassifications. The non-interest income previously reported in 2000 was $3.3 million, and was increased by $1.9 million to $5.2 million. The 1999 restatement was $1.4 million, increasing non-interest income from $1.8 million to $3.2 million."

Results of Operations for the Year Ended December 31, 2001

For the 12 months ended December 31, 2001, the Company's net loss was $1.5 million or $(.39) per diluted share of common stock compared to $869,000 net income or $.22 per diluted share for 2000. The 2001 results of operation included a $2.3 million net loss from the Company's finance subsidiary, Business Finance Corporation. During 2001, the collection of certain accounts receivable at BFC was considered doubtful so a provision for loan losses of $1.6 million was recorded to fully reserve for the charge-off of those credits. An extensive internal review of the BFC receivables, including the adequacy of the underlying collateral and the financial strength of the borrowers, uncovered numerous deficiencies. Although these receivables were previously monitored in accordance with the Company's existing loan loss allowance procedures, the rapid decline in the economy during 2001 prompted management to take a more conservative approach to evaluating and charging off problem credits beginning in early 2001. Preliminary market research and discussions with potential buyers of BFC during the summer of 2001 also indicated that many of these credits were not saleable under the declining economic conditions, the resulting weakness of collateral values, and these borrowers' decreasing ability to repay. Many of the borrowers that had been working with management earlier in the year to avoid defaulting on their financing were adversely affected by the continued weakening of the economy, pushing several of them to file bankruptcy in mid to late 2001. These borrowers' pending bankruptcies accounted for over $1.1 million of the impairment charge taken in 2001, and $822,000 of the $1.1 million was to one real estate company. Of the $1.6 million charge-off, $954,000 is related to construction or real estate companies, $293,000 is for companies in the communications industry, and $48,000 is related to manufacturing and industrial companies. These factors, combined with management's low market valuation assessment of the BFC segment were part of an analysis of the carrying value of goodwill on the balance sheet of BFC that revealed an impairment of that asset, so the Company wrote down the goodwill asset value to zero. This decision resulted in a charge against income of $1.2 million, which contributed to the $2.3 million loss in 2001 for that operating segment. Management's assessment of the value of BFC was largely determined from preliminary discussions with several potential buyers of BFC who indicated an unwillingness to purchase the segment for a premium above the book value of the segment's stronger receivables. Since these preliminary market valuations of the BFC segment did not support the goodwill asset value, and the decline in the economy had weakened many of the receivables, management wrote down the goodwill asset value to zero.

The Company's results of operation for 2001 were greatly affected by the overall slowing of the national economy. During 2001 the Federal Reserve Board cut the fed fund interest rates eleven times, dropping the rate from 6.5% to 1.75%. Cowlitz Bank responded with corresponding reductions in its internal prime rate from 9.50% at the beginning of 2001 to 4.75% currently. Approximately 40% of Cowlitz Bank's loan portfolio is indexed to the prime rate, and such significant reductions over a relatively short period of time, greatly reduced the yields earned on the Bank's loan portfolio, and interest-earning assets in general. However, many of the interest rates paid on interest -bearing liabilities did not re-price as quickly as the assets. Over one-half of the Bank's funding is in fixed rate certificates of deposit and borrowings from the Federal Home Loan Bank (FHLB), which do not re-price until the maturity of the instrument. These factors created a narrowing of the interest spread between interest-earning assets and interest-bearing liabilities, reducing the Company's net interest income yield and net income from the banking segment. (See the net interest income section for additional discussion.) Adverse economic conditions also contributed to the increase in charged off loans and the Company's decision to record greater loan loss provisions than in past periods.

Although the environment of lowering interest rates presented unique challenges to the banking segment, the mortgage segment flourished under those conditions. Bay Mortgage originated over three times the volume of residential mortgage loans during 2001 compared to 2000. The resulting income from interest, fee and sales premiums on these loans, allowed Bay Mortgage to contribute a substantial after tax net income to the Company's results of operation. However, the boom in residential lending presented funding challenges that the banking segment absorbed. Loans held-for-sale grew from $10.0 million at December 31, 2000 to $37.3 million at December 31, 2001. During the 1st and 2nd quarters of 2001, in order to fund the rapid increase in loan volume, management utilized the broker and national CD markets as funding and liquidity sources. Although the loans held-for-sale are typically sold within 14-45 days after funding, at the peak during 2001, approximately $68.0 million of loans had been funded, but remained unsold. Management purchased brokered and other out of area certificates to fund this activity, despite some exposure to interest rate and liquidity risks. Because broker certificates are extremely rate sensitive, they are potentially volatile deposits that will generally only renew at higher prices than core deposits. The interest rate risk associated with broker certificates isn't as pronounced to the Company because of the deposit rate environment of its primary market, Cowlitz County. This market, which provides 62.3% of the Company's total non-broker deposit base, has a very high concentration of credit unions, which typically offer higher deposit rates than the Company's peers. In order to compete for core deposits in this market, the Company's rates are typically also somewhat higher than its peers' rates. During the time period funding was needed for the mortgage segment's growth, the cost to acquire broker and out of area certificates of deposit was lower than the Company's certificate rates. As asset origination volumes declined, the CD's had not yet matured, which resulted in excess liquidity. A portion of this excess cash was used to increase the Company's investment portfolio by $22.2 million, but the Company's cash and cash equivalents are still $24.6 million higher at December 31, 2001 than at December 31, 2000. The Company anticipates a reduction in broker CD's as they mature unless the volume of loan originations continues at the rapid pace experienced in 2001. Although this excess liquidity has weakened the Company's interest yields, spreads, and margins, the Company's strategy is to reduce any excess liquidity by limiting its dependence on broker deposits, rather than replace other funding sources. This strategy has been adopted because the wholesale funding market will not necessarily always offer lower rates than the Company's local rates. At December 31, 2001, the Company had $56.7 in broker certificates, or 18.0% of total deposits.

Total assets at December 31, 2001 were $370.7 million, up 24.9% compared to assets of $296.9 million at December 31, 2000. Gross loans increased $1.6 million or less than 1% from $233.6 million at December 31, 2000 to $235.2 million at December 31, 2001. Non-performing assets as a percentage of total assets decreased from 2.64% at December 31, 2000 to 2.02% at December 31, 2001. Total non-performing assets decreased from $7.8 million to $7.5 million over the same period. Total liabilities for the Company increased 28.3% or $75.4 million from $266.5 million at the end of 2000 to $341.9 million at the end of 2001. Deposits increased to $315.5 million at December 31, 2001, an increase of $74.3 million from $241.2 million at December 31, 2000. As discussed above, this increase was primarily due to the need to fund the growth of loans held-for-sale during 2001.

Critical Accounting Policies

Cowlitz Bancorporation (the "Company") and its wholly owned subsidiary, Cowlitz Bank (also the "Company" or the "Bank") have identified their most critical accounting policy to be that related to the allowance for loan losses. The Company utilizes both quantitative and qualitative considerations in establishing an allowance for loan losses believed to be appropriate as of each reporting date. Quantitative factors include historical loss experience, recent delinquency and charge-off experience, changes in the levels of non-performing loans, portfolio size, and other known factors with specific loans. Qualitative factors include assessments of the types and quality of the loans within the loan portfolio as well as current local, regional, and national economic considerations. Changes in the above factors could have a significant affect on the determination of the allowance for loan losses. Therefore, a full analysis is performed by management on a quarterly basis to ensure that changes in estimated loan loss levels are adjusted on a timely basis. For further discussion of this significant management estimate, see "Allowance for Loan Losses."

Recent Changes in Operations

The Company has recently undertaken significant business changes to strengthen its position as a leading provider of financial services in Cowlitz County and to expand its services throughout western Washington and the Portland, Oregon markets.

In July of 2000, the Company acquired Northern Bank of Commerce ("NBOC") of Portland, Oregon in a business combination accounted for using the purchase method. Also in July of 2000, the Company expanded its mortgage division by opening a branch of Bay Mortgage in Silverdale, Washington. The results of operations of the Company for year ended December 31, 2000 do not include the results of operations for NBOC prior to the date of purchase. In addition, the balance sheet annual averages used throughout this report have not been adjusted to reflect the acquisition and expansion in mid-2000.

During 1999, the Company also expanded its business operations. Beginning in February 1999, the Company opened a loan office in Vancouver, Washington. In July and August 1999, the Company acquired Bay Mortgage of Bellevue, Washington and Bay Mortgage of Seattle, Washington, both of which are residential mortgage companies located in the greater Seattle area. In September 1999, Cowlitz Bank opened a branch in Bellevue doing business as Bay Bank and acquired Bay Escrow of Seattle, Washington. The addition of the new mortgage divisions, collectively "Bay Mortgage," has increased the Company's non-interest income through fees associated with the origination and sale of residential mortgage loans.

In 1999, 2000, and 2001, the Company's business also included Business Finance Corporation ("BFC"), its finance subsidiary which was acquired in September of 1998. This operation was sold in its entirety in the first quarter of 2002.

Net Interest Income

For financial institutions, the primary component of earnings is net interest income. Net interest income is the difference between interest income, principally from loans and investment securities portfolios, and interest expense, principally on customer deposits. Changes in net interest income result from changes in "volume," "spread" and "margin." Volume refers to the dollar level of interest-earning assets and interest-bearing liabilities. Spread refers to the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities. Net interest margin is the ratio of net interest income to total interest-earning assets and is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities.

Other than the reclassifications discussed above, a number of factors affected the Company's interest yields, margins, and spread when comparing the twelve months ending December 31, 2001 to the same period for 2000. Following the trend of the Federal Reserve Board in cutting the national fed funds rate, the Company enacted eleven decreases in its prime rate during 2001. Variable rate loans re-price immediately to changes in prime, but fixed rate liabilities, particularly certificates of deposit do not immediately adjust with prime changes, but do so when the CD matures and is replaced at the lower rate. The Company's current mix of loans includes approximately 60% fixed rate loans, and 40% that re-price to prime. The falling rate environment experienced during 2001 caused yields on assets to decline more rapidly than the liability costs, narrowing the interest spread. Increased volumes of both interest-earning assets and average interest-bearing liabilities have offset the decline in rates earned and paid, resulting in the increase in both interest income and interest expense in 2001 when compared to 2000 and 1999. The decline in interest margin from year to year is due to the mix of interest-earning assets, and interest-bearing liabilities. Higher yielding fixed rate commercial loans made up a lower percentage of the total interest-earning assets due to the increase in volume of lower rate residential mortgage loans held-for-sale, interest-bearing deposits due from banks, and available-for-sale investments. Conversely, certificates of deposit, which typically carry a higher rate than other deposit products, made up a higher percentage of the average total interest-bearing liabilities mix in 2001. The increase in low rate interest-bearing deposits due from banks, and the increase in high rate certificates of deposit are the result of the same market factors. The Company purchased funds through the broker CD market to create the liquidity needed to fund the rapid growth of the mortgage division during 2001. Although the mortgage loans held-for-sale typically sell within 15-45 days after funding, interest rates were dropping so quickly early in and throughout 2001, the Company's pipeline of loans funded but not yet sold increased from $10.0 million at the end of December to over $50.0 million at March 31, 2001. This rapid increase in volume outstripped the Company's available liquidity, necessitating the use of wholesale funding. The volume of loans funded but not yet sold remained at approximately $40.0 million throughout 2001, but peaked at about $68.0 million in the fourth quarter of 2001. Rather than create additional liquidity by purchasing additional brokered funds, management utilized the broker loan market, removing the necessity of the Bank to fund the high volumes of loans, and also hired additional employees to speed up and streamline the loan selling process. These changes brought the volume of loans held-for-sale to $37.3 million at December 31, 2001, reversing the Company's liquidity position. This resulted in excess cash and deposits due from banks which were invested at a lower fed funds rate, weakening the interest yields, spread, and margins. The Company anticipates a reduction in broker CD's as they mature, unless the volume of mortgage loan originations continues at the rapid pace experienced in 2001.

The yield earned on loans outstanding (including residential mortgage loans held-for-sale) during 2001 was 8.97% compared to 10.20% in 2000, and 10.37% in 1999. The increase in the average volume of loans from year to year more than offset the decline in rates causing the total interest income on loans to increase to $25.1 million in 2001 compared to $21.3 million for 2000 and $13.9 million in 1999. The yield earned on taxable securities decreased to 5.42% in 2001 from 7.79% in 2000 primarily due to overall interest rate reductions. The average interest-earning balances due from banks increased significantly to $28.4 million during 2001 from $12.9 million in 2000 and $9.5 million in 1999. As a result, total interest earned on balances due from banks also increased from year to year, but the yield earned decreased to 3.62% in 2001 from 4.7% in 2000, and 4.89% in 1999. The total yield earned on all interest-earning assets declined to 8.28% in 2001 from 9.76% and 9.61% for the years 2000 and 1999, respectively. As discussed above, the decline is due to the interest rate cuts, the higher percentage of loans which are lower rate mortgage loans held-for-sale, and the higher percentage of cash and due from banks. Despite the drop in yields earned, volumes increased significantly, explaining the increase in total interest earned.

Liability costs were also affected during 2001 by the declining rate environment. The rates paid on all interest-bearing liabilities were lower in 2001 when compared to 2000 and 1999, but did not fall as fast or as far as interest-earning assets, narrowing the interest spread to 3.46% in 2001 from 4.43% in 2000 and 5.11% in 1999. The yield on savings and interest-bearing demand deposit accounts decreased to 2.91% compared to 3.35% and 2.99% in 2000 and 1999, respectively. Certificates of deposit also had a decline in average rates paid to 5.70% during 2001 from 6.31% in 2000, but was higher than 5.39% in 1999. Both of these types of deposits experienced increases in volume and interest expense from year to year as a response to liquidity needs. Long-term borrowings had a decline in rate, volume and interest expense in 2001 when compared to 2000. In 2001, the Company took advantage of an opportunity to refinance a $2.5 million loan with the FHLB at a much lower rate. For all interest-bearing liabilities, the average rate paid decreased to 4.82% in 2001 from 5.33% in 2000.

Net interest income for the year ended December 31, 2001 was $13.8 million, an increase of 7.0% from $12.9 million in 2000, which was $2.9 million higher than 1999. The net interest margins for the periods ended December 31, 2001, 2000, and 1999 were 4.21%, 5.52%, and 6.31%, respectively. Interest expense as a percentage of average earning assets decreased to 4.07% in 2001, compared to 4.25% in 2000 and 3.30% in 1999.

Average Balances and Average Rates Earned and Paid. The following table sets forth, for the periods indicated, information with regard to (i) average balances of assets and liabilities, (ii) the total dollar amount of interest income on interest-earning assets and interest expense on interest-bearing liabilities, (iii) resulting yields or costs, (iv) net interest income and (v) net interest spread. Non-accrual loans have been included in the table as loans carrying a zero yield. Loan fees are recognized as income using the interest method over the life of the loan.

	As of and For The Year Ended December 31,								
	2001			2000			1999		
(dollars in thousands)	**Average Outstanding Balance**	**Interest Earned/ Paid**	**Yield/ Rate**	**Average Outstanding Balance**	**Interest Earned/ Paid (2)**	**Average Yield/ Rate**	**Interest Outstanding Balance**	**Earned/ Paid (2)**	**Yield/ Rate**
ASSETS:									
Loans	$279,556	$25,088	8.97%	$208,574	$21,283	10.20%	$134,017	$13,901	10.37%
Taxable securities	20,087	848	5.42%	11,127	651	7.79%	15,205	681	5.93%
Non-taxable securities (1)	200	11	5.50%	200	11	5.50%	200	11	5.50%
Federal funds sold	544	14	2.57%	1,281	83	6.48%	6	-	0.00%
Interest-earning balances due from bank	28,415	1,269	3.62%	12,905	823	4.70%	9,514	686	4.89%
Total interest-earning assets	328,802	27,230	8.28%	234,087	22,851	9.76%	158,942	15,279	9.61%
Cash and due from banks	11,774			9,500			8,792		
Premises and equipment	5,452			5,793			5,953		
Allowance for loan losses	(4,139)			(3,738)			(1,996)		
Net intangibles	5,068			5,191			3,911		
Other assets	6,207			3,996			2,055		
Total assets	$353,164			$254,829			$177,657		
LIABILITIES AND SHAREHOLDERS' EQUITY:									
Savings and interest-bearing demand deposits	$89,336	$2,600	2.91%	$64,667	$2,169	3.35%	$49,128	$1,469	2.99%
Certificates of deposit	164,736	9,382	5.70%	97,715	6,164	6.31%	43,299	2,332	5.39%
Long-term borrowings	20,166	1,285	6.37%	21,979	1,501	6.83%	22,067	1,350	6.12%
Short-term borrowings	3,523	115	3.26%	2,115	106	5.01%	2,117	97	4.58%
Total interest-bearing Liabilities	277,761	13,382	4.82%	186,476	9,940	5.33%	116,611	5,248	4.50%
Non-interest-bearing deposits	41,652			35,564			28,602		
Other liabilities	3,050			2,007			1,024		
Total liabilities	322,463			224,047			146,237		
Shareholders' equity	30,701			30,782			31,420		
Total liabilities and shareholders' equity	$353,164			$254,829			$177,657		
Net interest income		$13,848			$12,911			$10,031	
Net interest spread			3.46%			4.43%			5.11%
Average yield on earning assets			8.28%			9.76%			9.61%
Interest expense to earning assets			4.07%			4.25%			3.30%
Net interest income to earning assets			4.21%			5.52%			6.31%

(1) Interest earned on non-taxable securities has been computed on a 34 percent tax equivalent basis.

(2) Certain interest income amounts have been restated from prior years to conform to the current year presentation. These restatements have no effect on the Company's previously reported net income or earnings per share.

Analysis of changes in interest differential. The following table shows the dollar amount of the increase (decrease) in the Company's net interest income and expense and attributes such dollar amounts to changes in volume as well as changes in rates. Rate/volume variances have been allocated to volume changes:

	Year Ended December 31,					
	2001 versus 2000			2000 versus 1999		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
(dollars in thousands)	**Volume**	**Rate**	**Total Increase/ (Decrease)**	**Volume**	**Rate**	**Total Increase/ (Decrease)**
Interest income:						
Interest-earning balances due from banks	$562	$(140)	$422	$159	$(17)	$142
Federal funds sold	(19)	(50)	(69)	83	-	83
Investment security income:						
Taxable securities	485	(264)	221	(318)	283	(35)
Non-taxable securities	-	-	-	-	-	-
Loans, including fees on loans	6,370	(2,565)	3,805	7,608	(226)	7,382
Total interest income	7,398	(3,019)	4,379	7,532	40	7,572
Interest expense:						
Savings and interest-bearing demand	718	(287)	431	521	179	700
Certificates of deposit	3,817	(599)	3,218	3,433	399	3,832
Short-term borrowings	46	(37)	9	-	9	9
Long-term borrowings	(116)	(100)	(216)	(6)	157	151
Total interest expense	4,465	(1,023)	3,442	3,948	744	4,692
Net interest spread	$2,877	$(1,940)	$937	$3,584	$(704)	$2,880

Non-interest income

Non-interest income consists of the following components:

	Year Ended December 31,		
(dollars in thousands)	**2001**	**2000**	**1999**
Service charge on deposit accounts	$737	$714	$698
Gains on loans sold	4,872	1,813	852
Brokerage fees	2,450	1,497	857
Fiduciary income	238	301	151
Credit card income	507	381	381
Escrow fees	895	316	105
ATM income	82	70	54
Safe deposit box fees	32	31	32
Gain/(loss) on sale of repossessed assets	(429)	92	-
Gain/(loss) on sale of AFS securities	89	(4)	(2)
Other miscellaneous fees and income	118	8	63
Total non-interest income	$9,591	$5,219	$3,191

Total non-interest income has increased year-to-year to $9.6 million in 2001, from $5.2 million in 2000 and $3.2 million in 1999. The majority of this income is due to the brokerage fees and gains on loans sold, both of which have been generated by the increased volume of residential mortgage loans originated by Bay Mortgage. With the falling rate environment experienced in 2001, there has been a significant increase in mortgage lending activity. Lower interest rates have attracted consumers to refinance existing mortgages, apply for new mortgage or construction loans, or request bridge loans for short-term financing. Each of these types of loans generates additional non-interest income for the Bank, and from 2000 to 2001 has added $4.6 million of additional non-interest income. Gains on loan sold increased $3.1 million from $1.8 million in 2000 to $4.9 million in 2001, which was an increase from the 1999 level of $852,000. Escrow fees increased $579,000 from $316,000 in 2000 to $895,000 in 2001 and $105,000 in 1999. Brokerage fees, which includes points and processing fees on loans held-for-sale and fees collected for lenders the Bank brokers loans to, also increased significantly from year to year. In 2001, the Company recorded $2.5 million of such fees, an increase of $1.0 million from $1.5 million in 2000, and an increase over the 1999 level of $857,000. Non-interest income was reduced in 2001 by $429,000 in losses taken on the sales of repossessed assets. These losses occur when the Bank's recorded value in a repossessed asset, usually real property, is higher than the amount actually realized upon sale of the asset.

Non-interest Expense

Non-interest expense consists of the following components:

	Year Ended December 31,		
(dollars in thousands)	**2001**	**2000**	**1999**
Salaries and employee benefits	$9,365	$8,641	$5,766
Net occupancy and equipment	2,440	2,115	1,457
Amortization of intangible assets	582	559	445
Impairment of BFC goodwill	1,215	-	-
Business taxes	613	415	274
Data processing and communications	543	430	238
Stationary and supplies	378	340	227
Parking/travel/education	333	356	235
Credit Card Expense	408	307	315
Loan expense	716	230	202
Advertising	246	232	149
Professional fees	641	492	379
Postage and freight	478	331	164
FDIC insurance	214	94	15
Other miscellaneous expenses	1,302	950	928
Total non-interest expense	$19,474	$15,492	$10,794

Non-interest expenses increased 25.8% to $19.5 million for the year ended December 31, 2001 compared to $15.5 million for the year ended December 31, 2000, which was an increase of 43.5% compared to $10.8 million for the year ended December 31, 1999. Much of the increase in non-interest expense from 2000 to 2001 is the direct result of the increase in volume at Bay Mortgage, which management expects to decrease if mortgage volumes decline. Non-interest expenses for the mortgage segment during 2000 were $4.6 million and increased to $6.7 million during 2001. The write-down of goodwill originally associated with the purchase of BFC contributed $1.2 million of non-interest expense in 2001. Another factor in the increase is the expenses relating to the operations of NBOC which was acquired in mid 2000, but had a full year of operations and expenses in 2001.

A measure of the Company's ability to contain non-interest expenses is the efficiency ratio. This measurement is derived by dividing total non-interest expenses by total net interest income and non-interest income. The Company's efficiency ratio decreased slightly to 83.09% for the year ended December 31, 2001 compared to 85.46% for the corresponding period in 2000 and 81.66% for the year ended December 31, 1999. The decrease in 2001 when compared to 2000 is the result of management's efforts to reduce overhead expenses of its banking operations in an attempt to offset the narrowing interest spread.

Salaries, benefits, and commissions expense of $9.4 million in 2001 represented an increase of $724,000 or 8.4% from the $8.6 million reported in 2000 which was $2.9 million or 49.9% higher than the $5.8 million reported in 1999. The increase from 2000 to 2001 is partially due to the NBOC employee's wages paid for a full year in 2001, but only for half of the year in 2000. Also contributing was the overall increase in the number of employees at Bay Mortgage, where the full time equivalent count increased from 64 at the end of 2000 to 88 at the end of 2001 resulting in approximately $1.1 million increased salary expenses from year to year. These additional employees were brought in to help process and sell the increased volume of loans originated during the year. The increase of 24 employees in the mortgage division was offset by a staff reduction of ten full time equivalent employees in other divisions. The increase from 1999 to 2000 reflects the addition of 22 employees from the acquisition of NBOC, and reduction of six employees due to streamlining of operations. In addition, the 2000 expense includes the severance salary of the Company's former president in the amount of $540,000. Another factor contributing to the increase in salaries and employee benefits from 1999 to 2000 is that new employees, which were added in the third quarter of 1999 in connection with the acquisition of Bay Mortgage and the start up of Bay Bank, were on the payroll for all of 2000, resulting in $2.5 million additional expense. Also contributing to the increases in both years were ordinary wage increases for existing employees, which generally range from three to six percent each year. At December 31, 2001, the Company had 199 full-time equivalent employees compared to 185 and 169 at December 31, 2000 and 1999, respectively. Many of the additional employees in 2001 are commissioned mortgage loan officers.

Net occupancy and equipment expenses consist of depreciation on premises, lease costs, equipment, maintenance and repair expenses, utilities and related expenses. The Company's net occupancy expense in 2001 of $2.4 million was $325,000 or 15.4% higher than the $2.1 million reported in 2000, which was $658,000 or 45.2% higher than the $1.5 million reported in 1999. The majority of the increase is the result of NBOC's full year of operation in 2001 compared to only half of the year in 2000. The increase in occupancy expenses in 2000 reflects an increase of approximately $513,000 in lease payments due to the acquisition of Bay Mortgage, NBOC, the start up of Bay Bank, and due to rental increases over the period. The year 2000 also includes increased depreciation expense of approximately $100,000, which resulted from the equipment and leasehold improvements acquired during the period.

For the period ended December 31, 2001, expenses related to the amortization of intangibles were $582,000 compared to $559,000 and $445,000 for the periods ended December 31, 2000 and 1999 respectively. An additional cost of $1.2 million was recorded in 2001 to recognize to the impairment of goodwill originally associated with the purchase of BFC. Intangible assets included a deposit premium of $767,000 and $1.0 million, net of accumulated amortization, at December 31, 2001 and 2000, respectively. The deposit premium is being amortized using an accelerated method over a ten-year life. Intangible assets at December 31, 2001 and 2000 also included goodwill of $3.6 and $4.3 million, net of accumulated amortization, respectively. Goodwill represents the unamortized portion of excess of acquisition costs over the fair value of net assets that arose in connection with the Company's business acquisitions. Goodwill at Bay Mortgage was increased by $772,000 at December 31, 2001 as the result of additional payments recorded relating to an earn-out agreement specified in the purchase contract. All goodwill has been amortized on a straight-line basis over a 15-year period. However, beginning in January 2002, with the adoption of SFAS No. 142, non-interest expenses will be reduced because no amortization expense will be recognized on unidentifiable intangible assets, including the Company's goodwill unless the unidentifiable intangible asset is deemed to be impaired. This will result in a decrease of amortization expense of $325,000 per year. The intangible asset associated with the deposit premium will continue to amortize as discussed above, with an estimated amortization expense of $265,000.

In 2001, FDIC insurance premiums increased because in 2000 the Bank was not required to pay an assessment charge on deposits. The FDIC issued regulations establishing a system for setting deposit insurance premiums based upon the risks a particular bank or savings association poses to the deposit insurance funds. This system bases an institution's risk category partly upon whether the institution is well capitalized, adequately capitalized or less than adequately capitalized. Each insured depository institution is also assigned to one of three "supervisory" categories based on reviews by regulators, statistical analysis of financial statements and other relevant information. An institution's assessment rate depends upon the capital category and supervisory category to which it is assigned. Annual assessment rates currently range from zero per $100 of domestic deposits for the highest rated institution to $0.27 per $100 of domestic deposits for an institution in the lowest category. In the first and second quarters of 2001, the Bank paid an assessment rate of $0.10 per $100 of domestic deposits, which decreased to $0.03 for the third and fourth quarters of 2001. Beginning in the first quarter of 2002, the assessment rate for Cowlitz Bank will increase to $.17 per $100 of domestic deposits. Under legislation enacted in 1996 to recapitalize the Savings Association Insurance Fund, the FDIC is authorized to collect assessments against insured deposits to be paid to the Financing Corporation ("FICO") to service FICO debt incurred in the 1980's. The current FICO assessment rate for BIF insured deposits is $1.82 cents per $100 of deposits per year. Any increase in deposit insurance of FICO assessments could have an adverse effect on Cowlitz Bank's earnings.

Loan expenses were much higher in 2001 compared to 2000 and 1999 due to the volume increases experienced at Bay Mortgage, and the increased loan costs associated with booking those loans. Mortgage related loan expenses were $399,000 during 2001, $84,000 during 2000, and $23,000 during 1999. Another factor was the expenses related to repossessed assets such as carrying costs and repossession costs of assets obtained in exchange for defaulted loans which were $316,000 in 2001, $105,000 in 2000, and $136,000 in 1999.

Professional fees include exam and audit expenses, consulting and legal fees, and other professional fees. The increase in these expenses in 2001 is the result of higher legal fees relating to the repossession of assets on defaulted loans, and general consulting fees to business brokers regarding the sale of BFC, which was finalized in February of 2002, as well as consulting on other strategic alternatives.

Other operating expenses such as business taxes, travel and meals, postage and freight, advertising, data and loan processing costs, office supplies, and other business expenses were $4.3 million at December 31, 2001, $3.4 million at December 31, 2000, and $2.5 million at December 31, 1999. The increases from year to year were due to the Company's continued growth and expansion, and specifically in 2001, the growth experienced at Bay Mortgage.

Income Taxes

The provision for income taxes amounted to $150,000, $611,000, and $420,000 for 2001, 2000, and 1999, respectively. The provision resulted in an effective tax rate of (11.5)% in 2001, 41.3% in 2000, and 39.0% in 1999. The variance from the 34% corporate tax rate is due to the amortization of goodwill associated with the BFC and the Northern Bank of Commerce acquisitions, and key man insurance expense, that are not deductible for income tax purposes. In 2001, there were significant expenses recorded for book purposes, including $1.2 million of BFC goodwill impairment expense, not deductible for tax purposes. After making these and certain other adjustments to the net loss before tax of $1.3 million, the result was taxable income of $441,000 resulting in the Company's reported $150,000 provision for income taxes.

Provision for Loan Losses

The amount of the allowance for loan losses is analyzed by management on a regular basis to ensure that it is adequate to absorb losses inherent in the loan portfolio as of the reporting date. When a provision for loan losses is recorded, the amount is based on past charge-off experience, a careful analysis of the current loan portfolio, the level of non-performing and impaired loans, evaluation of future economic trends in the Company's market area, and other factors relevant to the loan portfolio. An internal loan risk grading system is used to evaluate potential losses of individual loans. The Company does not, as part of its analysis, group loans together by loan type to assign risk. See "Allowance for Loan Losses" disclosure for a more detailed discussion.

The Company's provision for loan losses was $5.3 million for the year ended December 31, 2001. For the years ending December 31, 2000, 1999, 1998, and 1997, the provision was $1.2 million, $1.3 million, $509,000, and $375,000, respectively. Charge-offs, net of recoveries, were $3.8 million in 2001, $863,000 in 2000 $882,000 in 1999, $710,000 in 1998, and $299,000 in 1997. As discussed more fully in the "Allowance for Loan Losses" section, the Company recognized an adjustment to the allowance for loan losses of $2.0 million at the time of its acquisition of NBOC in 2000.

Included in 2001 was an increase to the provision resulting from charge-offs of $1.6 million at BFC for doubtful accounts receivable. An extensive internal review of the BFC receivables, including the adequacy of the underlying collateral and the financial strength of the borrowers, uncovered numerous deficiencies, and the determination was made that the allowance for losses associated with these credits was inadequate. Although these receivables were previously monitored in accordance with the Company's existing loan loss allowance procedures, the rapid decline in the economy during 2001 prompted management to take a more conservative approach to evaluating and charging off problem credits. Preliminary negotiations with potential buyers of BFC during the summer of 2001 also indicated that many of these credits were not saleable under the declining economic conditions, the resulting weakness of collateral values, and these borrowers' decreasing ability to repay. Many of the borrowers that had been working with management early in the year to avoid defaulting on their financing were adversely affected by the weakening economy, pushing several of them to file for bankruptcy in mid to late 2001. These borrowers' pending bankruptcies accounted for over $1.1 million of the impairment charge taken in 2001, and $822,000 of the $1.1 million was related to one real estate company. Of the $1.6 million charge-off, $954,000 is related to construction or real estate companies, $293,000 is for companies in the communications industry, and $48,000 is related to manufacturing and industrial companies.

Due in part to the rapid decline in the local, regional, and national economy during 2001, many other loans that were performing prior to 2001, became impaired during the year. The Company subsequently charged-off many of these downgraded loans during 2001. Management has always closely monitored its credits, but is now more conservative when assessing credits than it has been in more favorable economic conditions. Any deficiencies in collateral valuation or a borrower's ability to repay results in prompt action by management to more closely scrutinize, downgrade, allocate specific reserves against, or charge-off the loan. An estimated $2.2 million of the provision for 2001 is related to downgraded or newly identified potential problem loans. In connection with the NBOC acquisition in 2000, a $1.0 million escrow account was established by NBOC stockholders to potentially reimburse the Company for the charge-off of any impaired loans that may be discovered after the purchase. Subsequent to the purchase, $1.2 million of loans to on group of related borrowers, which were performing at the purchase date, became impaired. In December 2001, these loans were charged-off, and a recovery of $1.0 million was recorded from the reimbursement of the escrow account. At December 31, 2001, the allowance for loan losses was 2.55% of total loans compared to 1.95% at December 31, 2000 and 1.53% at December 31, 1999.

The allowance for loan losses is based upon estimates of probable losses inherent in the loan portfolio. The amount actually realized for these losses can vary significantly from the estimated amounts.

The following table shows the Company's loan loss performance for the periods indicated:

	Year Ended December 31,				
(dollars in thousands)	**2001**	**2000**	**1999**	**1998**	**1997**
Loans outstanding at end of period	$235,212	$233,639	$149,386	$132,046	$131,963
Average loans outstanding during the period	$239,678	$202,016	$134,017	$131,495	$130,362
Allowance for loan losses, beginning of period	$4,561	$2,281	$1,814	$1,970	$1,894
Loans charged off:					
Commercial	2,729	1,983	838	618	186
Real estate	1,743	-	41	-	3
Consumer	53	36	50	22	23
Credit cards	86	51	96	87	112
Total loans charged-off	4,611	2,070	1,025	727	324
Recoveries:					
Commercial	115	1,183	104	-	5
Real estate	652	-	15	3	-
Consumer	15	9	1	4	20
Credit cards	3	15	23	10	-
Total recoveries	785	1,207	143	17	25
Provision for loan losses	5,262	1,155	1,349	509	375
Adjustment incident to acquisition	-	1,988	-	45	-
Allowance for loan losses, end of period	$5,997	$4,561	$2,281	$1,814	$1,970
Ratio of net loans charged-off to average loans outstanding	1.60%	0.43%	0.66%	0.54%	0.23%
Ratio of allowance for loan losses to loans at year-end	2.55%	1.95%	1.53%	1.37%	1.49%

Management anticipates charge-offs in 2002 will generally be comprised of $1.5 million in commercial loans, $250,000 in real estate loans, $25,000 of consumer loans and $100,000 in credit card loans.

Financial Condition

	Summary Balance Sheet December 31,			Increase (Decrease)			
	2001	**2000**	**1999**	**12/31/00 - 12/31/01**		**12/31/99 - 12/31/00**	
(dollars in thousands)				**(dollars)**	**(percent)**	**(dollars)**	**(percent)**
ASSETS							
Cash and cash equivalents	$50,177	$25,589	$19,054	$24,588	96.1%	$6,535	34.3%
Investment securities	34,303	12,071	12,991	22,232	184.2%	(920)	(7.1)%
Loans, net	229,215	229,078	147,105	137	0.1%	81,973	55.7%
Loans, held-for-sale	37,322	10,013	2,255	27,309	272.7%	7,758	344.0%
Other assets	19,643	20,147	17,090	(504)	(0.3)%	3,057	17.9%
Total assets	$370,660	$296,898	$198,495	$73,762	24.8%	$98,403	49.6%
LIABILITIES							
Non-interest-bearing deposits	$43,225	$40,201	$28,004	$3,024	7.5%	$12,197	43.6%
Interest-bearing deposits	272,265	201,015	109,603	71,250	35.4%	91,412	83.4%
Total deposits	315,490	241,216	137,607	74,274	30.8%	103,609	75.3%
Other liabilities	26,422	25,273	29,398	1,149	4.6%	(4,125)	(14.0)%
Total liabilities	341,912	266,489	167,005	75,423	28.3%	99,484	59.8%
SHAREHOLDERS ' EQUITY	28,748	30,409	31,490	(1,661)	(5.5)%	(1,081)	(3.4)%
Total liabilities and shareholders equity	$370,660	$296,898	$198,495	$73,762	24.8%	$98,403	49.6%

Investment Securities

At December 31, 2001, the Company's portfolio of investment securities totaled $34.3 million, 1.8 times the amount of investment securities of $12.1 million owned at December 31, 2000. The large increase in securities in 2001 is the result of investing some of the Company's excess liquidity from broker deposits originally purchased to fund the growth of the mortgage division.

The Company follows financial accounting principles which requires the identification of investment securities as held-to-maturity, available-for-sale or trading assets. Securities designated as held-to-maturity are those that the Company has the intent and ability to hold until they mature or are called. Available-for-sale securities are those that management may sell if liquidity requirements dictate or alternative investment opportunities arise. Trading assets are purchased and held principally for the purpose of reselling them within a short period of time. The mix of available-for-sale and held-to-maturity investment securities is considered in the context of the Company's overall asset-liability management policy and illustrates management's assessment of the relative liquidity of the Company. At December 31, 2001, the investment portfolio consisted of 88.0% available-for-sale securities and 12.0% held-to-maturity investments. At December 31, 2000, available-for-sale securities were 62.1% and held-to-maturity investments were 37.9% of the investment portfolio. The Company did not conduct any trading activities during 2001 or 2000.

The following table provides the amortized cost and fair value of the Company's investment securities as of December 31, 2001, 2000, and 1999.

	December 31,					
	2001		2000		1999	
(dollars in thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Available-for-sale						
U.S. Government and agency securities	$19,566	$19,644	$7,441	$7,499	$8,484	$8,427
Mortgage backed securities	10,606	10,544	-	-	-	-
Total	$30,172	$30,188	$7,441	$7,499	$8,484	$8,427
Held-to-maturity						
U.S. Government and agency securities	$1,016	$1,055	$1,007	$1,006	$999	$1,000
Municipal bonds	200	203	200	198	200	193
Certificates of deposit	2,899	2,899	3,365	3,365	3,365	3,365
Total	$4,115	$4,157	$4,572	$4,569	$4,564	$4,558

At December 31, 2001, the Company's available-for-sale and held-to-maturity investments had total net unrealized gains of approximately $58,000. This compares to net unrealized losses of approximately $55,000 at December 31, 2000. Unrealized gains and losses reflect changes in market conditions and do not represent the amount of actual profits or losses the Company may ultimately realize. Actual realized gains and losses occur at the time investment securities are sold or redeemed.

In 1991, the Company became a member and shareholder in the Federal Home Loan Bank of Seattle. The Company's relationship and stock investment with the FHLB provides a borrowing source for meeting liquidity requirements, in addition to dividend earnings. Investment in FHLB stock was $3.5 million at December 31, 2001 compared to $3.3 million at December 31, 2000.

At December 31, 2001, net unrealized gains on available-for-sale securities were $16,000 representing less than one tenth of one percent of the total portfolio. Management has no current plans to sell any of these securities.

The following table summarizes the contractual maturities and weighted average yields of both available-for-sale and held-to-maturity investment securities at December 31, 2001.

(dollars in thousands)	**One year Or less**	**Yield**	**One through 5 years**	**Yield**	**After 5 through 10 years**	**Yield**	**Total**	**Yield**
U.S. Government and agency securities	$1,248	6.78%	$19,412	4.35%	$-	-	$20,660	4.50%
Mortgage backed securities	510	4.49%	8,579	4.93%	1,455	5.52%	10,544	4.99%
Other securities	2,999	2.95%	100	4.15%	-	-	3,099	2.99%
Total	$4,757	4.12%	$28,091	4.53%	$1,455	5.52%	$34,303	4.51%

For the purposes of the maturity schedule, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the expected maturity of the underlying collateral. Mortgage-backed maturity securities may mature earlier than their stated contractual maturities because of accelerated principal repayments of the underlying loans. The Company has no securities that mature after 10 years.

Loans

Gross outstanding loans totaled $235.2 million at December 31, 2001, representing an increase of $1.6 million compared to $233.6 million at December 31, 2000. Loan commitments were $53.7 million at December 31, 2001 and amounted to $54.4 million at December 31, 2000.

The following table presents the composition of the Company's loan portfolio at the dates indicated. A loan re-coding project was completed in 2001 allowing a more precise break-out between commercial loans and commercial real estate loans for 2000 and 2001, which accounts for the majority of the shift in loan concentrations from prior periods. Data is not available to restate the commercial loan allocations for the years ended December 31, 1999, 1998, or 1997. Prior to the re-coding, the Company had reported the majority of its commercial real estate loans as commercial loans. The re-coding shifted $115.5 million of loans from commercial to real estate commercial compared to the previously reported 2000 loan concentrations. The year 2001 presentation also includes these loans as real estate commercial, rather than commercial.

The large increase in total loans from 1999 to 2000 is partially due to the acquisition of NBOC in July of 2000 which added $29.5 million of loans to the portfolio at December 31, 2000. Loan growth of $43.4 million at Bay Bank during 2000 was also a contributing factor in the increase in total loans in 2000. In 2000 and 2001, real estate construction and real estate mortgage loans have increased from prior periods due to the acquisition and growth of Bay Mortgage.

	December 31,									
	2001		2000		1999		1998		1997	
(dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Commercial	$50,152	21.26%	$46,738	19.94%	$123,701	82.47%	$103,473	78.04%	$93,829	70.75%
Real estate construction	26,520	11.24	10,744	4.58	3,104	2.07	3,206	2.42	3,495	2.64
Real estate commercial	111,437	47.23	130,272	55.58	9,859	6.58	7,026	5.30	5,475	4.13
Real estate mortgage	36,190	15.34	34,402	14.68	8,194	5.46	13,774	10.39	24,167	18.22
Consumer and other	11,650	4.94	12,247	5.22	5,134	3.42	5,063	3.82	5,571	4.20
Contracts purchased	-	-	-	-	-	-	45	0.03	81	0.03
	235,949	100.00%	234,403	100.00%	149,992	100.00%	132,587	100.00%	132,618	100.00%
Deferred loan fees	(737)		(764)		(606)		(541)		(655)	
Total loans	235,212		233,639		149,386		132,046		131,963	
Allowance for loan losses	(5,997)		(4,561)		(2,281)		(1,814)		(1,970)	
Total loans, net	$229,215		$229,078		$147,105		$130,232		$129,993	

The following table shows the contractual maturities of the Company's loans and sensitivity to changes in interest rates at the dates indicated:

	December 31, 2001			
(dollars in thousands)	Due in one year or less	Due after one through 5 years	Due after 5 years	Total Loans
Commercial loans	$40,640	$7,667	$1,845	$50,152
Real estate construction	21,675	2,192	2,653	26,520
Real estate commercial	41,224	52,106	18,107	111,437
Real estate mortgage	15,341	15,927	4,922	36,190
Consumer and other	3,817	6,369	1,464	11,650
	$122,697	$84,261	$28,991	$235,949
Loans with fixed interest rates				$141,701
Loans with floating interest rates				94,248
Total				$235,949

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of probable losses which have occurred as of the date of the financial statements. The loan portfolio is regularly reviewed to evaluate the adequacy of the allowance for loan losses. In determining the level of the allowance, the Company evaluates the amount necessary for specific non-performing loans and estimates losses inherent in other loans. An important element in determining the adequacy of an allowance for loan losses is an analysis of loans by loan rating categories. The risk of a credit is evaluated by the Company's management at inception of the loan using an established grading system. This grading system currently includes ten levels of risk. Risk gradings range from "1" for the strongest credits to "10" for the weakest; a "10" rated loan would normally represent a loss, and all loans rated 6-10 are collectively the Company's watch list. The specific gradings from 6-10 are "management attention", "special mention", "substandard", "doubtful", or "loss". When indicators such as operating losses, collateral impairment or delinquency problems show that a credit may have weakened, the credits will be downgraded as appropriate. Similarly, as borrowers bring loans current, show improved cash flows, or improve the collateral position of the loan, the credits may be upgraded. Management reviews all credits periodically for changes in such factors.

The result is an allowance with two components:

Specific Reserves: Loans on the Company's watch list, as described above, are specifically reserved for by applying a separate reserve factor to the volume of loans within each risk grade. The reserve factors are determined on the basis of suggested regulatory guidelines. Management assesses each loan on the watch list to assure the reserve factor applied to each risk grade is sufficient for each individual loan within the pool. When significant conditions or circumstances exist on an individual loan indicating greater risk, additional specific reserves may be required.

Management considers in its analysis expected future cash flows, the value of collateral and other factors that may impact the borrower's ability to pay.

General Allowance: Any loan that does not require a specific reserve is subject to a general reserve loss factor. Management determines this factor by analyzing the volume and mix of the existing loan portfolio, including the volume and severity of non-performing loans and adversely classified credits; analysis of net charge-offs experienced on previously classified loans; the nature and value of collateral securing the loans; the trend in loan growth, including any rapid increase in loan volume within a relatively short period of time; management's subjective evaluation of general and local economic and business conditions affecting the collectibility of the Company's loans; the relationship and trend over the past several years of recoveries in relation to charge-offs; and any changes in lending policies, lending management, or the loan review system. This decision also reflects management's attempt to ensure that the overall allowance appropriately reflects a margin for the imprecision necessarily inherent in estimates of expected loan losses.

The quarterly analysis of specific and general loss components of the allowance is the principal method relied upon by management to ensure that changes in estimated loan loss levels are adjusted on a timely basis. The inclusion of historical loss factors in the process of determining the general component of the allowance also acts as a self-correcting mechanism of management's estimation process, as loss experience more remote in time is replaced by more recent experience. In its analysis of the specific and the general components of the allowance, management also considers regulatory guidance in addition to the Company's own experience.

Loans and other extensions of credit deemed uncollectable are charged to the allowance. Subsequent recoveries, if any, are credited to the allowance. Actual losses may vary from current estimates and the amount of the provision may be either greater than or less than actual net charge-offs. The related provision for loan losses that is charged to income is the amount necessary to adjust the allowance to the level determined through the above process. In accordance with the Company's methodology for assessing the appropriate allowance for loan losses, the general portion of the allowance increased to $3.2 million at December 31, 2001 compared to $1.4 million at December 31, 2000. Management has increased its general reserve percentages, in 2001 compared to 2000, given the increase in the average non-accrual loans and the level of net charge-offs during 2001 and 2000. This percentage increase is also necessary to help absorb potential losses from companies impacted by the decline in the state of the local, regional, and national economies. The impact of these increased percentages added approximately $1.7 million to the general reserve at the end of 2001 when compared to the reserves at December 31, 2000. During 2001, the Company has also established a reserve for its unused loan commitments and its loans held-for-sale unsold after 60 or more days, accounting for $180,000 of the increase in the general reserves compared to the level at December 31, 2000. Prior to December 31, 2000, no reserves were provided for unused commitments, and the Company had very few, and minimal risk associated with, loans held-for-sale unsold after 60 or more days.

At December 31, 2001, approximately $2.8 million of the allowance for loan losses was allocated based on an estimate of the amount that was necessary to provide for potential losses related to the watch list and other specific loans, compared to $3.2 million at December 31, 2000. Although total specific reserves have declined $400,000, the volume of loans specifically reserved against has increased from period to period. Many of the loans carrying large specific reserves at December 31, 2000 were charged-off during 2001, reducing the specific reserves by $2.6 million during 2001 to $600,000. As management identified additional loans to include on the "watch list" during the year, the specific reserves increased by $2.2 million to $2.8 million at December 31, 2001. In response to the current economic environment, the Company has become more conservative in its approach to identifying potential problem loans and placing them on the watch list, by downgrading loans more aggressively than it had in the past. Loans on the watch list are more closely monitored for quality issues, including collateral adequacy and the borrower's ability to repay. The potential adverse economic impact on these loans is reduced through close monitoring and by recording a sufficient reserve against these credits.

Management's evaluation of the factors above resulted in allowances for loan losses of $6.0 million and $4.6 million at the end of 2001 and 2000, respectively. The allowance as a percentage of year-end total loans increased from 1.95% at year-end 2000 to 2.55% at year-end 2001. The increase in provision between December 31, 2000 and December 31, 2001 was to reserve against potential future losses resulting from the charge-off of loans currently in the portfolio. Factors affecting the decision to increase these reserves include the high level of non-performing loans, the increase in recent charge-off experience, deteriorating loan quality of the Company's finance subsidiary, and the overall state of the current local, regional, and national economies.

The Company, during its normal loan review procedures, considers a loan to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. A loan is not considered to be impaired during a period of minimal delay (less than 90 days) unless available information strongly suggests impairment. The Company measures impaired loans based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair market value of the collateral if the loan is collateral dependent. Impaired loans are charged to the allowance when management believes, after considering economic and business conditions, collection efforts, and collateral position, that the borrower's financial condition is such that collection of principal is not probable.

At December 31, 2001 and 2000, the Company's recorded investment in certain loans that were considered to be impaired was $7.3 million and $6.7 million, respectively. Of these impaired loans, $2.5 million and $2.1 million have related specific reserves of $792,000 and $1.3 million, while $4.8 million and $4.6 million did not require specific reserves. The balance of the allowance for loan losses in excess of these specific reserves is available to absorb losses from all loans. The average recorded investment in impaired loans for the years ended December 31, 2001, 2000, and 1999, was approximately $6.0 million, $4.9 million, and $3.7 million, respectively. The Company's policy is to include in impaired loans all loans that are past due 90 days or more as to either principal or interest and any loans that the Company believes collection of principal or interest is doubtful, except for loans that are currently measured at fair value or at the lower of cost or fair value, and credit card receivables, which are considered large groups of smaller balance homogeneous loans that are collectively evaluated for impairment. Interest payments received on impaired loans are recorded as interest income, unless collection of the remaining recorded investment is not probable, in which case payments received are recorded as a reduction of principal. For the years ended December 31, 2001, 2000, and 1999, interest income on impaired loans totaled $324,000, $159,000, and $153,000, respectively, all of which was recognized on a cash basis.

Generally, no interest is accrued on loans when factors indicate collection of interest is doubtful or when the principal or interest payments become 90 days past due, unless collection of principal and interest are anticipated within a reasonable period of time and the loans are well secured. For such loans, previously accrued but uncollected interest is charged against current earnings, and income is only recognized to the extent payments are subsequently received and collection of the remaining recorded principal balance is considered probable.

The following table presents information on non-performing loans and other assets:

	December 31,				
(dollars in thousands)	**2001**	**2000**	**1999**	**1998**	**1997**
Loans on non-accrual status	$4,807	$5,110	$2,387	$2,737	$1,897
Loans past due greater than 90 days but not on non-accrual status	1,178	1,170	-	9	432
Other real estate owned	1,498	1,247	562	573	88
Other assets	5	312	18	-	-
Total non-performing assets	$7,488	$7,839	$2,967	$3,319	$2,417
Percentage of non-performing assets to total assets	2.02%	2.64%	1.49%	1.86%	1.39%

At December 31, 2001 non-performing assets were $7.5 million or 2.0% of total assets compared to $7.8 million or 2.6% at December 31, 2000. Non-accrual loans were $4.8 million at December 31, 2001 and $5.1 million at December 31, 2000. Approximately $3.4 million of the non-accrual loans reflect loans primarily secured by real estate and the remainder consists of commercial and consumer loans with varying collateral. Any losses on non-accrual loans that are considered probable have been estimated by management in its regular quarterly assessment of the allowance for loan losses as discussed above. The increase in the provision for loan losses each year is largely reflective of the increases in the average non-accrual loans and the level of net charge-offs during the periods, as well as total asset growth.

The Company is actively working on identifying and reducing the level of non-performing assets, and has undertaken a more aggressive approach relating to the collection and ultimate reduction of non-performing assets. Although the level of non-performing assets is virtually unchanged from December 31, 2000 to December 31, 2001, the Company's aggressiveness is evidenced by the changes in the level of non-performing assets from quarter to quarter in 2001. Total non-performing assets were $8.9 million, $7.7 million and $8.8 at the end of the first, second and third quarters, respectively. As these impaired loans are identified and brought current, charged-off, or the repossessed collateral sold, the level of non-performing assets is expected to decrease.

Other real estate owned ("OREO") increased by $251,000 from year to year due to the migration of non-performing loans to OREO, while other repossessed assets were reduced by $307,000. All properties are being actively marketed through local real estate agencies.

Deposits

The following table sets forth the composition of the Company's deposit liabilities and associated weighted average rates on the dates indicated:

	December 31,								
	2001			2000			1999		
(dollars in thousands)	Ending Balance	Average Balance	Weighted Average Rate	Ending Balance	Average Balance	Weighted Average Rate	Ending Balance	Average Balance	Weighted Average Rate
Non-interest-bearing demand deposits	$43,225	$41,652	N/A	$40,201	$35,564	N/A	$28,004	$28,602	N/A
Savings	13,275	13,209	2.58%	12,894	14,267	2.81%	15,692	16,928	2.83%
Interest-bearing demand deposits	34,979	25,660	1.38%	22,736	17,548	1.68%	13,993	13,870	1.64%
Money market accounts	48,333	50,467	3.78%	38,140	32,853	4.48%	19,906	18,330	4.16%
Certificates of deposit under $100,000	80,611	86,549	6.19%	80,867	59,159	6.53%	35,891	27,670	5.33%
Certificates of deposit over $100,000	95,067	78,187	5.15%	46,378	38,556	5.96%	24,121	27,629	5.49%
Total deposits	$315,490	$295,724	4.05%	$241,216	$197,946	4.21%	$137,607	$121,029	3.14%

Total deposits increased to $315.5 million at December 31, 2001, an increase of $74.3 million or 30.8% from $241.2 million at December 31, 2000. Non-volatile, non-interest-bearing deposits, also referred to as core deposits, have declined as a percentage of the Company's deposit base, but have increased in dollar value from year to year. At December 31, 2001, non-interest-bearing demand deposits were $43.2 million or 13.7% of total deposits, compared to $40.2 million or 16.7% of total deposits at December 31, 2000.

Interest-bearing deposits consist of interest-bearing demand, money market, savings and time certificate accounts. By their nature, interest-bearing account balances will tend to grow or decline as the Company reacts to changes in competitors' pricing and interest payment strategies. At December 31, 2001, interest-bearing demand accounts totaled $35.0 million reflecting an increase of $12.3 million or 53.8% from $22.7 million at December 31, 2000. The majority of this increase is related to mortgage escrow funds on deposit at the Bank. The increase in mortgage activity during 2001 resulted in a corresponding increase in escrow funds. The balance of money market accounts was $48.3 million at December 31, 2001, an increase of $10.2 million or 26.8% from the December 31, 2000 level of $38.1 million. With the overall decline in the stock market and general economy, consumers have utilized the money market accounts, despite the lower interest rates. The money market product allows the consumer more stability than an investment in stock, but is more liquid and has greater flexibility than the higher rate certificates of deposit. As the economy and interest rates rebound from the lower levels experienced in 2001, the Company expects to see a decline in money market deposits as consumers re-enter the stock market, or utilize higher rate CD's.

At December 31, 2001, certificates of deposit over $100,000 totaled $95.1 million compared to $46.4 million at December 31, 2000, an increase of $48.7 million or 105%. As more fully discussed earlier, the mortgage loans held-for-sale peaked at $68.0 million during 2001, and broker CD's over $100,000 were used to fund the growth. Currently, broker certificates of deposit total $56.7 million or 18% of the Company's $315.5 million total deposits.

The following table sets forth, by time remaining to re-pricing or maturity, all time certificates of deposit accounts outstanding at December 31, 2001:

	Time deposits of $100,000 or more (1)		All other time deposits (2)	
(dollars in thousands)	Amount	Percentage	Amount	Percentage
Three months or less	$30,116	31.68%	$18,309	22.71%
After three months through six months	26,942	28.34	22,197	27.54
After six months through one year	19,760	20.78	24,036	29.82
After one year through five years	18,249	19.20	16,069	19.93
Total	$95,067	100.00%	$80,611	100.00%

(1) Time certificates of deposit of $100,000 or more represent 54.1% of total outstanding time certificates of deposit at December 31, 2001.
(2) All other time certificates of deposit represent 45.9% of total time certificates of deposit at December 31, 2001.

Other Borrowings

Short-term borrowings consist of federal funds purchased of $2.8 million, $1.3 million, and $3.9 million at December 31, 2001, 2000, and 1999, respectively. The rate and balances on these borrowings are renewed daily, and the balances are unsecured.

Long-term borrowings consist of the following at December 31:

(dollars in thousands)	2001	2000	2000
Notes payable to Federal Home Loan Bank; interest from 2.0% to 8.62% and 6.02% to 8.80% at December 31, 2001 and 2000, respectively, payable in monthly installments plus interest; due 2002 to 2009; secured by certain investment securities and mortgage loans totaling $35.4 million and $20.1 million at December 31, 2001 and 2000, respectively.	$16,013	$18,293	$24,222
Notes payable to a correspondent bank; interest at 8.00% at December 31, 2001 and 2000, payable in monthly principal and interest installments of $30,000, final payment of $2.1 million due in December 31, 2007; secured by Bank stock.	2,945	3,000	-
Contract payable to a private party; interest at 9.0%, payable in monthly installments plus interest through October 2010.	51	55	59
	$19,009	$21,348	$24,281

The following table summarizes the ending balances, average balances, maximum balances and weighted average interest rates for each borrowing category for the years ended December 31, 2001, 2000, and 1999.

(dollars in thousands)	December 31, 2001	December 31, 2000	December 31, 1999
Short-term borrowings (federal funds)			
Balance at end of period	2,750	1,275	3,825
Average balance of borrowing during period	3,516	2,115	2,117
Maximum amount of borrowing outstanding at any month end during period	5,625	7,300	3,825
Weighted average interest rate for period	3.24%	5.01%	4.58%
Notes payable to Federal Home Loan Bank			
Balance at end of period	16,013	18,293	24,223
Average balance of borrowing during period	17,125	21,883	22,007
Maximum amount of borrowing outstanding at any month end during period	18,278	29,668	26,268
Weighted average interest rate for period	6.05%	6.84%	6.11%
Notes payable to a correspondent bank			
Balance at end of period	2,945	3,000	-
Average balance of borrowing during period	2,988	41	-
Maximum amount of borrowing outstanding at any month end during period	3,000	3,000	-
Weighted average interest rate for period	8.20%	N/A	-
Contract payable			
Balance at end of period	51	55	59
Average balance of borrowing during period	53	57	60
Maximum amount of borrowing outstanding at any month end during period	55	58	61
Weighted average interest rate for period	9.43%	8.77%	10.00%

The scheduled repayment of other borrowings subsequent to December 31, 2001, is as follows:

(dollars in thousands)	Due in 3 Months Or Less	Due After 3 months through one year	Due After 1 year through 5 years	Due after 5 years	Total
Short-term borrowings	$2,750	$ -	$ -	$ -	$ 2,750
Long-term borrowings	-	10,126	5,831	3,052	19,009
Total borrowings	$2,750	$10,126	$5,831	$3,052	$21,759

Historically, the Company has utilized borrowings from the FHLB as an important source of funding for its long-term growth and to meet temporary funding needs. The Company maintains a borrowing line limited to 15% of the Bank's assets, subject to certain collateral limitations. Advances from the FHLB, as a percentage of total assets, were 4.3%, and 6.2% at December 31, 2001, and 2000, respectively.

The FHLB has required the Company to provide physical delivery of collateral in the amount of 110% of funds borrowed. Physical delivery requires the Company to provide the FHLB with 1-4 family residential notes and/or securities at their location in Seattle, Washington. Prior to this requirement, the Company was under a blanket bond collateral agreement allowing it to borrow funds without the FHLB taking possession of the specific collateral. An analysis performed in 2000 by the FHLB of the Company's financial position and balance sheet ratios precipitated this change. The FHLB has indicated that physical delivery is not a permanent change, and the blanket bond arrangement could be reinstated when their analysis of the Company shows improvement of its financial position. Management believes that a future FHLB analysis will indicate the Company has improved its financial position and balance sheet ratios.

Advances from the FHLB mature over periods ranging from 1 through 15 years and at December 31, 2001 bear interest rates ranging from 2.00% to 8.62%. At December 31, 2001 and 2000, $16.0 million and $18.3 million, respectively, in advances were outstanding from the FHLB.

During 2000, the Company obtained a $3.0 million term loan from a regional bank in order to provide working capital to the Bank and to increase the Bank's regulatory reserves. The note bears interest at 8%, and matures in December 2007. At December 31, 2001, the principal balance of this loan was $2.9 million. The Company has pledged the Bank's stock as collateral for the borrowings. At December 31, 2001, the Company was in violation of a covenant related to this loan requiring the control of "overhead expenses, including salaries, in order to assure that quarterly net after-tax income less dividends to shareholders will exceed three times total loan payments of principal and interest." However, a waiver of the covenant violation for the quarters ended September 30, 2001 and December 31, 2001 was received from the Company's lender on March 18th, 2002. If the Company remains in violation of this debt covenant in future quarters, the lender has the discretion to require immediate repayment of the balance due, or repossess the collateral for this note. The Company does not anticipate remaining in violation of this covenant in future quarters.

Asset-Liability Management/Interest Rate Sensitivity

The principal purpose of asset-liability management is to manage the Company's sources and uses of funds to maximize net interest income under different interest rate conditions with minimal risk. A part of asset-liability management involves interest rate sensitivity, the difference between re-pricing assets and re-pricing liabilities in a specific time period. The policy of the Company is to control the exposure of the Company's earnings to changing interest rates by generally maintaining a position within a narrow range around an "earnings neutral" or "balanced" position. The Board of Directors has established guidelines for maintaining the Company's earnings risk due to future interest rate changes. This analysis provides an indication of the Company's earnings risk due to future interest rate changes. At December 31, 2001, the analysis indicated that the earnings risk was within the Company's policy guidelines.

A key component of the asset-liability management is the measurement of interest-rate sensitivity. Interest-rate sensitivity refers to the volatility in earnings resulting from fluctuations in interest rates, variability in spread relationships, and the mismatch of re-pricing intervals between assets and liabilities. Interest-rate sensitivity management attempts to maximize earnings growth by minimizing the effects of changing rates, asset and liability mix, and prepayment trends.

The following table presents interest-rate sensitivity data at December 31, 2001. The interest rate gaps reported in the table arise when assets are funded with liabilities having different re-pricing intervals. Since these gaps are actively managed and change daily as adjustments are made in interest rate views and market outlook, positions at the end of any period may not be reflective of the Company's interest rate view in subsequent periods. Active management dictates that longer-term economic views are balanced against the prospects of short-term interest rate changes in all re-pricing intervals.

	Estimated Maturity or Repricing at December 31, 2001					
(dollars in thousands)	**0 - 3 Months**	**3 - 6 Months**	**6 - 12 Months**	**1 - 5 Years**	**Over 5 Years**	**Total**
Interest-earning assets:						
Interest-earning balances due from banks	$36,020	$-	$-	$-	$-	$36,020
Investments available-for-sale	-	-	742	27,991	1,455	30,188
Investments held-to-maturity	2,599	300	1,116	100	-	4,115
Federal Home Loan Bank Stock (1)	3,531	-	-	-	-	3,531
Loans held-for-sale	37,322	-	-	-	-	37,322
Loans, including fees	105,026	7,518	9,870	83,974	28,824	235,212
Total interest-earning assets	184,498	7,818	11,728	112,065	30,279	346,388
Allowance for loan losses						(5,997)
Non-interest-bearing cash and due from banks						14,157
Other assets						16,112
Total assets						$370,660
Interest-bearing Liabilities:						
Savings and interest-bearing demand deposits	$96,587	$-	$-	$-	$-	$96,587
Certificates of deposit	48,425	49,139	43,796	34,318	-	175,678
Borrowings	2,782	2,032	8,062	5,831	3,052	21,759
Total interest-bearing liabilities	147,794	51,171	51,858	40,149	3,052	294,024
Non-interest-bearing liabilities						
Demand deposits						43,225
Other						4,663
Shareholders' equity						28,748
Total liabilities and shareholders' equity						$370,660
Interest sensitivity gap	36,704	(43,353	(40,130)	71,916	27,227	$52,364
Cumulative interest sensitivity gap	$36,704	$(543,353)	$(79,288)	$25,137	$52,364	

(1) Equity investments have been placed in the 0-3 month category

Market Risk

Interest rate and credit risks are the most significant market risks impacting the Company's performance. Other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not arise in the normal course of the Company's business activities. The Company relies on loan reviews, prudent loan underwriting standards and an adequate allowance for loan losses to mitigate credit risk.

Interest rate risk is managed through the monitoring of the Company's gap position (see Asset-Liability Management/Interest Rate Sensitivity) and sensitivity to interest rate risk by subjecting the Company's balance sheet to hypothetical interest rate shocks. The Company's primary objective in managing interest rate risk is to minimize the adverse impact of changes in interest rates on the Company's net interest income and capital, while structuring the Company's asset/liability position to obtain the maximum yield-cost spread on that structure.

Rate shock is an instantaneous and complete adjustment in market rates of various magnitudes on a static or level balance sheet to determine the effect such a change in rates would have on the Company's net interest income for the succeeding 12 months, and the fair values of financial instruments.

The Company utilizes asset/liability modeling software to determine the effect of a shift in market interest rates, with scenarios of interest rates increasing 100 and 200 basis points and decreasing 100 and 200 basis points. The model utilized to create the table presented below is based on the concept that all rates do not move by the same amount or at the same time. Although certain assets and liabilities may have similar maturities or periods to repricing, they may not react correspondingly to changes in market interest rates. In addition, interest rates on certain types of assets and liabilities may fluctuate with changes in market interest rates, while interest rates on other types of assets may lag behind changes in market rates. Further, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate from those assumed in the table. The ability of certain borrowers to make scheduled payments on the adjustable rate loans may decrease in the event of an interest rate increase due to adjustments in the amount of the payments.

The model attempts to account for such limitations by imposing weights on the gaps between assets and liabilities. These weights are based on the ratio between the amount of rate change and each category of asset/liability, and the amount of any change in the federal funds rate. Local conditions and the strategy of the Company determine the weights for loan and core deposits; the others are set by national markets. In addition, a timing factor has been used as (a) fixed rate instruments do not reprice immediately; (b) renewals may have different terms than original maturities; and, (c) there is a timing factor between rates on different instruments (i.e. core deposits usually reprice long after there has been a change in the federal funds rate). Due to the various assumptions used for this simulation analysis, no assurance can be given that actual results will correspond with projected results.

The following table shows the estimated impact on the Company of the interest rate shock on "Economic Value of Equity" which measures change in net interest income, and the "Changes in Total Economic Value" which measures change in the fair value of financial instruments, at December 31, 2001:

	Change in Economic Value of Equity		Change in Total Economic Value	
Rate Shock	**$(000's)**	**%Equity**	**$(000's)**	**%Equity**
+2%	$ (336)	(1.2%)	$ 11,636	40%
+1%	$ (168)	(0.6%)	$ 5,818	20%
-1%	$ 76	0.3%	$ (5,818)	(20%)
-2%	$ 152	0.5%	$ (11,749)	(40%)

Loans and certificates of deposit represent the majority of interest rate exposure. Investments only represent 9.9% of interest-earning assets and, therefore, the impact of the investments on net interest income of moving rates may not be significant. Historically, savings and interest-bearing checking accounts have not re-priced in proportion to changes in overall market interest rates. The change in net interest income can be attributed to the balance of loans and certificates of deposit maturing/re-pricing.

The change in fair values of financial assets is mainly a result of total loans representing 67.9% of total interest-earning assets. Of these loans 60.0% or $140.2 million have fixed interest rates, which decline in value during a period of rising interest rates.

While asset/liability models have become a main focus of risk management, the Company believes that statistical models alone do not provide a reliable method of monitoring and controlling risk. The quantitative risk information provided is limited by the parameters established in creating the related models. Therefore, the Company uses these models only as a supplement to other risk management tools.

Return on Equity and Assets

Return on daily average assets and equity and certain other ratios for the periods indicated are presented below:

	Year Ended December 31,		
	2001	**2000**	**1999**
Net income (loss)	$(1,450)	$869	$656
Average assets	$353,164	$254,829	$177,657
Return on average assets	(0.41)%	0.34%	0.37%
Net income (loss)	$ (1,450)	$869	$656
Average equity	$30,701	$30,782	$31,420
Return on average equity	(4.72)%	2.82%	2.09%
Cash dividends paid per share	$0.05	$0.07	$0.07
Diluted earnings per share	$ (0.39)	$0.22	$0.16
Dividend payout ratio	N/A	32.34%	42.84%
Average equity	$30,701	$30,782	$31,420
Average assets	$353,164	$254,829	$177,657
Average equity to asset ratio	8.69%	12.08%	17.69%

Liquidity

Liquidity represents the ability to meet deposit withdrawals and fund loan demand, while retaining the flexibility to take advantage of business opportunities. The Company's primary sources of funds are customers deposits, loan payments, sales of assets, advances from the FHLB (Federal Home Loan Bank) and the use of the federal funds market. As of December 31, 2001, approximately $4.3 million of the securities portfolio matures within one year.

Historically the Company has utilized borrowings from the FHLB as an important source of funding for its growth. The Company has an established borrowing line with the FHLB that permits it to borrow up to 15% of the Bank's assets, subject to collateral limitations. Advances from the FHLB have maturity periods ranging from 1 through 15 years and at December 31, 2001, bear interest at rates ranging from 2.00% to 8.62%. At December 31, 2001, $16.0 million in advances were outstanding from the FHLB. See the section on "Other Borrowings" for further discussion.

During 2001, the Company experienced extremely rapid growth in its residential lending segment as consumers took advantage of relatively low housing market interest rates to refinance, build, or purchase homes. Although these residential mortgage loans are typically sold within 15-45 days after funding, the volume funded but unsold grew from $10.0 million at December 31, 2000 to over $55.0 million during the first quarter of 2001, and to over $68.0 million at the peak during the fourth quarter of 2001. In order to take advantage of the income generated by the increase in mortgage loan volume, the Company utilized the broker CD market to fund the growth. As origination volumes of loans held-for-sale began to taper off toward the end of 2001 to the ending balance of $37.3 million, the excess funds were deposited in the Company's cash account with the FHLB. The higher rate broker certificates of deposit will not be renewed if the volume of mortgage loans remains steady or subsides, reducing the excess liquidity. The Company has $34.3 million in broker and out-of-market certificates of deposit maturing in the first six months of 2002.

Certain of the Company's long-term borrowings have restrictive covenants that require the Company to maintain minimum levels of net income to required annual debt-service payments. At December 31, 2001, the Company was in violation of a covenant requiring the control of "overhead expenses, including salaries, in order to assure that quarterly net after-tax income less dividends to shareholders will exceed three times total loan payments of principal and interest." However, a waiver of the covenant violation for the quarters ended September 30, 2001 and December 31, 2001 was received from the Company's lender on March 18th, 2002.

Capital

The Company and the Bank are required to maintain minimum amounts of capital to "risk-weighted" assets, as defined by banking regulators. The Company and the Bank are required to have Tier 1 and Total Capital ratios of 4.0% and 8.0%, respectively. In addition the Bank is required to maintain a Tier 1 leverage ratio of not less than 4%. At December 31, 2001, the Company's Tier 1 and Total Capital ratios were 8.84% and 10.10%, respectively; and at December 31, 2000, the Company's ratios were 9.74% and 10.99%, respectively. The ratio of shareholder's equity to average assets was 8.14% and 11.93% at December 31, 2001 and 2000, respectively. At December 31, 2001, the Bank's Tier 1, Total Capital, and Tier 1 leverage ratios were 9.46%, 10.72%, and 6.99%, respectively and at December 31, 2000 were 9.37%, 10.62%, and 8.19%, respectively. To be considered "well capitalized" as defined by banking regulators, the Bank and the Company must maintain a total capital ratio of greater than 10%, a tier 1 capital ratio of greater than 6%, and the Bank must maintain a tier 1 leverage capital ratio of greater than 5%. At December 31, 2001 and at December 31, 2000, both the Company and the Bank exceeded the minimum requirements to be considered "well capitalized" under banking regulations.

Item 8. Financial Statements and Supplementary Data

INDEPENDENT AUDITOR'S REPORT (MOSS ADAMS LLP)

To the Shareholders and Board of Directors
Cowlitz Bancorporation

We have audited the accompanying consolidated statements of condition of Cowlitz Bancorporation (a Washington Corporation) and Subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The consolidated statements of operations, changes in shareholder's equity, and cash flows of Cowlitz Bancorporation and Subsidiaries as of December 31, 1999, and for the year then ended, were audited by other auditors whose report dated January 21, 2000, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cowlitz Bancorporation and Subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Portland, Oregon **/s/ Moss Adams, LLP**
February 14, 2002, except for note 21, as to which the date is March 8, 2002, and note 8, as to which the date is March 18, 2002

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS (ARTHUR ANDERSEN LLP)

To the Shareholders and Board of Directors of
Cowlitz Bancorporation

We have audited the consolidated statements of income, changes in shareholders' equity and cash flows of Cowlitz Bancorporation (a Washington Corporation) and its subsidiaries for the year ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Cowlitz Bancorporation and its subsidiaries for the year ended December 31, 1999 in conformity with accounting principles generally accepted in the United States.

San Francisco, California **/s/ Arthur Andersen LLP**
January 21, 2000

COWLITZ BANCORPORATION
CONSOLIDATED STATEMENTS OF CONDITION
(dollars in thousands)

ASSETS

	December 31, 2001	December 31, 2000
Cash and cash equivalents	$50,177	$25,589
Investment securities:		
Investments available-for-sale (at fair value, cost of $30,172 and $7,441 at December 31, 2001 and 2000, respectively)	30,188	7,499
Investments held-to-maturity (at amortized cost, fair value of $4,157 and $4,569 at December 31, 2001 and 2000, respectively)	4,115	4,572
Total investment securities	34,303	12,071
Federal Home Loan Bank stock, at cost	3,531	3,302
Loans held-for-sale	37,322	10,013
Loans, net of deferred loan fees	235,212	233,639
Allowance for loan losses	(5,997)	(4,561)
Loans, net	229,215	229,078
Premises and equipment, net of accumulated depreciation of $4,029 and $3,238 at December 31, 2001 and 2000, respectively	5,235	5,625
Intangible assets, net of accumulated amortization of $1,691 and $1,435 at December 31, 2001 and 2000, respectively	4,327	5,352
Accrued interest receivable and other assets	6,550	5,868
TOTAL ASSETS	$370,660	$296,898
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest-bearing demand	$43,225	$40,201
Savings and interest-bearing demand	96,587	73,770
Certificates of deposit	175,678	127,245
Total deposits	315,490	241,216
Short-term borrowings	2,750	1,275
Long-term borrowings	19,009	21,348
Accrued interest payable and other liabilities	4,663	2,650
Total liabilities	341,912	266,489
COMMITMENTS AND CONTINGENCIES (Note 13)		
SHAREHOLDERS' EQUITY		
Preferred stock, no par value; 5,000,000 shares authorized as of December 31, 2001 and 2000, no shares issued and outstanding	-	-
Common stock, no par value; 25,000,000 shares authorized as of December 31, 2001 and 2000, 3,692,560 and 3,689,327 shares issued and outstanding at December 31, 2001 and 2000, respectively	16,802	16,785
Additional paid-in capital	1,538	1,538
Retained earnings	10,398	12,048
Accumulated other comprehensive income, net of taxes	10	38
Total shareholders' equity	28,748	30,409
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$370,660	$296,898

COWLITZ BANCORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except per share amounts)

	Years Ended December 31,		
	2001	2000	1999
INTEREST INCOME			
Interest and fees on loans	$25,088	$21,283	$13,901
Interest on taxable investment securities	848	651	681
Interest on non-taxable investment securities	8	8	8
Other interest and dividend income	1,283	906	686
Total interest income	27,227	22,848	15,276
INTEREST EXPENSE			
Savings and interest-bearing demand	2,600	2,169	1,469
Certificates of deposit	9,382	6,164	2,332
Short-term borrowings	115	106	97
Long-term borrowings	1,285	1,501	1,350
Total interest expense	13,382	9,940	5,248
Net interest income before provision for loan losses	13,845	12,908	10,028
PROVISION FOR LOAN LOSSES	(5,262)	(1,155)	(1,349)
Net interest income after provision for loan losses	8,583	11,753	8,679
NON-INTEREST INCOME			
Gains on loans sold	4,872	1,813	852
Brokerage fees	2,450	1,497	857
Escrow fees	895	316	105
Service charges on deposit accounts	737	714	698
Credit card income	507	381	381
Fiduciary income	238	301	151
Net gains (losses) on maturities and sales of available- for-sale securities	89	(4)	(2)
Gain (loss) on sale of repossessed assets	(429)	92	-
Other income	232	109	149
Total non-interest income	9,591	5,219	3,191
NON-INTEREST EXPENSE			
Salaries and employee benefits	$9,365	$8,641	$5,766
Net occupancy and equipment expense	2,440	2,115	1,457
Impairment of goodwill	1,215	-	-
Loan expense	716	230	202
Professional fees	641	492	379
Business taxes	613	415	274
Amortization of intangible assets	582	559	445
Data processing and communications	543	430	238
Postage and freight	478	331	164
Credit card expense	408	307	315
Stationary and supplies	378	340	227
Travel and education	333	356	235
Other expenses	1,762	1,276	1,092
Total non-interest expense	19,474	15,492	10,794
Income (loss) before provision for income taxes	(1,300)	1,480	1,076
PROVISION FOR INCOME TAXES	150	611	420
Net income (loss)	$(1,450)	$869	$656
BASIC EARNINGS (LOSS) PER SHARE OF COMMON STOCK	$(0.39)	$0.22	$0.16
DILUTED EARNINGS (LOSS) PER SHARE OF COMMON STOCK	$(0.39)	$0.22	$0.16

COWLITZ BANCORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(dollars in thousands)

	Common Stock						
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Comprehensive Income (Loss)
BALANCE, December 31, 1998	4,001,999	$18,251	$1,538	$11,085	$46	$30,920	
Comprehensive income:							
Net income	-	-	-	656	-	656	$656
Net changes in unrealized gains on investments available-for-sale, net of deferred taxes of $43	-	-	-	-	(84)	(84)	(84)
Comprehensive income							$572
Issuance of common stock for cash	5,743	34	-	-	-	34	
Purchase of treasury stock	(134,500)	(732)	-	-	-	(732)	
Issuance of common stock for acquisition	148,810	977	-	-	-	977	
Cash dividend paid ($.07 per share)	-	-	-	(281)	-	(281)	
BALANCE, December 31, 1999	4,022,052	18,530	1,538	11,460	(38)	31,490	
Comprehensive income:							
Net income	-	-	-	869	-	869	$869
Net changes in unrealized loss on investments available-for-sale, net of deferred taxes of $38	-	-	-	-	76	76	76
Comprehensive income							$945
Issuance of common stock for cash	8,207	39	-	-	-	39	
Purchase of treasury stock	(340,932)	(1,784)	-	-	-	(1,784)	
Cash dividend paid ($.07 per share)	-	-	-	(281)	-	(281)	
BALANCE, December 31, 2000	3,689,327	16,785	1,538	12,048	38	30,409	
Comprehensive income:							
Net loss	-	-	-	(1,450)	-	(1,450)	$(1,450)
Net changes in unrealized gains on investments available-for-sale, net of deferred taxes of $8	-	-	-	-	(28)	(28)	(28)
Comprehensive loss							
Issuance of common stock for cash	3,233	17	-	-	-	17	$(1,478)
Cash dividend paid ($.05 per share)	-	-	-	(200)	-	(200)	
BALANCE, December 31, 2001	3,692,560	$16,802	$1,538	$10,398	$10	$28,748	

COWLITZ BANCORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Years Ended December 31,		
	2001	**2000**	**1999**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$(1,450)	$869	$656
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Deferred tax benefit	(205)	(1,166)	(211)
Depreciation and amortization	1,408	1,316	1,098
Impairment of goodwill	1,215	-	-
Provision for loan losses	5,262	1,155	1,349
Net (gains) losses on maturities and sales of investments securities available-for-sale	(89)	4	2
Net amortization of investment security premiums and accretion of discounts	(9)	(4)	(1)
Net loss (gain) on sales of foreclosed assets	429	(92)	
Gains on loans sold	(4,872)	(1,813)	(852)
Origination of loans held-for-sale	(467,554)	(138,704)	(63,084)
Proceeds of loan sales	445,117	132,759	62,753
(Increase) decrease in accrued interest receivable and other assets	(528)	1,177	62
Increase in accrued interest payable and other liabilities	2,013	942	(154)
Federal Home Loan Bank stock dividends	(229)	(212)	(221)
Net cash from operating activities	(19,492)	(3,769)	1,397
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of foreclosed assets	2,979	942	-
Proceeds from maturities of investment securities held-to- maturity	8,865	4,365	3,267
Proceeds from maturities and sales of investment securities available-for-sale	10,848	5,472	2,000
Purchases of investment securities:			
Held-to-maturity	(8,399)	(4,369)	(3,365)
Available-for-sale	(34,253)	(224)	(3,490)
Net increase in loans	(8,751)	(51,941)	(15,291)
Purchases of premises and equipment	(436)	(288)	(609)
Net cash received (paid) in acquisition of business	-	3,188	(1,565)
Net cash from investment activities	(29,147)	(42,855)	(19,053)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in demand, savings, and interest-bearing demand deposits	$25,841	$12,463	$(2,834)
Net increase in certificates of deposit	48,433	48,205	18,080
Dividends paid	(200)	(281)	(281)
Net increase in short-term borrowings	1,475	-	1,550
Proceeds from long-term borrowings	10,000	11,450	5,000
Repayment of long-term borrowings	(12,339)	(16,933)	(6,812)
Repurchase of common stock	-	(1,784)	(732)
Issuance of common stock for cash, net of amount paid for fractional shares and offering costs	17	39	34
Net cash from financing activities	73,227	53,159	14,005
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	24,588	6,535	(3,651)
CASH AND CASH EQUIVALENTS, beginning of year	25,589	19,054	22,705
CASH AND CASH EQUIVALENTS, end of year	$50,177	$25,589	$19,054
SUPPLEMENTAL DISCOSURE OF CASH FLOW INFORMATION			
Cash paid for interest	$13,313	$9,548	$5,221
Cash paid for income taxes	$9	$797	$560
SUPPLEMENTAL DISCLOSURE OF INVESTING ACTIVITIES			
Loans transferred to other real estate owned	$3,352	$1,892	$769

COWLITZ BANCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations - Cowlitz Bancorporation (the "Company") is a holding company located in southwest Washington. The Company's principal subsidiaries are Cowlitz Bank (also the "Company" or the "Bank"), a Washington state-chartered commercial bank, and, until its sale in February of 2002, Business Finance Corporation ("BFC") of Bellevue, Washington. Business Finance Corporation provided asset-based financing to companies throughout the western United States. Cowlitz Bank is the largest community bank headquartered in Cowlitz County and offers commercial banking services primarily to small and medium-sized businesses, professionals, and retail customers.

During the third quarter of 1999, the Company acquired Bay Mortgage of Bellevue, Washington and Bay Mortgage of Seattle, Washington. Bay Mortgage of Seattle and Bay Mortgage of Bellevue have joined together as a division ("Bay Mortgage") of Cowlitz Bank and serve customers throughout the greater Bellevue/Seattle market area. Other markets served by Bay Mortgage include Silverdale and Vancouver, Washington, Cowlitz County, Washington, and Portland, Oregon. Bay Escrow also operates as a division of Cowlitz Bank and completes escrow transactions for Bay Mortgage primarily for the Bellevue/Seattle market. Cowlitz Bank operates a branch in Bellevue, Washington, doing business as Bay Bank.

On July 1, 2000 the Company acquired Northern Bank of Commerce ("NBOC") of Portland, Oregon. NBOC operates as a branch of Cowlitz Bank, doing business as Northern Bank of Commerce, and serves customers in the Portland, Oregon market area.

Principles of consolidation - The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

Use of estimates in preparation of the financial statements - Preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - For the purpose of presentation in the statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Federal funds sold generally mature the day following purchase.

Investment securities - Investment securities are classified as trading, available-for-sale, or held-to-maturity. Securities are classified as held-to-maturity when the Company has the positive intent and ability to hold those securities to maturity. Held-to-maturity securities are carried at amortized cost. Securities that are bought and held principally for the purpose of selling them in the near-term are classified as trading securities. Trading securities are carried at fair value. Net unrealized gains and losses on trading securities are included in the consolidated statements of income. Securities not classified as either held-to-maturity or trading are classified as available-for-sale. Available-for-sale securities are carried at fair value with unrealized gains and losses, net of tax effect, added to or deducted from shareholders' equity. All investment securities have been designated as either available-for-sale or held-to-maturity at December 31, 2001 and 2000.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary are recognized by write-downs of the individual securities to their fair value. Such write-downs would be included in earnings as realized losses.

Federal Home Loan Bank stock - The Company's investment in Federal Home Loan Bank (FHLB) stock is a restricted investment carried at cost ($100 per share) which approximates fair value. As a member of the FHLB system, the Company is required to maintain a minimum level of investment in FHLB stock based on its outstanding FHLB advances. The Company may request redemption of any stock in excess of the amount required. Stock redemptions are made at the discretion of the FHLB.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Loans held-for-sale - Loans held-for-sale are carried at the lower of cost or market value. Market value is determined in aggregate. Net unrealized losses are recognized as changes to income through a valuation allowance. Loan origination fees and the direct loan originations costs of loans held-for-sale are deferred until the related loan is sold. If the loan is subsequently held for investment, such fees and costs continue to be deferred and recognized as an adjustment of the loan's yield.

Loans - Interest income on simple interest loans is accrued daily on the principal balance outstanding. Generally, no interest is accrued on loans when factors indicate that collection of interest is doubtful or when principal or interest payments become 90 days past due, unless collection of principal and interest is anticipated within a reasonable period of time and the loans are well secured. For such loans, previously accrued but uncollected interest is charged against current earnings, and income is only recognized to the extent that payments are subsequently received and collection of the remaining recorded investment is probable. Non-accrual loans are returned to accrual status when the loans are paid current as to principal and interest and future payments are expected to be made in accordance with the contractual terms of the loan. Loan fees are offset against operating expenses to the extent that these fees cover the direct expense of originating loans. Fees in excess of origination costs are deferred and amortized to income over the related loan period.

Allowance for loan losses - The allowance for loan losses is based on management's estimates. Management determines the adequacy of the allowance based upon reviews of individual loans, delinquencies, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans, and other pertinent factors. Actual losses may vary from current estimates. These estimates are reviewed periodically and are adjusted as deemed necessary. Loans deemed uncollectible are charged to the allowance. Provisions for loan losses and recoveries on loans previously charged off are added to the allowance.

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company's policy is to include in impaired loans all loans that are past due 90 days or more as to either principal or interest and any loans that the Company believes collection of principal or interest is doubtful, except for loans that are currently measured at fair value or at the lower of cost or fair value, and credit card receivables, which are considered large groups of smaller balance homogeneous loans that are collectively evaluated for impairment. The Company measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, impairment is measured based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Impaired loans are charged to the allowance when management believes, after considering economic and business conditions, collection efforts, and collateral position, that the borrower's financial condition is such that collection of principal is not probable.

Stock-based compensation - Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," requires disclosure about stock-based compensation arrangements regardless of the method used to account for them. As permitted by SFAS No. 123, the Company has decided to apply the accounting provisions of Accounting Principles Board (APB) Opinion No. 25, and therefore discloses the difference between compensation cost included in net income and the related cost measured by the fair value-based method defined by SFAS No. 123, including tax effects, that would have been recognized in the income statement if the fair value method had been used.

Other real estate owned - Other real estate owned (OREO), acquired through foreclosure, is carried at the lower of cost or estimated fair value, less estimated costs to sell. Prior to foreclosure, the balance of the underlying loan is adjusted to equal the estimated fair value of the real estate to be acquired, less estimated costs to sell, by a charge to the allowance for loan losses. Any subsequent adjustments are recorded as a valuation allowance with a charge to non-interest expense. Other real estate owned is included in other assets on the consolidated statements of condition.

Premises and equipment - Premises and equipment are stated at cost less accumulated depreciation. The provision for depreciation and amortization is computed by the straight-line method over the estimated useful lives for the majority of the assets, which range from 3 to 39.5 years.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Improvements are capitalized and depreciated over the lesser of their estimated useful lives or the life of a related lease. When property is replaced or otherwise disposed of, the cost of such assets and the related accumulated depreciation are removed from their respective accounts.

Intangible assets - Intangible assets include deposit premiums of $767,000 and $1.0 million (net of accumulated amortization) at December 31, 2001 and 2000, respectively. The deposit premiums are amortized using an accelerated method over a ten-year life. Intangible assets at December 31, 2001 and 2000, also include goodwill of $3.6 million and $4.4 million, respectively (net of accumulated amortization). Goodwill represents the excess of acquisition costs over the fair value of net assets that arose in connection with the acquisitions of Business Finance Corporation (BFC), Bay Mortgage of Bellevue, Washington, Bay Mortgage of Seattle, Washington, Bay Escrow, and Northern Bank of Commerce of Portland, Oregon.

Goodwill related to the acquisition of BFC was considered impaired at December 31, 2001 and the balance of $1.2 million was charged against earnings at that time. The impairment loss was measured based upon an assessment of BFC's net tangible assets relative to the entity's fair value as determined by a sale in process as of December 31, 2001. Also in 2001, an estimate of the final earn-out payment related to the purchase of Bay Mortgage of Bellevue, Washington was recognized and resulted in an increase to goodwill by $772,000. Prior to the adoption of SFAS No. 142, as further discussed below, goodwill had been amortized on a straight-line basis over a 15-year period.

Income taxes - Income taxes are accounted for using the asset and liability method. Under this method, a deferred tax asset or liability is determined based on enacted tax rates, which will be in effect when the differences between the financial statement carrying amounts and tax bases of existing assets and liabilities are expected to be reported in the Company's income tax returns. The deferred tax provision or benefit for the year is equal to the net change in the deferred tax asset or liability from the beginning to the end of the year. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Earnings per share - Earnings per share computations are computed using the weighted average number of common and dilutive common equivalent shares (stock options) assumed to be outstanding during the period using the treasury stock method.

Off-balance-sheet financial instruments - The Company holds no derivative financial instruments. However, in the ordinary course of business, the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commitments under credit card arrangements, and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

Impact of new accounting issues - During 2001, the Financial Accounting Standards Board issued the following accounting standards:

Standard of Financial Accounting Standard (SFAS) NO. 141 - Business Combinations addresses financial accounting and reporting for business combinations and supersedes APB Opinion No. 16, "Business Combinations," and FASB Statement No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." All business combinations in the scope of this Statement are to be accounted for using the purchase method. The provisions of this Statement apply to all business combinations initiated after June 30, 2001. This Statement also applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later. Adoption of this standard is not expected to have a material impact to the Company's financial position or results of operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Statement of Financial Accounting Standard (SFAS) No. 142 - Goodwill and Other Intangible Assets, addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, "Intangible Assets." It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. The provisions of this Statement are required to be applied starting with fiscal years beginning after December 15, 2001. Under the new rules, goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests in accordance with the Statement. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in 2002. Application of the non-amortization provisions of the Statement is expected to result in an increase in net income of $325,000 per year. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets, but has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

Statement of Financial Accounting Standard (SFAS) No. 143 - Accounting for Asset Retirement Obligations, addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to all entities. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and/or the normal operation of a long-lived asset, except for certain obligations of lessees. As used in this Statement, a legal obligation is an obligation that a party is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel. This Statement amends FASB Statement No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies." This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. Adoption of this standard is not expected to have a material impact to the Company's financial position or results of operations.

Statement of Financial Accounting Standard (SFAS) No. 144 - Accounting for the Impairment or Disposal of Long-Lived Assets addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30. SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale, and broadens the presentation of discontinued operations to include more disposal transactions. Adoption of this statement is not expected to have a significant effect on the Company's consolidated financial position or results of operations. Application of SFAS No. 144 is effective beginning January 1, 2002.

Comprehensive income - Comprehensive income includes net income reported on the statements of income and changes in the fair value of available-for-sale investments reported as a component of shareholders' equity.

The components of comprehensive income for the years ended December 31 are as follows:

(dollars in thousands)	**2001**	**2000**	**1999**
Unrealized gain (loss) arising during the period, net of tax	$31	$77	$(86)
Reclassification adjustment for net realized gains (losses) on securities available-for-sale included in net income during the year, net of tax	(59)	(1)	2
Net unrealized gain (loss) included in other comprehensive income	$(28)	$76	$(84)

Prior year reclassifications - Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2 - BUSINESS ACQUISITIONS AND SALES

On July 1, 2000, the Company acquired Northern Bank of Commerce (NBOC) of Portland, Oregon for approximately $3.8 million in cash, including acquisition costs. The Company has accounted for the transaction using the purchase method of accounting. Under the terms of the agreement, the shareholders of NBOC received $2.48 in cash in exchange for each share of NBOC common stock.

The following table summarizes the acquisition of NBOC.

(dollars in thousands)	
Fair value of assets acquired	$46,246
Goodwill recorded	946
Total value of assets acquired	47,192
Less liabilities assumed	43,357
Cash paid for acquisition	(3,835)
Less cash acquired	7,023
Net cash received in acquisition	$3,188

The following unaudited pro forma financial information for the Company gives effect to the acquisition of NBOC, as if it had occurred on January 1, 2000. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the acquisition occurred on the dates indicated, or which may result in the future for the combined companies under the ownership and management of the Company. The pro forma results include certain adjustments, such as additional expense, as a result of goodwill amortization.

	Years Ended December 31,	
	2001	**2000**
(dollars in thousands)	**(Pro forma)**	
Net interest income	$13,845	$14,326
Net loss	$(1,450)	$(279)
Net interest income per share	$3.72	$4.49
Loss per share	$(0.39)	$(0.20)

During 1999, the Company acquired Bay Mortgage, of Bellevue, Washington, Bay Mortgage of Seattle, and Bay Escrow of Seattle, Washington. The acquisitions were accounted for using the purchase method of accounting and included cash payments of $1.8 million and issuance of 148,810 shares of common stock with a value of $977,000. The shares' value was determined from the average closing bid price and ask price of the Company's common stock for the five trading days preceding and five trading days following the public announcement of this acquisition on May 13, 1999. Goodwill of $2.3 million was recorded as part of these transactions. During 2001, additional cash payments of $562,000 were recorded, and 38,112 shares of the Company's common stock were issued to the seller in connection with the acquisitions, pursuant to a performance earn-out agreement. The shares were valued at $210,000 based on the Company's closing bid price on December 31, 2001. The earn-out agreement required fixed and profit sharing payments to the sellers if the mortgage segment's net earnings over a two year measurement period were in excess of a specified target net income. This target was not reached during 2000, so no amounts were paid or accrued at December 31, 2000. Because these additional acquisition costs were contingent on future earnings, no additional payments were made or accrued at the date of acquisition. The earn-out payments, totaling $772,000, have been recorded in 2001 as additional goodwill associated with the purchase in accordance with the provisions of APB 16 "*Business Combinations*."

NOTE 2 - BUSINESS ACQUISITIONS AND SALES - (continued)

During the year ending December 31, 2001, a rapidly increasing level of account delinquencies, coupled with a significant balance of accounts that did not possess sufficient collateral protection, caused management to increase the level of loan loss reserves on the BFC accounts. These factors also contributed to the recognition of an impairment adjustment of the segment's goodwill balance. In the fourth quarter of 2001, a loan loss provision of $1.6 million was recorded against outstanding factored accounts, and an impairment charge of $1.2 million was recorded against the segment's goodwill balance. The goodwill impairment charge is reflected on the Company's statement of operations as a component of non-interest expense in a separately captioned item entitled, "Impairment of goodwill."

BFC was purchased in August of 1998 in order to diversify the Company's holdings and to provide accounts receivable financing as an additional source of revenue and as an additional service to customers in the Western United States. However, during 2001, due to a poor return on investment, and a desire to focus its resources more fully on the core banking business, the Company began evaluating alternatives for this segment, including the possibility of selling the segment or reducing the level and scope of its operations. The impairment charges and loss provisions applied to the segment's assets as described above, also contributed to the Company's decision to reduce its future commitment and investment in this segment. A formal plan of disposal for the segment was established in January of 2002. The only cost associated with the disposal of the BFC segment was for severance pay and this amount, which was recognized during the first quarter, was not significant.

On February 15, 2002, after a thorough evaluation of options had been considered by management, the Company completed its sale of BFC and recognized a pre-tax gain of $421,000 from the sale of remaining assets. The assets sold consisted primarily of the segment's collateralized factored receivable accounts that also possessed a positive credit and collection history. Because the final decision to sell BFC was not made until January 2002, the gain was not reported for the year ending December 31, 2001 in accordance with the provisions of APB Opinion No. 30, "*Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions"* , which was effective through December 31, 2001 until it was later superceded by SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*," which became effective for the Company beginning January 1, 2002. The following table summarizes the sale transaction:

(dollars in thousands)	
Net finance receivables sold	$2,511
Other assets sold	121
	2,632
Loan assumed	2,800
Other liabilities assumed	212
Due from purchaser	41
	3,053
Pre-tax gain on sale	$421

NOTE 3 - BALANCE WITH THE FEDERAL RESERVE BANK

The Bank is required to maintain reserves in cash or with the Federal Reserve Bank equal to a percentage of its reservable deposits. Required reserves were approximately $5.0 million and $1.7 million as of December 31, 2001 and 2000, respectively.

NOTE 4 - INVESTMENT SECURITIES

The amortized cost and estimated fair values of investment securities at December 31 are shown below (dollars in thousands):

	Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2001:				
U.S. Government and agency securities	$19,566	$143	$(65)	$19,644
Mortgage-backed securities	10,606	13	(75)	10,544
	$30,172	$156	$(140)	$30,188

	Held-to-Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2001:				
Municipal Bonds	$200	$3	$-	$203
U.S. Government and agency securities	1,016	39	-	1,055
Certificates of deposit	2,899	2,899		
	$4,115	$42	$-	$4,157

	Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2000:				
U.S. Government and agency securities	$7,441	$58	$-	$7,499

	Held-to-Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal Bonds	$200	$-	$(2)	$198
U.S. Government and agency securities	1,007	-	(1)	1,006
Certificates of deposit	3,365	-	-	3,365
	$4,572	$-	$(3)	$4,569

Gross gains of $89,000 and gross losses of $4,000, and $2,000 in 2001, 2000, and 1999, respectively, were realized on maturities and sales of available-for-sales securities.

Maturity of investments - The amortized cost and estimated fair value of investment securities by contractual maturity at December 31, 2001, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay the obligation.

	Available-for-Sale		Held-to-Maturity	
(dollars in thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$225	$232	$4,015	$4,056
Due after one year through five years	28,484	28,501	100	101
Due after five years through ten years	1,463	1,455	-	-
	$30,172	$30,188	$4,115	$4,157

For the purposes of the maturity schedule, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the expected maturity of the underlying collateral. Mortgage-backed securities mature earlier than their stated contractual maturities because of accelerated principal repayments of the underlying loans.

At December 31, 2001 and 2000, securities in the amounts of $8.3 million and $4.1 million, respectively, were pledged as collateral for long-term borrowings.

NOTE 5 - LOANS AND ALLOWANCE FOR LOAN LOSSES

The loan portfolio as of December 31 consists of the following:

(dollars in thousands)	2001	2000
Commercial loans	$50,152	$46,738
Real estate:		
Construction	26,520	10,744
Residential	36,190	34,402
Commercial	111,437	130,272
Installment and other consumer	11,650	12,247
	235,949	234,403
Less allowance for loan losses	(5,997)	(4,561)
Deferred loan fees	(737)	(764)
Loans, net	$229,215	$229,078

An analysis of the change in the allowance for loan losses for the years ended December 31 is as follows:

(dollars in thousands)	2001	2000	1999
BALANCE, beginning of year	$4,561	$2,281	$1,814
Provision for loan losses	5,262	1,155	1,349
Loans charged to the allowance	(4,611)	(2,070)	(1,025)
Recoveries credited to the allowance	785	1,207	143
Adjustment incident to acquisition	-	1,988	-
BALANCE, end of year	$5,997	$4,561	$2,281

Loans on which the accrual of interest has been discontinued amounted to approximately $4.8 million, $5.1 million, and $2.4 million at December 31, 2001, 2000, and 1999, respectively. Interest forgone on non-accrual loans was approximately $826,000, $753,000, and $424,000 in 2001, 2000, and 1999, respectively.

At December 31, 2001 and 2000, the Company's recorded investment in certain loans that were considered to be impaired was $7.3 million and $6.7 million, respectively. Of these impaired loans, $2.5 million and $2.1 million have related specific reserves of $792,000 and $1.3 million, respectively, while $4.8 million and $4.6 million, respectively, did not require specific reserves. The balance of the allowance for loan losses in excess of these specific reserves is available to absorb losses from all loans. The average recorded investment in impaired loans for the years ended December 31, 2001, 2000, and 1999, was approximately $6.0 million, $4.9 million, and $3.7 million, respectively.

Interest payments received on impaired loans are recorded as interest income, unless collection of the remaining recorded investment is not probable, in which case payments received are recorded as a reduction of principal. For the years ended December 31, 2001, 2000, and 1999 interest income recognized on impaired loans totaled $324,000, $159,000, and $153,000, respectively, all of which was recognized on a cash basis.

NOTE 6 - PREMISES AND EQUIPMENT

Premises and equipment consist of the following at December 31:

(dollars in thousands)	2001	2000
Land	$839	$839
Buildings and improvements	4,519	4,445
Furniture and equipment	3,906	3,579
	9,264	8,863
Accumulated depreciation	(4,029)	(3,238)
	$5,235	$5,625

Depreciation expense amounted to $826,000, $759,000, and $654,000 for the years ended December 31, 2001, 2000, and 1999, respectively.

NOTE 7 - CERTIFICATES OF DEPOSIT

Included in certificates of deposit are certificates in denominations of $100,000 or greater totaling $95.0 million and $46.4 million at December 31, 2001 and 2000, respectively. Interest expense relating to certificates of deposit in denominations of $100,000 or greater was $4.0 million, $2.3 million, and $858,000 for the years ended December 31, 2001, 2000, and 1999, respectively.

At December 31, 2001, the scheduled time remaining to repricing or maturity for all time deposits is as follows:

(dollars in thousands)

Three months or less	$48,425
Over three through six months	49,139
Over six months through 12 months	43,796
Over 12 months	34,318
	$175,678

NOTE 8 - OTHER BORROWINGS

Short-term borrowings consist of unsecured overnight federal funds purchased of $2.8 million and $1.3 million at December 31, 2001 and 2000, respectively.

Long-term borrowings consist of the following at December 31:

(dollars in thousands)

	2001	2000
Notes payable to Federal Home Loan Bank; interest from 2.0% to 8.62% and 6.02% to 8.80% at December 31, 2001 and 2000, respectively, payable in monthly installments plus interest; due 2002 to 2009; secured by certain investment securities and mortgage loans totaling $35.4 million and $20.1 million at December 31, 2001 and 2000, respectively.	$16,013	$18,293
Notes payable to a correspondent bank; interest at 8.00% at December 31, 2001 and 2000, payable in monthly principal and interest installments of $30,000, final payment of $2.1 million due in December 31, 2007; secured by Bank stock.	2,945	3,000
Contract payable to a private party; interest at 9.0%, payable in monthly installments plus interest through October 2010.	51	55
	$19,009	$21,348

During 2000, the Company obtained a $3.0 million term loan from a regional bank in order to provide working capital to the Bank and to increase the Bank's regulatory reserves. The note bears interest at 8%, and matures in December 2007. At December 31, 2001, the principal balance of this loan was $2.9 million. The Company has pledged the Bank's stock as collateral for the borrowings. At December 31, 2001, the Company was in violation of a covenant related to this loan requiring the control of "overhead expenses, including salaries, in order to assure that quarterly net after-tax income less dividends to shareholders will exceed three times total loan payments of principal and interest." However, a waiver of the covenant violation for the quarters ended September 30, 2001 and December 31, 2001 was received from the Company's lender on March 18th, 2002. If the Company remains in violation of this debt covenant in future quarters, the lender has the discretion to require immediate repayment of the balance due, or repossess the collateral for this note. The Company does not anticipate remaining in violation of this covenant in future quarters.

The scheduled repayment of other borrowings subsequent to December 31, 2001, is as follows:

(dollars in thousands)

Years ending December 31, 2002	$10,126
2003	137
2004	5,148
2005	319
2006	227
Thereafter	3,052
	$19,009

The FHLB borrowing agreements require the Bank to deliver collateral to the FHLB in Seattle, Washington and are limited to 15% of total assets. The FHLB has also issued standby letters of credit totaling $6.2 million at December 31, 2001, on behalf of the Bank to support the Bank's public deposits and certain standby letters of credit issued by the Bank.

NOTE 9 - INCOME TAXES

Components of the provision for income taxes for the years ended December 31 were as follows:

(dollars in thousands)	2001	2000	1999
Current	$355	$1,777	$631
Deferred benefit	(205)	(1,166)	(211)
Provision for income taxes	$150	$611	$420

The tax effect of temporary differences that give rise to deferred tax assets and deferred tax liabilities at December 31 was as follows:

(dollars in thousands)	2001	2000
Deferred tax assets:		
Allowance for loan losses	$1,613	$1,285
Loan origination fees	-	7
Amortization of intangible assets	215	167
Deferred compensation	23	106
Net operating loss carryforward	530	565
Other	27	22
	2,408	2,152
Deferred tax liabilities:		
Accumulated depreciation	(36)	(77)
Federal Home Loan Bank stock dividends	(725)	(624)
Accrual to cash adjustment	(20)	(29)
	(781)	(730)
Net deferred tax	$1,627	$1,422

The above table does not include deferred tax assets or liabilities relating to the unrealized gain or loss on available-for-sale securities. Deferred tax liabilities of $5,000 in 2001 and $20,000 in 2000, were recorded in conjunction with unrealized gains and losses on available-for-sale securities.

A reconciliation between the statutory federal income tax rate and the effective tax rate is as follows:

	2001	2000	1999
Federal income taxes at statutory rate	$(442)	$503	$366
Effect of non-deductible goodwill amortization	465	45	34
Effect of non-deductible officers' life insurance	79	37	13
Other	48	26	7
	$150	$611	$420
	N/A	44.3%	39.0%

At December 31, 2001, the Company had a $1.5 million net operating loss carryforward that was acquired with the purchase of Northern Bank of Commerce. The federal and state net operating loss carryforward will offset future taxable income by approximately $100,000 each year. The carryforwards will expire in 2020.

Management believes, based upon the Company's historical performance, that the deferred tax assets will be realized in the normal course of operations and, accordingly, management has not reduced deferred tax assets by a valuation allowance.

NOTE 10 - EARNINGS PER SHARE

The following table reconciles the numerator and denominator of the basic and diluted earnings per share computations:

	Net Income (Loss)	Weighted Average Shares	Per Share Amount
	(dollars in thousands)		
For the year ended December 31, 2001			
Basic loss per share	$(1,450)	3,691,728	$(0.39)
Stock options		39,591	
Diluted loss per share	$(1,450)	3,731,319	$(0.39)
For the year ended December 31, 2000			
Basic earnings per share	$869	3,885,946	$0.22
Stock options		14,819	
Diluted earnings per share	$869	3,900,765	$0.22
For the year ended December 31, 1999			
Basic earnings per share	$656	4,054,657	$0.16
Stock options		42,591	
Diluted earnings per share	$656	4,097,248	$0.16

For the periods reported the Company had no reconciling items between net income and income available to common shareholders.

Options to purchase 538,866 shares with exercise prices ranging from $5.71 to $12.00 were not included in diluted earnings per share due to the exercise price being greater than the average market price for the year ended December 31, 2001. The options expire from 2008 to 2010. At December 31, 2000, there were 602,166 shares with exercise prices ranging from $4.94 to $12.00 not included in diluted earnings per share due to the exercise price being greater than the average market price. The options expire from 2008 to 2010. Options to purchase 96,000 shares of common stock at a price ranging from $5.55 to $6.42 were outstanding at December 31, 1999 but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares. These options expire in 2008 and 2009.

NOTE 11 - SHAREHOLDERS' EQUITY AND REGULATORY CAPITAL

Dividends are paid by the Company from its retained earnings, which are principally provided through dividends and income from its subsidiaries. However, state agencies restrict the amount of funds the Bank may transfer to the Company in the form of cash dividends, loans, or advances. Transfers are limited by the Bank's retained earnings, which for the Bank were $13.6 million at December 31, 2001.

The Company and the Bank are subject to various regulatory capital requirements as established by applicable federal and state banking regulatory authorities. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items. The quantitative measures for capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of Total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets (leverage). The Company's and the Bank's capital components, classifications, risk weightings, and other factors are also subject to qualitative judgments by regulators. Failure to meet minimum capital requirements can initiate certain actions by regulators that, if undertaken, could have a material effect on the Company's financial statements.

Management believes that as of December 31, 2001, the Company and the Bank meet all minimum capital adequacy requirements to which they are subject. The most recent formal notification, based on June 30, 2001 reporting, from the Federal Deposit Insurance Corporation categorized the Bank as adequately capitalized under the regulatory framework for prompt correction actions. Management believes that changes in conditions have occurred subsequent to such notification to change the Bank's category to well capitalized as of December 31, 2001. These changes include increases to the Bank's capital through earnings, changes in the risk structure of the balance sheet, and increases in capital ratios to levels above the minimum requirements to be "well-capitalized." An institution is deemed to be "well-capitalized" if it has a total, risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a leverage ratio of 5% or greater, and is not subject to a regulatory order, agreement or directive to meet and maintain a specific capital level for any capital measure. At the end of the 1st and 2nd quarters of 2001, Cowlitz Bank had dropped below well capitalized in the total risk-based capital category. By the 3rd quarter of 2001, the Bank had increased capital to a level that brought the ratios back into the well-capitalized category. Cowlitz Bank's total risk-based capital ratio, Tier 1 risk-based capital ratio, and leverage ratios were 10.72%, 9.46%, and 6.99%, respectively at December 31, 2001.

NOTE 11 - SHAREHOLDERS' EQUITY AND REGULATORY CAPITAL - (continued)

The following table presents selected capital information for the Company (consolidated) and the Bank as of December 31, 2001 and 2000:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Correct Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2001						
Total risk-based capital:						
Consolidated	$27,358	10.10%	$21,661	=8.00%	$27,076	=10.00%
Bank	$28,898	10.72%	$21,564	=8.00%	$26,956	=10.00%
Tier 1 risk-based capital:						
Consolidated	$23,941	8.84%	$10,830	=4.00%	$16,245	=6.00%
Bank	$25,499	9.46%	$10,782	=4.00%	$16,173	=6.00%
Tier 1 (leverage) capital:						
Consolidated	$23,941	6.51%	$14,717	=4.00%	N/A	N/A
Bank	$25,499	6.99%	$14,594	=4.00%	$18,242	=5.00%
December 31, 2000						
Total risk-based capital:						
Consolidated	$27,717	10.99%	$20,170	=8.00%	$25,213	=10.00%
Bank	$26,408	10.62%	$19,887	=8.00%	$24,859	=10.00%
Tier 1 risk-based capital:						
Consolidated	$24,548	9.74%	$10,085	=4.00%	$15,128	=6.00%
Bank	$23,278	9.37%	$9,944	=4.00%	$14,915	=6.00%
Tier 1 (leverage) capital:						
Consolidated	$24,548	8.48%	$11,583	=4.00%	N/A	N/A
Bank	$23,278	8.19%	$11,366	=4.00%	$14,208	=5.00%

NOTE 12 - STOCK OPTION AND EMPLOYEE STOCK PURCHASE PLANS

During 1997, the Company adopted the 1997 Stock Option Plan (the 1997 Plan) which, together with subsequent amendments, authorizes up to 625,000 shares of common stock for issuance thereunder. Under the 1997 Plan, options may be granted to the Company's employees, directors, and consultants. The exercise price of incentive stock options under the 1997 Plan must be at least equal to the fair value of the common stock on the date of grant. Options granted under the 1997 Plan generally vest over a five-year period, at the discretion of the compensation committee. All incentive stock options granted under the 1997 Plan will expire ten years from the date of grant unless terminated sooner pursuant to the provisions of the 1997 Plan. At December 31, 2001 and 2000, options to purchase a total of 476,180 and 479,900 shares, respectively, are outstanding under the 1997 Plan. All stock options granted under the 1997 Plan were made with exercise prices equal to the fair market value of the underlying stock on the date of grant.

In connection with the acquisition of Northern Bank of Commerce during 2000, the Company issued 231,466 incentive stock options to former Directors of NBOC. These options vest equally over five years and expire 10 years after the date of grant. The exercise prices of the options range from $11.09 to $12.00 per share and were granted outside of the 1997 Plan. Also in 2000, the Company granted 17,000 incentive stock options to employees, which vest equally over five years and expire ten years after the date of grant. The exercise price of these options is equal to the fair value of the underlying common stock at the date of grant.

During 1999, the Company granted incentive stock options to purchase 20,000 shares of common stock to certain officers of Bay Mortgage and Bay Bank. These options vest equally over a five-year period and expire 10 years after the grant dates. The exercise prices are equal to the fair value of the underlying common stock. These options were granted by the Company outside of the 1997 Plan.

Also during 1999, the Company authorized up to 69,000 performance-based stock options to be granted to an officer of Bay Bank. The number of performance-based stock options actually to be issued varies depending on Bay Bank's achievement of certain earnings targets over a three-year period. The exercise price for 54,000 of these performance-based stock options was equal to the fair market value of the underlying common stock on the grant date. The Company accrues compensation expense for these performance-based stock options over the performance period based on changes in the fair market value of the underlying common stock and estimates of the number of stock options to be issued based on the performance targets. There was no compensation expense charged against (credited to) income for these performance-based stock options in 2001 or 2000, respectively. The exercise price of the remaining 15,000 options will be equal to the fair value of the underlying common stock of the Company on the date the earnings targets are achieved.

NOTE 12 - STOCK OPTION AND EMPLOYEE STOCK PURCHASE PLANS - (continued)

The Company adopted an employee stock purchase plan during 1996 and may sell up to 175,000 shares of common stock to its eligible employees under the plan. During 2001 and 2000, the Company sold 3,233 and 8,207 shares of stock, respectively, under the plan. Each employee is granted the right to purchase stock at a price equal to the fair value of the common stock at the date of grant, as determined by the Board of Directors. These grants are made to qualified employees each quarter and expire within the month they are granted.

A summary of option activity for the years ended December 31, 2001, 2000, and 1999 is as follows:

(dollars in thousands)	2001 Common Shares	2001 Weighted Average Price	2000 Common Shares	2000 Weighted Average Price	1999 Common Shares	1999 Weighted Average Price
BALANCE, beginning of year	769,866	$7.29	598,000	$5.92	454,092	$6.08
Granted	57,233	$5.96	458,166	$8.20	224,041	$5.90
Exercised	(3,233)	$4.92	(8,207)	$4.75	(5,778)	$6.09
Forfeited	(22,320)	$4.78	(278,093)	$5.80	(74,355)	$6.73
BALANCE, end of year	801,546	$7.25	769,866	$7.29	598,000	$5.92
Exercisable, end of year	460,124	$6.87	302,113	$6.63	284,500	$5.89
Fair value of options granted		$1.33		$1.00		$4.02

At December 31, 2001, exercise prices for outstanding options ranged from $4.44 to $12.00. For the options outstanding at December 31, 2001, the weighted average contractual life is 7.8 years.

As of December 31, 2001, outstanding stock options consist of the following:

Exercise Price Range	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life	Options Exercisable	Weighted Average Exercise Price
$4.00 - $5.00	262,680	$4.57	8.80	99,698	$4.99
$5.00 - $6.00	192,500	5.71	5.75	192,500	5.71
$6.00 - $7.00	72,900	6.49	7.57	32,940	6.51
$7.00 - $8.00	42,000	7.94	7.00	33,600	7.94
$11.00 - $12.00	231,466	11.68	8.50	92,586	11.68
	801,546	$7.25	7.80	451,324	$6.87

The Company accounts for the 1997 Plan, options granted outside of the 1997 Plan, and the Employee Stock Purchase Plan under APB Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost for these plans been determined consistent with SFAS No. 123 and recognized over the vesting period, the Company's net income (loss) and earnings (loss) per share would have been reduced to the following pro forma amounts:

(dollars in thousands, except per share amounts)	2001	2000	1999
Net income (loss):			
As reported	$(1,450)	$869	$656
Pro forma	$(1,639)	$688	$501
Basic earnings (loss) per share:			
As reported	$(0.39)	$0.22	$0.16
Pro forma	$(0.44)	$0.18	$0.12
Diluted earnings (loss) per share:			
As reported	$(0.39)	$0.22	$0.16
Pro forma	$(0.44)	$0.18	$0.12

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted-average assumptions used for grants in 2001, 2000, and 1999: risk-free average interest rate of 3.50%, 5.50%, and 5.10%, respectively; expected dividend yields of 0.93%, 1.40%, and 1.08%, respectively; and an expected volatility of 16.70%, 10.84%, and 63.61%, respectively. Expected lives for options granted were between five and seven years. Due to the discretionary nature of stock option grants, the compensation cost included in the 2001, 2000, and 1999, pro forma net income per SFAS No. 123 may not be representative of that expected in future years.

NOTE 13 - CONTINGENT LIABILITIES AND COMMITMENTS WITH OFF-BALANCE-SHEET RISK

The Company's consolidated financial statements do not reflect various commitments and contingent liabilities of its subsidiary bank that arise in the normal course of business and that involve elements of credit risk, interest rate risk and liquidity risk. These commitments and contingent liabilities are commitments to extend credit, credit card arrangements, and standby letters of credit.

A summary of the Bank's undisbursed commitments and contingent liabilities at December 31, 2001, is as follows:

(dollars in thousands)	Fixed Rate	Variable Rate	Total 2001
Commitments to extend credit	$8,861	$34,064	$42,925
Credit card commitments	5,892	-	5,892
Standby letters of credit	175	4,674	4,849
	$14,928	$38,738	$53,666

Commitments to extend credit, credit card arrangements, and standby letters of credit all include exposure to some credit loss in the event of non-performance of the customer. The Bank's credit policies and procedures for credit commitments and financial guarantees are the same as those for extension of credit that are recorded in the consolidated statements of condition. Because these instruments have fixed maturity dates and many of them expire without being drawn upon, they do not generally present a significant liquidity risk to the Bank.

The Company and its subsidiaries are also party to several noncancellable lease agreements for premises and equipment. Future rental payments on these noncancellable leases are as follows:

(dollars in thousands)	
Years ending December 31, 2002	$890
2003	840
2004	475
2005	161
2006	79
Thereafter	488
	$2,933

This payment schedule reflects actual liability on lease agreements in which the Company is currently involved, and does not include potential additional payments relating to possible lease extensions.

Rent expense under noncancellable lease agreements amounted to $1.1 million, $909,000, and $397,000 for the years ending December 31, 2001, 2000, and 1999, respectively.

NOTE 14 - RELATED-PARTY TRANSACTIONS

Certain directors, executive officers and their spouses, associates and related organizations, had banking transactions with the Bank in the ordinary course of business. All loans and commitments to loan were made on substantially the same terms and conditions, including collateral required, as comparable transactions with unaffiliated parties. Directors and executive officers are charged the same rates of interest and loan fees as are charged to employees of the Company, with interest rates and fees slightly lower than those charged to non-employee borrowers. The amounts of loans outstanding to directors, executive officers, principal shareholders, and companies with which they are associated was as follows:

(dollars in thousands)	2001	2000
Beginning balance	$4,615	$2,059
Loans made	9,757	8,786
Loan repayments made	(10,536)	(6,024)
Other	(334)	(206)
Ending balance	$3,502	$4,615

Certain officers at December 31, 2000 were no longer officers at December 31, 2001. The balances outstanding to such persons are reflected in the "other" category above.

The Chairman of the Company previously owned a securities brokerage franchise of Raymond James Financial Services, Inc., which leases space from the Company. Total income from the lease amounted to $24,000 for each of the years ending December 31, 2001, 2000, and 1999. The franchise was sold to a third party in 2001.

NOTE 15 - EMPLOYEE BENEFIT PLANS

The Company has a contributory retirement savings plan covering substantially all full-time and part-time employees who have completed three months of service. The plan allows an employee to contribute a portion of his or her annual wages subject to a maximum dollar limit which is set by law. In addition, at the annual discretion of the Board of Directors, the Company may contribute funds into the plan on behalf of each employee participant. Currently, the Company will match the first 3% of the employee's contribution, up to $3,000 per year. In addition, regardless of the employee's participation in the plan, the Company currently contributes 3% of the employee's salary, up to a maximum of $3,000. For this contribution, employees must be employed by the Company on the last day of the plan year. The plan also requires completion of six months of service to become eligible for the Company contributions. Any funds contributed by the Company are subject to the following vesting schedule:

20% -	after 2 years of service
40% -	after 3 years of service
60% -	after 4 years of service
80% -	after 5 years of service
100% -	after 6 years of service

The Company contributed $446,000, $292,000, and $236,000 into the plan for the years ended December 31, 2001, 2000, and 1999, respectively.

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS

A financial instrument is defined as cash, evidence of ownership interest in an entity, or a contract that conveys or imposes the contractual right or obligation to either receive or deliver cash or another financial instrument. Examples of financial instruments included in the Company's statements of condition are cash, federal funds sold or purchased; debt and equity securities; loans; demand, savings, and other interest-bearing deposits; and notes and debentures. Examples of financial instruments, which are not included in the Company's statements of condition, are commitments to extend credit and standby letters of credit.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price if one exists.

The fair value of deposit liabilities with no stated maturity, such as demand deposits, interest-bearing demand deposits, and money market accounts is equal to the carrying value of these financial instruments and does not recognize the inherent value of core deposit relationships when determining fair value. Disclosure of the fair value of non-financial instruments, such as the Company's premises and equipment, its banking and trust franchises, and its core deposit relationships is not required. The Company believes that these non-financial instruments have significant fair value.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and due from banks - For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment securities - For securities held for investment purposes, fair values are based on quoted market prices or dealer quotes. For other securities, fair value equals quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans - For certain variable rate loans, fair value is estimated at carrying value, as these loans reprice to market frequently. The fair value of other types of loans is estimated by discounting the future cash flows, using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposit liabilities - The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated by discounting future cash flows, using the rates currently offered for deposits of similar remaining maturities.

Short-term borrowing -The carrying amounts of borrowings under repurchase agreements and short-term borrowings approximate their fair values.

Long-term borrowing - Rates currently available to the Bank for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS - (continued)

Commitments to extend credit, credit card commitments, and standby letters of credit - The fair values of commitments to extend credit, credit card commitments, and standby letters of credit were not material as of December 31, 2001 and 2000.

The estimated fair values of the Company's financial instruments at December 31 were as follows:

	2001		2000	
(dollars in thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets:				
Cash and cash equivalents	$50,177	$50,177	$25,589	$25,589
Investment securities	$34,303	$34,345	$12,071	$12,068
Federal Home Loan Bank stock	$3,531	$3,531	$3,302	$3,302
Loans, net of allowances for loan losses and deferred loan fees	$229,215	$229,400	$229,078	$226,000
Loans held-for-sale	$37,322	$37,322	$10,013	$10,013
Financial liabilities:				
Non-interest-bearing demand	$43,225	$43,225	$40,201	$40,201
Savings and interest-bearing demand	$96,587	$96,587	$73,770	$73,770
Certificates of deposit	$175,678	$176,918	$127,245	$127,750
Short-term borrowings	$2,750	$2,750	$1,275	$1,275
Long-term borrowings	$19,009	$19,518	$21,348	$21,267

While estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that were the Company to have disposed of such items at December 31, 2001 and 2000, the estimated fair values would necessarily have been achieved at that date, since market values may differ depending on various circumstances. The estimated fair values at December 31, 2001 and 2000, should not necessarily be considered to apply at subsequent dates.

NOTE 17 - CONCENTRATIONS OF CREDIT RISK

All of the Bank's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market areas. The majority of such customers are also depositors of the Bank. The concentrations of credit by type of loan are set forth in Note 4. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers as of December 31, 2001. The Bank's loan policies do not allow the extension of credit to any single borrower or group of related borrowers in excess of $1.0 million without approval from the Bank's respective loan committees.

NOTE 18 - SEGMENTS OF A BUSINESS AND RELATED INFORMATION

The Company is principally engaged in community banking activities through its branches and corporate offices. Community banking activities include accepting deposits, providing loans and lines of credit to local individuals, businesses and governmental entities, investing in investment securities and money market instruments, and holding or managing assets in a fiduciary agency capacity on behalf of its customers and their beneficiaries. The Company's mortgage segment, Bay Mortgage, specializes in all facets of residential lending including FHA and VA loans, construction loans and bridge loans. Prior to the sale of Business Finance Corporation in the first quarter of 2002, the Company provided asset-based financing to companies throughout the western United States.

The community banking, asset-based financing activity, and mortgage banking activities are monitored and reported by Company management as separate operating segments.

The accounting policies for the Company's segment information provided below are the same as those described in Note 1, except that some operating expenses are not allocated to segments.

NOTE 18 - SEGMENTS OF A BUSINESS AND RELATED INFORMATION - (continued)

Summarized financial information for the years ended December 31, 2001, 2000, and 1999 concerning the Company's reportable segments is shown in the following tables.

	2001					
(dollars in thousands)	**Banking**	**Mortgage Banking**	**Holding Company**	**BFC**	**Intersegment**	**Consolidated**
Interest income	$24,523	$4,725	$86	$1,123	$(3,230)	$27,227
Interest expense	13,318	2,791	245	258	(3,230)	13,382
Net interest income	11,205	1,934	(159)	865	-	13,845
Provision for loan loss	(2,779)	(713)	-	(1,770)	-	(5,262)
Non-interest income	1,345	8,216	30	-	-	9,591
Non-interest expense	10,153	6,674	717	1,930	-	19,474
Income (loss) before provision for income taxes	(382)	2,763	(846)	(2,835)	-	(1,300)
Provision for income taxes	(62)	939	(208)	(519)	-	150
Net income (loss)	$(320)	$1,824	$(638)	$(2,316)	$-	$(1,450)
Depreciation and amortization	$1,013	$288	$-	$107	$-	$1,408
Total assets	$362,811	$56,649	$31,718	$3,841	$(84,359)	$370,660

	2000					
(dollars in thousands)	**Banking**	**Mortgage Banking**	**Holding Company**	**BFC**	**Intersegment**	**Consolidated**
Interest income	$21,114	$1,030	$416	$1,528	$(1,240)	$22,848
Interest expense	10,158	633	-	389	(1,240)	9,940
Net interest income	10,956	397	416	1,139	-	12,908
Provision for loan loss	(873)	(147)	8	(143)	-	(1,155)
Non-interest income	1,593	3,626	-	-	-	5,219
Non-interest expense	9,380	4,593	764	755	-	15,492
Income (loss) before provision for income taxes	2,296	(717)	(340)	241	-	1,480
Provision for income taxes	818	(244)	(80)	117	-	611
Net income (loss)	$1,478	$(473)	$(260)	$124	$-	$869
Depreciation and amortization	$950	$252	$-	$114	$-	$1,316
Total assets	$289,520	$22,227	$33,485	$6,001	$(54,334)	$296,898

	1999					
	Banking	**Mortgage Banking**	**Holding Company**	**BFC**	**Intersegment**	**Consolidated**
Interest income	$13,701	$161	$586	$1,482	$(654)	$15,276
Interest expense	5,638	-	-	264	(654)	5,248
Net interest income	8,063	161	586	1,218	-	10,028
Provision for loan loss	(963)	-	(8)	(378)	-	(1,349)
Non-interest income	1,380	1,811	-	-	-	3,191
Non-interest expense	6,812	2,279	900	803	-	10,794
Income before provision for income taxes	1,668	(307)	(322)	37	-	1,076
Provision for income taxes	574	(104)	(95)	45	-	420
Net income (loss)	$1,094	$(203)	$(227)	$(8)	$-	$656
Depreciation and amortization	$903	$83	$-	$112	$-	$1,098
Total assets	$186,811	$5,410	$31,594	$6,588	$(31,908)	$198,495

NOTE 19 - PARENT COMPANY ONLY FINANCIAL DATA

The following sets forth condensed financial information of the Company on a stand-alone basis:

Statements of Condition
(unconsolidated)

	December 31,	
(dollars in thousands)	**2001**	**2000**
ASSETS		
Cash and cash equivalents	$424	$1,365
Investment in bank subsidiary	30,306	27,830
Investment in non-bank subsidiary	194	2,510
Receivables due from non-bank subsidiary	450	1,400
Other assets	344	379
Total assets	$31,718	$33,484
LIABILITIES AND SHAREHOLDERS ' EQUITY		
Long-term borrowings	$2,945	$3,000
Other liabilities	25	75
Total liabilities	2,970	3,075
SHAREHOLDERS ' EQUITY	28,748	30,409
TOTAL LIABILITIES AND SHAREHOLDERS ' EQUITY	$31,718	$33,484

Statements of Operations
(unconsolidated)

	Years Ended December 31,		
(dollars in thousands)	**2001**	**2000**	**1999**
INCOME			
Income from subsidiaries	$86	$416	$571
Other income	30	-	15
Total income	116	416	586
EXPENSES			
Interest expense	245	-	-
Other expense	717	764	907
Total expense	962	764	907
Loss before income tax benefit and equity in undistributed earnings of subsidiaries	(846)	(348)	(321)
Income tax benefit	208	80	95
Net loss before equity in undistributed earnings of subsidiaries	(638)	(268)	(226)
Equity in undistributed earnings (losses) of subsidiaries	(812)	1,137	882
NET INCOME (LOSS)	$(1,450)	$869	$656

NOTE 19 - PARENT COMPANY ONLY FINANCIAL DATA - (continued)

Statements of Cash Flows
(unconsolidated)

	Years Ended December 31,		
	2001	**2000**	**1999**
(dollars in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$(1,450)	$869	$656
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Undistributed earnings (losses) of subsidiaries	812	(1,137)	(882)
Decrease (increase) in other assets	35	302	(359)
Decrease in other liabilities	(50)	(29)	(7)
Net cash from operating activities	(653)	5	(592)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in loans	-	492	(500)
Acquisition of business, net of cash acquired	-	-	(967)
Advances to subsidiaries	(12,400)	(32,925)	(5,104)
Repayment of advances to subsidiaries	12,350	26,318	3,393
Net cash from investing activities	(50)	(6,115)	(3,178)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds form issuance of long-term debt	-	3,000	-
Net repayments of long-term borrowings	(55)	-	-
Purchase of treasury stock	-	(1,784)	(732)
Proceeds from issuance of common stock	17	39	34
Dividends paid	(200)	(281)	(281)
Net cash from financing activities	(238)	974	(979)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(941)	(5,136)	(4,749)
CASH AND CASH EQUIVALENTS, beginning of year	1,365	6,501	11,250
CASH AND CASH EQUIVALENTS, end of year	$424	$1,365	$6,501

NOTE 20 - QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following sets forth unaudited quarterly financial data for the years ended December 31, 2001 and 2000:

(dollars in thousands)	March 31	June 30	September 30	December 31
2001				
Interest income	$6,593	$7,063	$6,955	$6,616
Interest expense	3,220	3,622	3,540	3,000
Net interest income	3,373	3,441	3,415	3,616
Provision for loan losses	(252)	(355)	(2,125)	(2,530)
Non-interest income	1,797	2,456	1,820	3,518
Non-interest expense	4,175	4,789	4,519	5,991
Income (loss) before provision (benefit) for income taxes	743	753	(1,409)	(1,387)
Provision (benefit) for income taxes	286	337	(457)	(16)
Net income (loss)	$457	$416	$(952)	$(1,371)
Basic earnings (loss) per share	$0.12	$0.11	$(0.26)	$(0.37)
Diluted earnings (loss) per share	$0.12	$0.11	$(0.25)	$(0.37)

(dollars in thousands)	March 31	June 30	September 30	December 31
2000				
Interest income	$4,597	$5,011	$6,594	$6,646
Interest expense	1,671	2,134	2,999	3,136
Net interest income	2,926	2,877	3,595	3,510
Provision for loan losses	(370)	(371)	(214)	(200)
Non-interest income	1,006	1,222	1,473	1,509
Non-interest expense	3,852	3,371	4,315	3,945
Income (loss) before provisions (benefit) for income taxes	(290)	357	539	874
Provision (benefit) for income taxes	(80)	119	203	369
Net income (loss)	$(210)	$238	$336	$505
Basic earnings (loss) Per share	$(0.05)	$0.06	$0.09	$0.13
Diluted earnings (loss) per share	$(0.05)	$0.06	$0.09	$0.13

Included in the quarters ended September 30, 2001 and December 31, 2001 were substantial increases to the provision for loan losses. Due in part to the rapid decline in the local, regional, and national economy during 2001, many loans that were performing prior to 2001, became impaired during the year. The Company, because it has adopted a more conservative approach in its internal loan grading system, charged-off many of these loans during 2001, rather than waiting to see if economic conditions would reverse and the credits would rebound. As these loans were charged-off and additional loans were downgraded requiring higher specific reserves, additional substantial provisions were made to the reserves during the quarters ended September 30, 2001 and December 31, 2001.

The quarter ended December 31, 2001 results of operation included a $2.3 million net loss from the Company's finance subsidiary, Business Finance Corporation. During this quarter, a provision for loan losses of $1.6 million was recorded to fully reserve for the charge-off of uncollectible credits. A 2001 internal review of the BFC receivables, the adequacy of the underlying collateral, and the strength of the borrowers, uncovered numerous deficiencies. Pending bankruptcies of several borrowers accounted for over $1.1 million of the impairment. These factors, combined with a low market valuation of the BFC segment were part of an analysis of the carrying value of goodwill on the balance sheet of BFC that revealed an impairment of that asset, so the Company wrote down the goodwill asset value to zero. This decision resulted in an increase in non-interest expense of $1.2 million during the quarter ended December 31, 2001. While these substantial provisions were necessary, with the subsequent sale of BFC in February of 2002, management believes it won't reoccur.

NOTE 21 - SUBSEQUENT EVENT

On March 8, 2002, a lawsuit was filed in the King County, Washington Superior Court against the Company by Independent Financial Network, Inc. ("IFN"), and one of IFN's shareholders, Scott Rerucha. The Company acquired certain assets and operations from IFN in 1999 pursuant to a purchase agreement with IFN, Mr. Rerucha, and other individuals. The operations acquired from IFN are the core of the Company's Bay Mortgage division. The complaint alleges, among other things, that the Company has materially breached its obligations under the purchase agreement and requests that the plaintiffs be awarded unspecified damages and that Mr. Rerucha be relieved of his non-competition obligations under the purchase agreement. The Company does not believe it has breached its obligations under the IFN agreement and intends to vigorously defend this action. The Company believes the potential damages awarded, if any, will not materially affect the Company's financial position, results of operation or cash flows. However, if Mr. Rerucha is relieved of his non-competition obligations, it is difficult to assess the potential impact on the earning potential of the Company's mortgage segment. The non-competition obligation currently extends through July 2004.

Item 9. Changes in and disagreements with accountants on accounting and financial disclosure

None.

PART III

Item 10. Directors and executive officers of the registrant

The response to this item is incorporated by reference to the sections entitled "Security ownership of directors and executive officers, Election of directors, Information regarding the board of directors and its committees," in the Company's 2002 Proxy Statement.

Effective March 27, 2002, Harve E. Menkens has been replaced as President and CEO of the Company and the Bank by Paul L. Campbell. Mr. Campbell has 38 years of banking experience, including 18 years as President and CEO of Pioneer National Bank of Yakima, Washington. Mr. Campbell attended the University of Utah, and is a graduate of the Pacific Coast Banking School, The National Commercial Lending School, and Bank Marketing School.

On March 25, 2002, the Bank hired Gary S. Hanson as an Executive Vice President and Chief Credit Administrator. Mr. Hanson has 28 years of banking experience, including 22 years with Kitsap Bank of Port Orchard, Washington where he served as Executive Vice President, Chief Credit Officer, and Branch Administrator. Mr. Hanson has a business degree from Central Washington State College in Ellensburg, Washington, and is a graduate of the Pacific Coast Banking School.

Item 11. Executive Compensation

The response to this item is incorporated by reference to the section entitled "Executive Compensation" in the Company's 2002 Proxy Statement.

Item 12. Security ownership of certain beneficial owners and management

The response to this item is incorporated by reference entitled "Security ownership of directors and executive officers" in the Company's 2002 Proxy Statement.

Item 13. Certain relationships and related transactions

The response to this item is incorporated by reference entitled "Related-party transactions" in the Company's 2002 Proxy Statement.

PART IV

Item 14. Exhibits, Financial Statement schedules and reports on form 8-K

a. No Form 8-K's were filed during the fourth quarter.
b. The exhibit list is set forth on the Exhibit Index included herein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 17th day of January 2003.

COWLITZ BANCORPORATION
(Registrant)

/s/ Don P. Kiser
Don P. Kiser
Vice President, Chief Financial Officer, and Secretary
Acting Officer-in-Charge

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities indicated on the 17th day of January 2003.

Principal Executive Officer:

/s/ Don P. Kiser
Don P. Kiser
Vice President, Chief Financial Officer, and Secretary
Acting Officer-in-Charge

I, Don P. Kiser, certify that:

1. I have reviewed this amended annual report on Form 10-K/A of Cowlitz Bancorporation;

2. Based on my knowledge, this amended annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this amended annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this amended annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this amended annual report;

Date: January 17, 2003

/s/ Don P. Kiser
Don P. Kiser
Chief Financial Officer
Acting Officer-in-Charge
Cowlitz Bancorporation

Principal Accounting Officer:

/s/ Don P. Kiser
Don P. Kiser
Vice President/Chief Financial Officer/Secretary

I, Don P. Kiser, certify that:

1. I have reviewed this amended annual report on Form 10-K/A of Cowlitz Bancorporation;

2. Based on my knowledge, this amended annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this amended annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this amended annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this amended annual report;

Date: January 17, 2003

/s/ Don P. Kiser
Don P. Kiser, Chief Financial Officer
Cowlitz Bancorporation

EXHIBIT INDEX

3.1*	Restated and Amended Articles of Incorporation of Registrant.
3.2*	Bylaws of Registrant.
10.1*	Advances Security and Deposit Agreement dated March 29, 1991 between Federal Home Loan Bank of Seattle and Cowlitz Bank.
10.2*	Federal Home Loan Bank of Seattle Form of Promissory Note (Credit Line Fixed Rate Advance).
10.4*	Lease Agreement dated October 7, 1963 between Twin City Development Co. and Bank of Cowlitz County.
10.5*	Assignment of Lease dated March 4, 1976 between Bank of the West and Old National Bank of Washington.
10.6*	Assignment of Lease dated March 30, 1979 between Old National Bank of Washington and Pacific National Bank of Washington.
10.7*	Extension of Lease dated April 1, 1989 between Triangle Development Company and First Interstate Bank of Washington, N.A.
10.9*	Employment Agreement dated January 1, 1998 between Cowlitz Bancorporation and Ben Namatinia.
10.10*	Cowlitz Bancorporation 1997 Stock Option Plan.
10.11*	Form of Stock Option Agreement.
10.12*	Cowlitz Bancorporation Employee Stock Purchase Plan.
11.1	Computation of Per Share Earnings. (Included in Note 1 to the Consolidated Financial Statements included herein)
21	List of all Subsidiaries of the Registrant
	Cowlitz Bank
	Business Finance Corporation
23.1	Consent of Moss Adams LLP
23.2	Consent of Arthur Andersen LLP
99.1	Certification of Chief Executive Officer and Chief Financial Officer

* Incorporated by reference from Registration Statement on Form S-1, Reg. No. 333-44355

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included (or incorporated by reference) in the Form 10-K, into the Company's previously filed Registration Statement Files Nos. 333-48607, 333-92274, and 333-92272.

Portland, Oregon /s/ Moss Adams LLP
January 15, 2003

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated January 21, 2000, on the consolidated statements of income, changes in shareholder's equity and cash flows of Cowlitz Bancorporation and subsidiaries for the year ended December 31, 1999, included in Cowlitz Bancorporation's Form 10-K for the year ended December 31, 2001, into Cowlitz Bancorporation's previously filed Form S-8 Registration Statement File No. 333-48607. It should be noted that we have not audited any financial statements of Cowlitz Bancorporation subsequent to December 31, 1999 or performed any audit procedures subsequent to the date of our report.

San Francisco, California /s/Arthur Andersen LLP
March 22, 2002

Exhibit 99.1

CERTIFICATION OF
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

This certification is given by the undersigned Chief Executive Officer and Chief Financial Officer of Cowlitz Bancorporation (the "Registrant") pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Each of the undersigned hereby certifies, with respect to the Registrant's quarterly report of Form 10-K/A for the period ended December 31, 2001 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Don P. Kiser
Don P. Kiser
Chief Financial Officer
Acting Officer-in-Charge
Cowlitz Bancorporation

/s/ Don P. Kiser
Don P. Kiser
Chief Financial Officer
Cowlitz Bancorporation

January 17, 2003