BRAZILIAN DISTRIBUTION CO COMPANHIA BRASILEIRA DE DISTR CBD
Form 6-K
March 30, 2010

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of March, 2010

Brazilian Distribution Company
(Translation of Registrant s Name Into English)

Av. Brigadeiro Luiz Antonio,
3142 São Paulo, SP 01402-901
Brazil
(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F)

Form 20-F _X_ Form 40-F___

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101 (b) (1)):

Yes ___ No _X_

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101 (b) (7)):

Yes ___ No _X_

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes ___ No _X_

COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO
Corporate Taxpayer s Registry (CNPJ/MF) number 47.508.411/0001 -56
Company Number at the Commercial Registry (NIRE) 35.300.089.901

PROPOSAL FOR DESIGNATION OF RETAINED EARNINGS FOR THE FISCAL YEAR (ARTICLE 9 OF ICVM 481/2009)

ANNEX 9-1-II OF CVM Instruction no. 481/2009

DESIGNATION OF NET INCOME

To the Shareholders: The Management of **COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO** hereby proposes to the Annual and Special Shareholders meeting of 2010, according to Annex 9-1-II of CVM Instruction 481/2009 the following:

1. Net income for the fiscal year

The Company s Net Income on December 31, 2009 totals R$ 591,579,628.27. From this amount, R$ 29,578,981.41 will be designated for Legal Reserve.

2. Overall amount and the value per share of the dividends, including advanced dividends and interest on the Company capital already declared

	Advanced Dividends	Proposal for Distribution of Dividends	TOTAL
Total Gross Amount	46,388,568.18	94,111,593.52	140,500,161.71
Amount per Common Share	0.176553152	0.357930277	0.534483430
Amount per Preferred Share Class A	0.194208467	0.393723302	0.587931773
Amount per Preferred Share Class B	-	0.01	0.01

3. Percentage of net income distributed for the exercise

Management proposes the distribution of twenty-five percent (25%) of the Company s net income, provided for in Article 35, Paragraph 2 of the Company Bylaws.

4. Overall amount and the amount per share of the dividends distributed based on income from previous fiscal years

There is no proposal for distribution of dividends based on income from previous years is in place.

5. Inform, upon deduction of advanced dividends and interest on the Company capital already declared:

a. The gross amount of the dividend and interests on the Company capital, separately, per share of each type and class

The amount of the proposed dividends is R$ 0.357930277 per common share and R$ 0.393723302 per Preferred Share Class A, upon deduction of the amount of the advanced dividends already distributed. There was no declaration of interests on the Company capital.

b. Terms and deadline for payment of dividends and interest on the Company capital

As permitted by the Bylaws, the Management proposes that the dividends proposed for the Annual Shareholders Meeting shall be paid within up to sixty (60) days after its approval at the Meeting.

c. Possible adjustment and interests on the dividends and interests on the Company capital

The dividends shall be paid within the abovementioned deadline, without any monetary adjustment between the date of its declaration and the date of its actual payment.

d. Date of declaration of payment of the dividends and interests on the Company capital considered for identification of the shareholders entitled to be paid

	Advanced Distribution re. 1st and 2nd quarters	Advanced Distribution re. 3rd quarter	Proposal for Distribution of Dividends
Share Base for the Distribution	August 11, 2009, except for the shares issued between August 3 and August 8, 2009	November 18, 2009	April 29, 2010, except for the shares issued after March 15, 2010, pursuant to the Meeting of the Board of Directors held on the same date.
Date of Beginning of Negotiations Ex-Rights	August 12, 2009	November 19, 2009	April 30, 2010

6. Declaration of dividends or interests on the Company capital based on income calculated on six-month balance sheets or balance sheets for shorter periods

There is no declaration of dividends or interests on the Company capital based on income calculated on six-month balance sheets or balance sheets for shorter periods.

7. Comparative table indicating the following amounts per share of each type and class:

	2006	2007	2008	2009
Net earnings for the fiscal year	85,523,521.69	210,877,933.31	260,427,049.39	591,579,628.27
Total dividend total distributed	20,311,836.40	50,083,731.39	61,851,424.23	140,500,161.71
Dividend related to Preferred Shares Class A	0.18594 per batch of 1,000 shares or 0.000185937 per share	0.228840641	0.273451954	0.587931773
Dividend related to Preferred Shares Class B	-	-	-	0.01
Dividend related to Common Shares	0.16903 per batch of 1,000 shares or 0.000169034 per share	0.208036946	0.248592685	0.534483430

8. Designation of income for the legal reserve

a. Identify the amount designed for the legal reserve

Pursuant to Law 6,404/76, the management proposes the designation of R$ 29,578,981.41 to legal reserve.

b. Provide details as concerns the calculation of the legal reserve

Earnings before Taxes/Interest in the Company capital	644,232,634.80
Taxes/ Interest in the Company capital	(52,653,006.53)
Net Income	591,579,628.27
Legal Reserve (5% of the Net Income)	29,578,981.41

9. If the Company has preferred shares entitled to fixed or minimum dividends

a. Describe the calculation of the fixed or minimum dividends

The owners of the Company preferred shares Class A have priority on the payment of an annual minimum dividend in the amount of R$ 0.08 per one (1) share, non-cumulative. In addition, to each preferred share Class A, a dividend ten percent (10%) higher than that granted to each common share is granted, in accordance with Section 17, Paragraph 1, of Law 6,404/76, as amended by Law 10,303/01, including, for purposes of this calculation, in the sum of the total dividend paid to the preferred shares Class A, the amount paid as minimum annual dividend.

The owners of preferred shares Class B are entitled to a fixed annual dividend equivalent to one cent of Real (R$ 0.01) per share.

b. Inform whether the income for the fiscal year is sufficient for full payment of the fixed or minimum dividends

Yeas, it is sufficient. The fixed and minimum dividends shall be fully paid.

c. Inform whether an unpaid part is cumulative

There is no unpaid part of fixed or minimum dividends.

d. Identify the overall amount of the fixed or minimum dividends to be paid to each class of preferred shares

	Preferred Shares Class A (minimum dividend)	**Preferred Shares Class B (fixed dividend)**
Overall amount of the dividend paid <u>in advance</u> to each class of preferred share	R$ 28,789,776.27	-
Overall amount of the dividend <u>to be paid</u> to each class of preferred share	R$58,366,177.43	R$ 66,979.39
Overall amount of the dividend paid to each class of preferred share	R$ 87,155,953.70	R$ 66,979.39

e. Identify the fixed or minimum dividends to be paid per preferred share of each class

	Preferred Shares Class A (minimum dividend)	Preferred Shares Class B (fixed dividend)
Amount of the dividend paid in advance to each class of preferred share	R$ 0.194208467	-
Overall amount of the dividend to be paid to each class of preferred share	R$ 0.393723305	R$ 0.01
Overall amount of the dividend paid to each class of preferred share	R$ 0.587931773	R$ 0.01

10. With respect to the mandatory dividend

a. Describe the calculation stipulated by the Bylaws

In accordance with Article 35, Paragraph 1 of the Company Bylaws, the shareholders shall have the right to receive, in each fiscal year, as dividends, a mandatory percentage of twenty-five percent (25%) on the net income for the fiscal year, with the following adjustments: (a) the deduction of the amounts designed for, in the fiscal year, legal reserve and contingencies reserve; and (b) the addition of the amounts resulting from reversion, in the fiscal year, of contingencies reserve previously composed.

The payment of dividend stipulated under the abovementioned terms may be limited to the amount of net income for the fiscal year in which it was realized under the law, provided that the difference be registered as reserve of income to be realized.

The earnings registered under the reserve of income to be realized, whenever realized and if they are not absorbed by losses incurred in subsequent fiscal years, shall be added to the first dividend declared following realization.

b. Inform whether it is being fully paid

The mandatory dividend is being fully paid.

c. Inform the amount occasionally retained

There is no retention of mandatory dividend as a result of the financial situation of the Company.

11. Retained mandatory dividend as a result of the financial situation of the Company

There is no retention of mandatory dividend as a result of the financial situation of the Company.

12. Designation of income for contingencies reserve

There is no designation of income for the contingencies reserve.

13. Designation of income for the reserve of income to be realized

There is no designation of income for the reserve of income to be realized.

14. Designation of income for reserves stipulated by the Bylaws

a Describe the Articles contained in the Bylaws providing for the reserve

The reserve for expansion is provided for by Article 35, Paragraph 2 of the Company Bylaws, to wit:

Article 35 (...) Paragraph 2 The Reserve for Expansion is created and has the purpose of ensuring funds to finance additional applications of fixed and working capital and shall be formed with up to one hundred percent (100%) of the remaining net income after the designations stipulated by letters "a" [contingencies reserve], "b" [limit to contingencies reserve], and "c" [reserve of income to be realized] of item IV, in that the total amount of such reserve may not exceed the amount of the Company s Capital Stock.

b. Identify the amount designated for the reserve

The Management proposes the retained earnings designated for the reserve for expansion in the amount of R$ 379,350,436.63.

c. Describe the calculation

The amount designated for the Reserve for Expansion is equivalent to 90% of the Adjusted Net Income for the fiscal year ended on December 31, 2009. The Adjusted Income is calculated as follows:

Net Income for the Fiscal Year	R$ 591,579,628.27
Legal Reserve (5%)	R$ (29,578,981.41)
Tax Base for Dividends	R$ 562,000,646.86
Dividends (25%)	R$ (140,500,161.71)
Adjusted Net Income	421,500,485.14
Reserve for Expansion (90%)	R$ 379,350,436.63

15. Retained earnings provided for by capital budgeting

a. Identify the amount of retained earnings

Management proposes that earnings be retained in the amount of R$ 421,500,485.14, in that R$ 379,350,436.63 for the reserve for expansion (under Article 35, Paragraph 2 of the Company Bylaws) and R$ 42,150,048.51 based on capital budgeting under Section 196, Paragraph 2 of Law 6,404/76.

b. Provide a copy of the capital budgeting

See Annex I.

16. Designation of the income for the tax incentives reserve

There is no designation of income for any tax incentives reserves.

MANAGEMENT PROPOSAL

To the Shareholders: The Management of **COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO** (Company) hereby proposes to the Annual and Special Shareholders Meeting the Investment Plan for 2010 of the Company and its subsidiaries, including Globex Utilidades S.A., in the total amount of R$ 1,601,093,000.00, related to: (i) conversion or to open stores and purchase land; (ii) refurbish stores; and (iii) infrastructure (IT, Logistics and others).

This is our proposal.

São Paulo, March 28, 2010.

THE MANAGEMENT

CAPITAL BUDGETING

To the Shareholders: In accordance with Section 196 of Law 6,404 dated December 15, 1976, as amended by Laws 9,457 dated May 5, 1997, 10,303 dated October 31, 2001 and 11,638 dated December 28, 2007, the Management of **COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO** does hereby:

1. Inform the designation of the Retained Earnings for 2008 (Reserve for Expansion and Capital Budgeting) as approved at the 2009 Annual and Special Shareholders Meeting:

(i) The Company s Investment Plan for 2009 amounted to one billion, three hundred twenty-four million, seventy-eight thousand Reais (R$ 1,324,078,000.00). However, the investment made by the Company totaled R$ 723,073,850.97. Out of such amount, R$ 76,931,864.25 were used in the Reserve for Expansion (Article 35 Paragraph 2, of the Bylaws) and R$ 8,547,984.92 were used in the Budgeting Capital (Article 196, Paragraph 2 of Law 6,404/76). The difference, related to R$ 637,594,001.80, was borne both with funds from the very Company, resulting from the Company s operational activity, and with funds raised from third parties. Said investments were designated for:

- R$ 204,662,044.91 for the opening of new stores and purchase of land;

- R$ 309,039,827.47 for refurbishment of stores; and

- R$ 209,371,978.59 for infrastructure (IT, Logistics and others).

(ii) The balance of the Reserve for Expansion and the Budgeting Capital, in the total amount of R$ 85,479,849.17 will be capitalized without emission of new shares by the Company on the Annual and Special Shareholders Meeting, according to the Management Proposal that will be sent to the Shareholders.

2. Inform that the Retained Earnings concerning the fiscal year of 2009 in the amount of R$ 421,500,485.14 as described below, shall be applied to the opening of new stores, refurbishment works and other investments, as per the Investment Plan for 2010, to be approved by the members of the Board of Directors. The Investment Plan for 2010 shall be funded both by said proposed Retained Earnings and by funds generated by the operational activity of the Company during the fiscal year:

- R$ 379,350,436.63 Reserve for Expansion (Article 35 Paragraph 2 of the Company Bylaws);

- R$ 42,150,048.51 Capital Budgeting (Section 196 of Law 6,404/76);

This is our proposal.

São Paulo, March 28, 2010.

THE MANAGEMENT

10. EXECUTIVE REPORT MANAGEMENT REVIEW AND DISCUSSION OF THE FINANCIAL POSITION AND OPERATING RESULT OF THE COMPANY

10.1. Comments of the Executive Officers on:

(a) Overall financial position

The operating and financial information of our Company presented hereunder address the implications that emerged from the acquisition of Globex Utilidades S.A. (Globex or Ponto Frio) in July 2009.

We understand that our Company enjoys a financial position that is adequate to support our capital expansion and investment plans, as well as to meet liquidity requirements and satisfy our short- and long-term liabilities. Notwithstanding, our position may be influenced by certain situations beyond our control, such as the growth and stability of the Brazilian economy.

In addition to fulfilling most of our goals in 2009, which attests to the soundness of our business plan and activities, our opinion on our Company s financial position is supported by the following economic and financial premises drawn from our consolidated financial statements for the year ended on December 31, 2009:

- Gross sales of R$26,223 million and net sales of R$23,254.2 million, representing a year-over-year increase of 25.7% and 29%, respectively, compared to the same period last year.

- Gross profit of R$5,760.4 million and a gross margin of 24.8%;

- Total operating expenses reached 18.3% of net sales, and R$ 4,259.3 million in the aggregate;

- EBITDA of R$ 1,501.1 million, with an EBITDA margin of 6.5%;

- Net debt (net financial debt) of R$ 703.1 million, with a net debt to EBITDA ratio of 0.47x; and

- Net shareholders equity of R$6,559.5 million, representing an increase compared to last year s net shareholders equity of R$ 5.407,7. Thus, the net debt to net shareholders equity ratio was 10.7% .

(b) Capital structure and potential stock redemption

We understand that our current capital structure, evaluated primarily by the net debt to EBITDA ratio, reflects a degree of leverage in agreement with the Company s policy that calls for a net financial debt to EBITDA ratio of less than 1.

The chart below indicates our capital structure as of December 31, 2009:

(R$ million)	
Total debt	3,047.3
Cash	2,344.2
Net financial debt	703.1
Net debt to EBITDA	0.47x

Net debt to shareholders equity	10.7%

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There is no potential redemption of stock issued by the Company.

(c) Ability to repay debts

As of December 31, 2009, our EBITDA was R$1,501.1 million, and our interest expenses were R$536.3 million. Accordingly, our EBITDA to interest coverage ratio was 2.80 x relating to our financial expenses for the year ended on December 31, 2009.

The figures above show that our cash flow, in addition to our currently available funds, reflect a strong ability to repay debt and enable the Company to satisfactorily meet its short- and long-term financial liabilities.

(d) Financing of working capital and investments on non-current asset used by the Company

We raise funds in a number of ways, such as by: (A) finance arrangements comprised by (i) loans denominated in Brazilian reais with repayment obligation and accruing interest at the DI rate; (ii) loans denominated in foreign currency, which loans are immediately swapped in full for other liabilities denominated in reais and accruing interest at the DI rate (full swap transactions); and (iii) loans obtained from the Brazilian National Bank for Economic and Social Development (BNDES), some of which are denominated in reais and some others tied to a foreign currency basket (these loans are also swapped for liabilities denominated in reais and accruing interest at the DI rate), plus per annum interest; and (B) funds raised in the capital market through the issue of debentures and securitization transactions.

We did not face any difficulties in obtaining loans or refinancing our current debts in 2009. As of December 31, 2009, we did not make any facility arrangements other than existing loan agreements entered with the BNDES. For detailed information on agreements entered into by the Company and the BNDES, please see item (f) below, Relevant Loan and Financing Agreements .

(e) Financing of working capital and investments on non-current assets that the Company intends to use for covering liquidity shortcomings

Please see item (d) above for more information on the financing of working capital and investments on non-current assets that the Company intends to use for covering any liquidity shortcomings.

(f) Indebtedness & debt breakdown

Relevant loan and financing agreements

Swaps

We use swap transactions to convert U.S. dollar-, yen-denominated, and fixed interest rate loans into liabilities denominated in reais that accrue interest based on the fluctuation of the DI rate. The annual reference rate for the DI rate as of December 31, 2009, was 8.55%, and 12.38% in 2008.

		Parent Company			Consolidated		
		Rate*	2009	2008	Rate*	2009	2008
Debt							
Domestic Currency							
Unibanco	CDI		**-**	-	100%	**4**	-
Banco do Brasil	CDI	11%	**345,310**	381,089	11%	**404,332**	430,189
Itaú	CDI		**-**	-	1.5%	**1,702**	-
Bradesco	CDI		**-**	-	1.5%	**-**	-
IBM			**-**	-	0.8%	**25,517**	-
Alfa	CDI		**-**	-	1.5%	**5,101**	-
			345,310	381,089		**436,656**	430,189
Foreign Currency							
ABN AMRO	YEN	1.69%	**118,271**	156,269	5.51%	**381,524**	480,736
Santander	USD	5.94%	**245,045**	490,097	6.26%	**282,225**	539,423
			363,316	646,366		**663,749**	1,020,159
Swap Agreements							
ABN AMRO	CDI	101.8%	**(8,131)**	(44,835)	103.2%	**102,902**	(23,689)
Santander	CDI	101.6%	**19,047**	(92,775)	103.2%	**49,269**	(92,775)
Votorantim	CDI	100.0%	**195**	1,861	100.0%	**197**	17,574
Pactual	CDI	100.0%	**718**	7,062	100.0%	**718**	7,062
BRASIL	CDI	105.7%	**984**	-	105.7%	**1,098**	-
			12,813	(128,687)		**154,184**	(91,828)
Overall Total			**721,439**	898,768		**1,254,589**	1,358,520

* Weighted Average Rate

BNDES

The facility obtained from the BNDES accrues interest based on the TJLP rate plus an annual interest rate component. In the event the TJLP exceeds 6% p.a., the percentage by which the actual rate exceeds the 6% is compounded to the principal outstanding balance. We also have loans indexed to a basket of foreign currencies, in addition to the relevant charges that are accrued to the outstanding balance plus annual interest, that are also swapped for other liabilities accruing interest rate based on the variation of the DI rate. Loans are repaid in monthly installments after a relevant grace period as detailed below.

For the year ended December 31, 2009, we had three (3) loan agreements with BNDES in force that were made on November 14, 2003; May 22, 2007; and July 2, 2009, respectively. The first of these loans was indexed to the foreign currency basket, while the other two accrued interest at the TJLP rate. On December 31, 2009, the total balance relative to all foregoing agreements was equivalent to approximately R$112 million.

In addition to complying with certain regulations issued by the BNDES, namely Resolution No. 665/87 (Policy Regarding Provisions Applicable to BNDES Agreements) and Resolution No. 660/87 (Follow-Up Policy and Standards), we are also required to meet certain financial ratios (as per our debt covenants) computed based on our consolidated financial statements in accordance with accounting standards used in Brazil, including: (i) maintaining a shareholders equity to total asset ratio greater than, or equal to 0.4; and (ii) maintaining a liquidity ratio (current assets/current liabilities) greater than, or equal to 1.05. Our Management effectively controls and follows up on the compliance with such debt covenants. As of December 31, 2009, our shareholders equity to total asset ratio was 0.37% and the liquidity ratio was 1.37% . Our parent company provides surety in the loans obtained from the BNDES and is jointly and severally liable until all relevant loans are repaid.

Reference Form Companhia Brasileira de Distribuição

Annual Financial Charges	Grace period	No. of Monthly installments	Maturity	Parent Company 2009	Parent Company 2008	Consolidated 2009	Consolidated 2008
Currency Basket + 4.125%	14	60	Jan/2010	654	11,439	654	11,439
TJLP + 4.125%	12	60	Nov2009	-	51,730	-	51,730
TJLP + 1.0%	12	60	Nov2009	-	3,124	-	3,124
TJLP + 3.2%	6	60	Nov2009	96,385	129,277	96,385	129,277
TJLP + 2.7%	6	60	Nov2009	13,924	18,676	13,924	18,676
TJLP + 4.5%	4	24	Feb/2010	-	-	7,336	-
TJLP + 4.5%	5	24	Jan/2011	-	-	4,018	-
TJLP + 2.3%	5	48	May/2012	-	-	2,538	-
TJLP + 2.3%	11	48	Jun/2013	-	-	13,035	-
TJLP + 2.8%	7	48	Nov/2011	-	-	25,910	-
TJLP + 2.8%	6	48	May/2012	-	-	9,715	-
				110,963	214,246	173,515	214,246

Debentures

The chart below describes the breakdown of the debentures issued by our Company as of December 31, 2009:

	Type	**Outstanding Securities**	**Annual Financial Charges**	**Unit Price**	**2009**	**2008**
6th Issue						
1st Series	No preference	54,000	CDI + 0.5%	10,293	**555,821**	564,713
2nd Series	No preference	23,965	CDI + 0.5%	10,293	**246,672**	250,618
7th Issue						
1st Series	No preference	200	119% of CDI	1,056,320	**211,264**	-
8th Issue						
1st Series	No preference	500	109.5% of CDI	1,003,959	**501,979**	-
6th Issue						
1st and 2nd Series	Interest Swap		104.96% of CDI		**655**	2,024
Funding Cost					**(15,649)**	(2,626)
Parent Company / Consolidated short and long-term					**1,500,742**	814,729
Non -current Liabilities					**1,481,356**	777,868

Current Liabilities	**19,386**	36,861

Other long-term arrangements with financial institutions

[1] As of March 3, 2010, the equity to total asset ratio is 0.30% .

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Except for the transactions described above, we do not have other long-term loan agreement with any financial institutions.

Degree of Company debt subordination

No subordination exists to our debt.

Restrictions on indebtedness limits, taking of new loans, distribution of dividends, disposal of assets, issuance of new securities, and sale of controlling interest

All agreements entered into with the BNDES are subject to certain provisions applicable to agreements made with the BNDES. Pursuant to such provisions, borrowers of BNDES funds, including our Company, shall not, without the prior authorization of the bank: (i) assign seniority to other debts; (ii) perform stock amortizations; (iii) issue debentures; (iv) issue founders capital stock; (v) assume new indebtedness; and (vi) dispose of, or encumber any fixed assets, subject to any qualifications explicitly provided for in the provisions applicable to agreements made with the BNDES.

In accordance with the documentation relating to its Sixth Debenture Issue, the Company is subject to the following restrictions: **(a)** no payment of any dividends shall be made to the Company s shareholders, including any accelerated dividends and/or proceeds in the form of interest on the shareholders equity, for as long as the Company remains in default with regard to the debentures included in the Sixth Issuance, except, however, for the payment of any statutory dividend as provided for in section 35(IV)(c) of our By-laws; **(b)** the following transactions shall not take place, except where they meet the applicable requirements: any restructuring that may lead to the Company being spun off, merged into, or taken over by any other company without the prior explicit consent of the holders of any debentures included in the Sixth Issuance, except where any such spin-off, merger or takeover transaction complies with the requirements set forth in article 231 of the Brazilian Corporate Law; any transfer of a controlling interest in the Company to any third party, except in the event of (1) a transfer of interest among our existing controlling companies or (2) a transfer of any direct or indirect controlling interest in the Company to any company in the food retail industry that is assigned a credit rating of investment grade, on a global basis or similar, by Standard & Poor's, Moody's or Fitch Ratings, or, in the event that the acquiring party has no such credit rating available, that the credit rating applicable to the debentures included in the Sixth Issuance is not reduced; and **(c)** for as long as any debentures included in the Sixth Issue of Debentures of the Company are outstanding, maintain certain financial ratios and comply with certain limits, namely, a consolidated net debt that is less than the shareholder s equity and a consolidated net debt to consolidated EBITDA ratio less than or equal to 3.25, as set forth in the indenture relative to the Sixth Issue of Debentures of the Company, such limits and ratios to be calculated at the last day of each quarter based on the twelve (12) months preceding the relevant calculation date.

In accordance with the indenture of its Seventh Issue of Debentures, the Company is subject to the following restrictions: the following transactions shall not take place, except where they meet the applicable requirements: **(a)** no restructuring shall take place that may lead to the Company being spun off, merged into, or taken over by any other company without the prior explicit consent of the holders of any debentures included in the Seventh Issue of Debentures, subject to the quorum for adopting resolutions as set forth in the relevant indenture, except where any such spin-off, merger or takeover transaction complies with the requirements set forth in article 231 of the Brazilian Corporate Law; any transfer of a controlling interest in the Company to any third party, except in the event of (i) a transfer of interest among the Company s existing controlling companies or (ii) a transfer of any direct or indirect controlling interest in the Company to any company in the food retail industry, provided, however, that any such direct or indirect transfer of a controlling interest to a company in the food retail industry does not reduce the credit rating applicable to the debentures included in the Seventh Issue of Debentures of the Company; and (2) does not result in concentration of risk of a holder of any debentures included in the Seventh Issue of Debentures in relation to the Company in excess of the limits set forth by the laws and regulations in force and applicable to the holders of any debentures included in the Seventh Issue of Debentures of the Company, as the case may be; and **(b)** for as long as any debentures included in the Seventh Issue of Debentures of the Company are outstanding, maintain certain financial ratios and comply with certain limits, namely, a consolidated net debt that is less than the shareholders equity and a consolidated net debt to consolidated EBITDA ratio less than or equal to 3.25, as set forth in the indenture relative to the Seventh Issue of Debentures of the Company, such limits and ratios to be calculated at the last day of each quarter based on the twelve (12) months preceding the relevant calculation date, the first of which calculations was made based on the consolidated financial statements of the Company for the quarter ended on June 30, 2009.

In accordance with the indenture of its Eighth Issue of Debentures, the Company is subject to the following restrictions: the following shall not take place, except where the applicable requirements are met: **(a)** no restructuring shall take place that may lead to the Company being spun off, merged into, or taken over by any other company without the prior explicit consent of the holders of any debentures included in the Eighth Issue of Debentures, subject to the quorum for adopting resolutions as set forth in the relevant indenture, except where any such spin-off, merger or takeover transaction complies with the requirements set forth in article 231 of the Brazilian Corporate Law; any transfer of a controlling interest in the Company to any third party, except in the event of (i) a transfer of interest among the Company s existing controlling companies or (ii) a transfer of any direct or indirect controlling interest in the Company to any company in the retail industry; (l) any amendment to the purpose of the Company in such way that the Company s core business ceases to be trading in food and food supplies; and **(b)** for as long as any debentures included in the Eighth Issue of Debentures of the Company are outstanding, maintain certain financial ratios and comply with certain limits, namely, a consolidated net debt that is less than the shareholders equity and a consolidated net debt to consolidated EBITDA ratio less than or equal to 3.25, as set forth in the indenture relative to the Eighth Issue of Debentures of the Company, such limits and ratios to be calculated on the last day of each quarter based on the twelve (12) months preceding the relevant calculation date, the first of which calculations was made based on the consolidated financial statements of the Company for the quarter ended on September 30, 2009.

(g) Usage cap on existing loans

As of December 31, 2009, our capital stock was R$5,374.8 million, and the amount in outstanding debentures issued by the Company was R$1,481.4, as described in item (f), Relevant loan and financing agreements , above. Therefore, in accordance with the provisions of article 60 of the Brazilian Corporate Law, our debenture to capital stock ratio as of December 31, 2009, was 27.6%, thus meeting the legal requirement and allowing for additional financing through the issue of new long-term debt instruments in the capital market.

The Company has a credit limit with the BNDES for funding part of its 2009-2011 Expansion and Renovation Plan of approximately R$900 million. As of December 31, 2009, no amount had been taken by the Company nor released by the BNDES under the relevant loan agreement. The funds under all other loan agreements made by the Company have been released.

(h) Significant changes in items of the financial statements

The consolidated financial information of the Company appearing in the balance sheets and income statements for the years ended on December 31, 2009, 2008 and 2007, inclusive, were derived from consolidated financial statements of the Company prepared in accordance with the accounting standards used in Brazil and as required by the Brazilian Corporate Law, including, for years ended as of January 1, 2008, any changes introduced by Law No. 11,638, dated December 28, 2007, (Law No. 11,638/07), and by Provisional Measure No. 449, dated December 3, 2008, as subsequently enacted into Law No. 11,941, dated May 27, 2009, (Law No. 11,941/09), by regulations issued by CVM and by any statements issued by the Accounting Standards Board (respectively BR GAAP or Accounting Standards Used in Brazil and CPC).

Income statement

Years ended on December 31, 2009, and on 31 December, 2008

(Consolidated)	**Year ended on December 31**				
	2009	**% of Net Revenues**	**2008**	**% of Net Revenues**	**% variation 2009/2008**
Gross sales of goods and/or services	**26.223,0**	**112.8%**	**20,856.8**	**115.7%**	**25.7%**
Deductions to gross sales	(2,968.8)	(12.8%)	(2,823.7)	(15.7%)	**5.1%**
Net revenue of sale of goods and/or services	**23,254.2**	**100.0%**	**18,033.1**	**100.0%**	**29.0%**
Cost of goods and/or services sold	(17,493.8)	(75.2%)	(13,279.5)	(73.6%)	31.7%
Gross income (loss)	**5,760.4**	**24.8%**	**4,753.6**	**26.4%**	**21.2%**
Total operating expenses	(4,259.3)	(18.3%)	(3,431.1)	(19.0%)	24.1%
Selling expenses	(3,519.0)	(15.1%)	(2,857.1)	(15.8%)	23.2%
G&A	(740.3)	(3.2%)	(574.0)	(3.2%)	29.0%
Net financial revenue (expense)	**(284.6)**	**(1.2%)**	**(316.8)**	**(1.8%)**	**(10.2%)**
Financial revenues	251.7	1.1%	292.1	1.6%	(13.8%)
Financial expenses	(536.3)	(2.3%)	(608.9)	(3.4%)	(11.9%)
Other operating incomes	(135.8)	(0.6%)	(10.9)	(0.1%)	1,144.1%
Income (loss) of permanent assets	(21.7)	(0.1%)	(10.9)	(0.1%)	98.5%
Non-recurring income	(114.1)	(0.5%)	0.0	0.0%	-
Depreciation/amortization	(454.0)	(2.0%)	(604.7)	(3.4%)	24.9%
Equity Income	17.6	0.1%	2.9	0.0%	501.6%
Operating income	**644.2**	**2.8%**	**393.0**	**2.2%**	**63.9%**
Income tax	(6.4)	(0.0%)	(111.0)	0.6%	(94.3%)
Minority interest	(13.8)	(0.1%)	0.7	0.0%	-
Statutory interest/contributions	(32.5)	(0.1%)	(22.2)	(0.1%)	46.6%
Net income (loss)	**591.6**	**2.5%**	**260.4**	**1.4%**	**127.2%**
Earnings per share	**2.3**		**1.1**		**110.0%**

Net Sales Revenue

Our net sales revenue increased by 29.0%, from R$18,033.1 million in 2008 to R$23,254.2 million in 2009.

One highlight among the drivers that contributed to the increase in our net sales revenues in 2009 is the acquisition of Ponto Frio in July 2009. This transaction, in addition to strengthening our position within non-food related industries, also enabled the Company to capture gains in terms of market share and consolidate the sales foundations introduced in our daily operations since 2008, namely, assortment, pricing, communication and customer service.

Gross Income

Our gross income went up from R$4,753.6 million in 2008 to R$5,760.4 million in 2009. Although our gross margin was negatively affected by 160 basis points in 2009, our gross income increased 21.2% . This drop in the gross margin resulted a number of situations: (i) effects of an expanded tax substitution regime beginning in 2008 that changed the way the ICMS is levied, particularly in the State of São Paulo, causing an increase in the cost of goods and in net revenues to the extent that now the ICMS ceased to be levied in the sales tax line and was included in the cost of goods sold; and (ii) effect of an increased participation of Assai and of consumer electronics selling at lower margins than food products, however contributing to a larger average ticket.

Furthermore, the Company implemented a strategy to expand its participation in new businesses and grow in a sustainable manner, with continued expense monitoring and investments in terms of price competitiveness, where more competitive prices are offset by leveraging sales but allow for gains in terms of cash margins.

Operating revenues (expenses)

The total operating revenue of the Company increased 24.1%, up from R$3,431.1 million in 2008 to R$4,259.3 million in 2009. Measured as a percentage of net sales, expenses reached 18.3% in 2009, a year-over-year reduction of 70 basis points. This is the smallest expense level ever recorded by our Group, and is a result of continued expense monitoring.

It is important to highlight that in 2008 our total operating expense was affected by restructuring costs in the amount of R$23 million (before deduction of taxes). If this amount was disregarded in the 2008 calculation, the total operating expenses of the Company in 2009 would have shown a pro-forma increase of 25.0% compared to 2008 figures.

Financial revenues (expenses)

Net financial revenues decreased 10.2%, down from financial expenses of R$316.8 million in 2008 to expenses of R$284.6 million in 2009. This decrease was due to the effect of mark to market accounting and updated assets/liabilities that exceeded gains with lower interest rates (DI rate) and the net debt in the period.

Depreciation and amortization

Depreciations and amortizations totaled R$454.0 million in 2009, a decrease of 24.9% versus the R$604.7 million recorded in 2008. This variation measured resulted primarily from the accounting standard harmonization process introduced by Law No. 11,638/07, which law mandated that goodwill ceased to be amortized as of January 1, 2009.

Operating income

The operating income of the Company increased 63.9%, up from R$393.0 million in 2008 to R$644.2 million in 2009. This was a result of the following: (i) increase of 29.0% in net sales revenues; (ii) increase of 31.7% in costs of goods and/or services sold; and (iii) increase of 24.1% in operating expenses.

Income tax

Expenses with the income tax of the Company decreased from R$111.0 million to R$6.4 million in 2009. The reduced tax expense resulted essentially from (i) deferred income tax credit derived from past tax losses of Globex; and (ii) non-taxable revenues and expenses.

Net income

As described above, the Company s net income increased 127.2%, from R$260.4 million in 2008 to R$591.6 million in 2009. It is important to note that, in 2008, the net income was impacted by restructuring expenses incurred in the first quarter of the year, in an aggregate amount of R$17.2 million. Even with the incorporation provided for in the recent Law No. 11,638/07, the net income in 2008 was affected by the amortization of goodwill in the amount of R$112.6 million. Similarly, in 2009 the Company's net income was affected by non-recurring events in the amount of R$50.6 million. Accounting for the impacts of such events, the Company s net income reached R$642.2 million in 2009, a pro-forma increase of 56.0% in relation to 2008 figures.

Balance sheet

Years ended on December 31, 2009, and on 31 December, 2008

Balance Sheet Consolidated Assets

(in R$ million)	**Year ended on December 31**				
	2009	**%**	**2008**	**%**	**variation 2009/2008**
Current assets	**8,532.7**	**47.4%**	**5,652.5**	**41.7%**	**51.0%**
Available funds	2,344.2	13.0%	1,625.6	12.0%	44.2%
Credits	3,356.2	18.6%	2,456.0	18.1%	36.7%
Inventory	2,827.5	15.7%	1,570.9	11.6%	80.0%
Others	4,9	0.0%	0.0	0.0%	0.0%
Non-current assets	**9,480.0**	**52.6%**	**7,893.7**	**58.3%**	**20.1%**
Long-term assets	**2,644.7**	**14.7%**	**2,260.6**	**16.7%**	**17.0%**
Sundry credits	2,378.5	13.2%	1,984.1	14.7%	19.9%
Related-party credits	266,1	1.5%	276.5	2.0%	(3.8%)
Others	0.0	0.0%	0.0	0.0%	0.0%
Fixed assets	**6,835.4**	**37.9%**	**5,633.1**	**41.6%**	**21.3%**
Investments	212.4	1.2%	113.9	0.8%	86.5%
PPE	5,248.9	29.1%	4,859.5	35.9%	8.0%
Intangible assets	1,374.0	7.6%	659.7	4.9%	108.3%
Total assets	**18,012.7**	**100.0%**	**13,546.2**	**100.0%**	**33.0%**

Balance Sheet Consolidated Liabilities

(R$ million) **Year ended on December 31**

	2009	%	2008	%	variation 2009/2008
Current liabilities	**5,801.7**	**32.2%**	**3,418.0**	**25.2%**	**69.7%**
Financing and Loans	441.2	2.4%	300.6	2.2%	46.8%
Debentures	19.4	0.1%	36.9	0.3%	(47.4%)
Suppliers	4,004.4	22.2%	2,409.5	17.8%	66.2%
Taxes, fees, and contributions	313.7	1.7%	110.2	0.8%	184.6%
Dividends payable	98.1	0.5%	68.0	0.5%	44.2%
Related-party debts	31.7	0.2%	12.4	0.1%	155.2%
Provisions	0.0	0.0%	0.0	0.0%	-
Others	893.3	5.0%	480.4	3.6%	86.0%
Non-Current liabilities	**5,545.8**	**30.8%**	**4,616.2**	**34.1%**	**20.2%**
Financing and Loans	2,183.1	12.1%	2,300.2	17.0%	(5.1%)
Debentures	1,481.4	8.2%	777.9	5.7%	90.4%
Provision for court rulings	367.2	2.0%	1,244.1	9.2%	(70.5%)
Others	1,514.2	8.4%	294.0	2.2%	415.1%
Minority interests	105.7	0.6%	104.3	0.8%	1.4%
Net equity	**6,559.5**	**36.4%**	**5,407.7**	**39.9%**	**21.3%**
Total liabilities	**18,012.7**	**100.0%**	**13,546.2**	**100.0%**	**33.0%**

Balance sheet assets

<u>Current</u>

Available cash, funds, and banks

The Company's available cash, funds, and banks increased 44.2%, from R$1,625.6 million in 2008 to R$2,344.2 million in 2009, due primarily to an increase of 54.2% in the Company s financial investments derived from the Seventh and Eighth Issue of Debentures of the Company.

On December 31, 2009, our available cash, funds, and banks represented 13.0% of our assets, versus 12.0% on December 31, 2008.

Credits

The Company s credits increased 36.7%, from R$2,456.0 million in 2008 to R$3,356.2 million in 2009, due primarily to the consolidation of Globex s receivables as a result of its acquisition, as well as on account of an increase in the sales via credit cards, which also increased following an increase in sales revenues.

Inventory

Inventories increased 80.0%, from R$1,570.9 million in 2008 to R$2,827.5 million in 2009, due primarily to the acquisition of Globex and the Company s organic growth.

<u>Non-current</u>

Investments

The Company s investments increased 86.5%, from R$113.9 million in 2008 to R$212.4 million in 2009, due primarily to (i) an increase in the capital stock of Miravalles Empreendimentos e Participações S.A. (merged by Financeira Itaú CBD S.A. Crédito, Financiamento e Investimento, FIC); and (ii) a shares swap transaction between Banco Investcred ("BINV") and FIC, in consequence of the merger with the BINV s partial part into FIC, opening of new stores, renovation and conversion of existing stores and upgrades of existing infrastructure (IT, logistics and other).

On December 31,2009, our investments represented 1.2% of our assets, versus 0.8% on December 31, 2008.

PPE

Plant, property and equipment increased 8.0%, from R$4,859.5 million in 2008 to R$5,248.9 million in 2009, due primarily to the opening of new stores in the period. These stores are not operating yet.

On December 31, 2009, our plant, property and equipment represented 29.1% of our total assets, versus 35.9% on December 31, 2008.

Intangible assets

Intangible assets increased 108.3%, from R$659.7 million in 2008 to R$1,374.0 million in 2009, due primarily to goodwill additions derived from the acquisition of Globex and from the remaining 40% of the capital stock of Barcelona Comércio Varejista e Atacadista S.A. (Barcelona).

On December 31, 2009, our intangible assets represented 7.6% of our total assets, versus 4.9% on December 31, 2008.

Balance sheet liabilities

Current

Short-Term Financing and Loans

Short-term financing and loans increased 46.8%, from R$300.6 million in 2008 to R$441.2 million in 2009, due primarily to adjustments in interest, swap and mark-to-market accounting.

On December 31, 2009, our short-term financing and loans represented 2.4% of our total liabilities, versus 2.2% on December 31, 2008.

Short-term Debentures

Short-term indebtedness related to debentures issued by the Company decreased 47.4%, from R$36.9 million in 2008 to R$19.4 million in 2009, due primarily to adjustments in interests, swap and mark-to-market accounting.

On December 31, 2009, our short-term debentures represented 0.1% of our total liabilities, versus 0.3% on December 31, 2008.

Suppliers

Supplier liabilities increased 66.2%, from R$2,409.5 million in 2008 to R$4,004.4 million in 2009, due to the acquisition of Globex and the related impact caused by the absorbed supplier account.

On December 31, 2009, our supplier liabilities represented 22.2% of our total liabilities, versus 17.8% on December 31, 2008.

Non-current

Long term financing and loans

Long-term financing and loans decreased 5.1%, from R$2,300.2 million in 2008 to R$2,183.1 million in 2009, due to the reassignment of real-and foreign-currency denominated financing agreements as short-term liabilities.

On December 31, 2009, our long-term financing and loans represented 12.1% of our total liabilities, versus 17.0% on December 31, 2008.

Long term Debentures

Long-term indebtedness related to debentures issued by the Company increased 90.4%, from R$777.9 million in 2008 to R$1,481.4 million in 2009, due primarily to the Seventh and Eighth Issue of Debentures of the Company. For additional information on debentures issued by the Company, please refer to item 18.5 of the Reference Form.

On December 31, 2009, our long-term debentures represented 8.2% of our total liabilities, versus 5.7% on December 31, 2008.

Provision for court rulings

The Company s provisions decreased 70.5%, from R$1,244.1 million in 2008 to R$367.2 million in 2009, essentially on account of joining the Tax Recovery Program (REFIS) introduced by Law No. 11,941/09. Opting in to REFIS translated an increase of 415.1% in Other items on account of opting in to said tax payment scheme.

Net equity

Our net equity increased 21.3%, from R$5,407.7 million in 2008 to R$6,559.5 million in 2009, due primarily to an increase in the Company s stock capital as a result of the acquisition of Globex and of the revenue reserve account.

Other assets and liabilities

Assets and liabilities not discussed above did not show significant changes in the comparison between their balances determined as of December 31 for years 2009 and 2008.

10.2. Comments of the Executive Officers on:

(a) Results of operations, especially: (i) discussion of any relevant components of the Company s revenues; and (ii) drivers materially affecting the Company s operating income (loss)

The Company s gross revenues increased 25.7% in 2009, being:

66.9%, or R$17,544.3 million, derived from sales of food-related products; and

33.1%, or R$8,678.8 million, derived from sales of non-food products.

Thus, 66.9% of the Company s gross operating income derived from sales of food-related products, and 75.7% in 2008. Revenue tax totaled R$2,968.8 million, or approximately 11.3% of our gross operating income.

The Company also increased its market share, especially in sales of non-food products, which also increased over 13.5% in same store sales.

Moreover, the Company strengthened its position in the non-food product segment with two significant initiatives: the acquisition of the Ponto Frio chain in June 2009, and the joint venture agreement signed with Casa Bahia in December 2009. The goal of these two transactions is to improve the Company s complementary position in the durable goods market by serving consumers of different social strata. The Company significantly increased its activities in this segment, is leveraging synergies and aiming at excellence in service to offer a number of advantages to consumers in 2010.

One highlight among the drivers that enhanced the Company s performance is the consolidation of sales foundations introduced in our daily operations during 2008, namely, assortment, pricing, communication and customer service.

(b) Changes in revenues due to changes in prices, exchange rates, inflation, volume procurement, and the introduction of new products and services

The Company s financial situation and the income (loss) of its business is tied to Brazilian macroeconomics and drivers such as unemployment rate, availability of consumer credit and increasing average wages.

The Company s operating expenses, as well as all of its cash expenses (in other words, expenses other than depreciation and amortization), are incurred in reais and change according to the inflation in Brazil. In this respect, any increase of interest rates and inflation may influence the prices of products sold in Company s stores. On the other hand, the Company negotiates large volumes with its suppliers, thus reducing its exposition to the aforementioned changing drivers. Thus, the Company s revenues and expenses were not significantly influenced by the foregoing drivers.

(c) Impact of inflation, changes in prices of our key supplies and products, exchange and interest rates on the Company's operating income

In addition to paragraph (b) above, we believe that the devaluation or appreciation of real against the U.S. dollar has, and will have, an impact on the Company s income (loss) derived from import transactions, which transactions accounted for 3.5% of our sales in 2009.

The Company s net financial revenues were significantly affected in 2009 on account of the effect of mark to market accounting and the updating of assets/liabilities that exceeded any gains derived from lower interest rates (DI rate) and the net debt in the period.

10.3. Comments of the Executive Officers on the potential impact of the events below on the company s financial statements and income (loss)

(a) Introduction or divestment of businesses

No introduction or divestment of any businesses has had, or is expected to have, a significant impact on the Company s financial statement or bottom line. On the other hand, the Company increased its participation in the non-food product retail industry through the acquisition of Globex and entering into a joint venture agreement with Casa Bahia, as further described in item (b) below.

(b) Constitution, acquisition or sale of equity interests

Non-food retail industry Globex and Casa Bahia

The Company strengthened its position in the non-food retail industry in 2009 with the following key initiatives: the acquisition of Globex in July and the entering into a joint venture agreement with Casa Bahia in December. These initiatives will ensure the Company s complementary position in the durable goods market by serving consumers of different social strata. The Company s expertise in such industry is expected to increase through leveraging synergies and excellence-driven customer service to offer a number of advantages to consumers in 2010, such as improved product assortment, competitive prices and access to credit.

Although bottom-line figures at Globex are far from what is expected by the Company, the transaction is being successfully implemented on the expected timeframe. Moreover, negative trends seen in early 2009 were reverted and there has been a strong rebound in sales. The synergies captured so far exceeded the initial expectations and have shown advantages in several areas: IT, logistics, marketing, procurement and also in access to credit. The resolution to strengthen the participation of the Company in the non-food segment is part of the strategic guidelines introduced in 2007 by the Company s board of directors. Furthermore, recent studies show the importance and the growth potential of the non-food market in Brazil.

Our businesses in the non-food retail segment will be further reinforced through the integration and segmentation of e-commerce transactions of Ponto Frio (www.pontofrio.com.br) and Extra (www.extra.com.br).

Cash & Carry Assaí Chain

In July 25, 2009 the Company acquired a holding equivalent to the remaining 40% of the controlling interest of Assaí. This transaction resulted in the Company becoming the indirect holder of all shares of the capital stock of Barcelona, which in turn owns the Assaí chain, thus increasing the Company s footprint in the food retail industry s cash&carry segment. Barcelona was already an indirect subsidiary of the Company through Sé Supermercados.

In view of the foregoing and considering the growth potential of the consumption power of classes C and D, we expect that the improved Company's footprint in the cash&carry sales segment of the food retail industry will have a positive, significant impact on the Company's financial statement and bottom line.

(c) Unusual events or transactions

There has been no unusual event or transaction.

10.4. Comments of the Executive Officers on:

(a) Significant changes in accounting standards

With the enactment of Law No. 11,638/07 and Law No. 11,941/09 on December 28, 2007, and May 27, 2009, respectively, several rules related to the reporting of consolidated financial data of companies subject to the Brazilian Corporate Law were changed. The main goal of said changes was to update the Brazilian corporate laws and make BR GAAP consistent with the IFRS (International Financial Reporting Standards).

Thus, as of the fiscal year ended December 31, 2008, the Company is required to comply with new legal requirements related to preparation and reporting of financial statements.

(b) Significant implications as a result of changes to accounting standards

In accordance with Technical Pronouncement CPC 01, issued by the Accounting Standards Board, as of January 2009 any goodwill derived from acquisition will cease to be amortized. Accordingly, said goodwill will now be subject to an impairment test. For 2009, the result of applying the new standards resulted in an amount of R$112.6 million.

(c) Qualifications and key concerns of the independent auditor s opinion

There have been no qualifications or key concerns in the independent auditor s opinion on the financial statements of the Company for fiscal years ended on December 31, 2007, 2008 and 2009.

The independent auditor s opinion on the financial statements for fiscal year ended on December 31, 2007, includes, however, a paragraph emphasizing the cash flow and the added value statements referring to the years ended on December 31, 2007 and 2006, which were presented as supplementary information on our Company and subsidiaries, are not a mandatory integral part of the basic financial statements, pursuant to the accounting practices adopted in Brazil. This independent auditor s opinion also informs that the cash flow and the added value statements were submitted to the same auditing procedures described in paragraph 2(e) of the respective report, and, therefore, according to the independent auditors opinion and based on the opinion of other independent auditors mentioned in the first paragraph of the opinion, these are duly presented, in all its material aspects, with regard to the financial statements as a whole.

The independent auditor s opinion for the financial statements for the year ended on December 31, 2008, includes a paragraph emphasizing that as a result of the change in the accounting practices adopted in Brazil in 2008, the financial statements for the year ended on December 31, 2007, presented for purposes of comparability, were adjusted and are represented pursuant to NPC 12 Accounting Practices, Accounting Changes and Estimates, and Error Correction.

10.5. Comments of the Executive Officers on the adoption of critical accounting standards, especially with regard to accounting estimates made by the management concerning uncertain, relevant concerns having an impact of the financial position and bottom line that require subjective or complex judgment, such as: provisions, contingencies, revenue recognition, tax credits, long- lived assets, life of non-current assets, pension plans, exchange currency conversion adjustments, environmental recovery costs, asset recovery test criteria and financial instruments

Management endeavors to report the Company s financial information in plain, understandable fashion. However, due to the complexity of accounting and reporting standards it may not be possible to attain the desired clarity as the Company is required to employ accounting jargon when preparing and reporting its financial information.

With regard to the preparation of the Company s financial reports for fiscal years ended on December 31, 2007, 2008 and 2009, we employed certain premises and variable elements drawn from past experience and several other criteria, both objective and subjective, which we deemed reasonable and relevant. As a result, the preparation of the Company s financial statements include, but are not limited to, estimates relative to the life of fixed and intangible assets; allowance for doubtful accounts; allowance for inventory losses; Provision for investment losses; recovery of the value of fixed and intangible assets; expected realization of deferred income tax and social contribution; rates and time intervals applied in determining the present value adjustment for certain assets and liabilities; provision for contingencies; measurement of the amount of benefits paid under stock option plans and the fair value of financial instruments; and estimates for reporting the sensitivity analysis chart of financial instruments as per Statement No. 475, dated December 17, 2008, of the CVM.

In order to better adapt to the foregoing, we review premises, variable elements and estimates at least on a quarterly basis. Although these are reviewed during the ordinary course of business, the ongoing analysis of the Company s operating and financial position often requires that we take decisions on certain inherently uncertain matters that relate to the carrying value of the Company s assets and liabilities. Actual results may differ from estimates based on different premises or variables. Below is a summary of the accounting policy regarding such judgments made by the Management, together with an explanation of any premises and variables upon which said policies are drawn:

Inventories and payments made by suppliers

Inventories are accounted for by the least of the cost or market price, and any losses occurred during the reporting period are recorded and accounted for.

The Company received payment from suppliers under several programs, mainly those related to volume purchase incentives, warehousing allowances and refunds made under certain programs, such as price reduction, margin protection and publicity. Suppliers extend bonuses and volume-driven price discounts in the form of zero-cost product inventory replenishment and the benefit is recognized as any additional products are sold. Discounts and bonuses in cash are deemed product price reductions and recorded as reduction in the cost of goods sold. Considerable all cash payments made by suppliers are recorded as reduction in the relevant cost item and recognized in the income stament when certain conditions are met and inventory is sold. When the payment received by the Company is for services provided to the supplier, any amounts are accounted for as other income, and, when any such payment is by way of reimbursement for expenses incurred in the sale of products owned by the supplier, amounts are accounted for as reduction of such expenses.

Leases

We estimate the expected lease term of our stores taking into account the exercise of lease term extention options at the Company's sole discretion. Lease terms are used in determining whether premises are leased under financial or operating leases, and also the rent expense through the linear method. Furthermore, the useful life of leasehold improvements is limited by the lease term or useful life of the group to which that item belongs, by both or by the least between them.

Evaluation of long-lived assets

According to BR GAAP, pursuant to accounting standards issued by the CPC and approved by CVM and the Federal Accounting Board, CPC Statement No. 1 *Asset Impairment*, approved by CVM Resolution No. 527, dated November 1, 2007 (CVM Resolution No. 527/07"), is intended to set forth procedures to ensure that assets are not accounted for a value exceeding the amount that can be recovered through the use of that asset in the ordinary business of the entity, or through any disposal thereof.

Each year we perform tests to see whether there is any evidence that the Company s assets, or group of assets, are reduced in value. In case evidence of reduction is detected, we run an evaluation and account for any impairment determined.

Goodwill and business combinations

According to BR GAAP, goodwill is the difference between the amount paid for and the carrying value, according to BR GAAP (typically the calculation basis) of net assets acquired. Generally, goodwill typically comes from the difference between the carrying value and the market value of assets acquired, or explained based on the expected future profitability, and is amortized linearly over the remaining life of the asset, or within ten years. Any goodwill occurring in a subsidiary that has been recently merged into its controlling parent is reassigned to intangible assets. As of 2009, in accordance with CPC Statement No. 1 *Asset Impairment*, as approved by CVM Resolution No. 527/07, and with CPC Statement No. 4 *Intangible Assets*, as approved by CVM Statement No. 553, dated November 12, 2008, goodwill balances will cease to be amortized but be subject to yearly impairment tests.

Deferred tax

According to BR GAAP, the Company determines and pays for income tax based on the income statement as required by the applicable tax laws. Deferred tax asset and liabilities are accounted for based on the difference between the book value shown in the financial statement and the taxable basis of such assets and liabilities.

Furthermore, the deferred tax asset is recorded when its recoverability is deemed likely to occur, however limited to the amount of assets that will be recovered over the next ten years against the present value of the estimated taxable income. We are required to make meaningful estimates and assumptions on future taxable income for the purpose of making such reviews. In order to determine the future taxable income, we need to estimate future taxable revenues and deducible revenues, which revenues are subject to a number of different external and internal drivers, such as economic and industry trends, interest rates, changes in the Company's business strategies and the kind of services provided to the market. The application of different assumptions and estimates may significantly alter the Company's financial statements.

10.6. Comments of the Executive Officers comments on internal controls implemented for reliable financial reporting

(a) Effectiveness of internal controls; issues and actions taken to correct such issues

It is the responsibility of the Management to establish and maintain effective internal controls for the purpose of preparing and reporting financial information. Internal controls afford reasonable guarantees to the Company s board of directors that financial statements are being prepared and reported in adequate manner.

Upon reviewing Company controls related to financial statement preparation and reporting procedures at the end of the fiscal year ended December 31, 2009, the Management concluded for the effectiveness of such controls and procedures in providing a reasonable degree of guarantee that the financial information required to be disclosed in forms and reports filed or submitted in accordance with the applicable law and regulations, are recorded, processed, summarized and reported within the timeframes set forth in forms and guidelines of the CVM, collected and reported to the Management in order to allow sound decisions to be made with regard to the required preparation and reporting of financial information and statements.

Also worth mentioning is the key role of the Company s audit committee in reviewing our internal control systems and, more generally, reviewing the Company s audit, accounting and management practices through discussions with the Management, carrying out internal audits and providing support to external audit works.

Lastly, the Company employs the services of accounting and auditing firm Ernst & Young Auditores Independentes S.S. for the purpose of carrying out specific audit of its internal controls.

(b) Issues found in internal controls and recommendations made in the independent auditor s report

The effectiveness of the Company s internal controls with regard to the preparation and reporting of financial information for each fiscal year was verified by Ernst & Young Auditores Independentes S.S. for each year closed.

10.7. In the event that the Company has made any public offering of securities, the Executive Officers must comment on:

(a) How the resulting proceeds were employed

The proceeds from all public offering of securities made by the Company in the last three (3) fiscal years were used in accordance with the intended application thereof as set forth in the relevant issue documentation.

(b) Any relevant variance between the actual application of proceeds and the proposed application as reported in relevant offering prospectus

Not applicable.

(c) In the event of any variance, the reasons for any such variance

Not applicable.

10.8. Comments of the Executive Officers on:

(a) Any assets and liabilities owned by the Company and not directly or indirectly show in its balance sheet (off-balance sheet items), such as:(i) operating leases, taken and extended; (ii) receivable portfolio write-offs that create any risks or responsibilities for the Company, plus all relevant liabilities where applicable; (iii) future goods and services purchase and sale agreements; (iv) incomplete building agreements; and (v) future loan proceeds agreements

Not applicable. .

(b) Other items not shown in the financial statements of the Company

Not applicable.

10.9. Relative to each of the items not shown in the financial statements of the Company indicated in Section 10.8 above, the Executive Officers must comment on:

(a) How such items change, or may subsequently change, revenues, expenses, operating income, financial expenses and other items of the Company s financial statements

Not applicable.

(b) Nature and purpose of each transaction

Not applicable.

(c) Nature and amount of any liabilities incurred and rights created for the Company as a result of each transaction

Not applicable.

10.10. The Executive Officers must indicate and comment on key elements of the Company's business plan, specifically elaborating on:

(a) *Investments, including: (i) quantitative and qualitative review of ongoing and proposed investments; (ii) investment financing sources; and (iii) any relevant ongoing or proposed divestitures*

We plan to make an investment of approximately R$5 billion in Brazil over the next three years (2010-2012), which is the Company s largest single three-year investment plan. This plan represents an increase of 70% relative to the amount invested in the previous three-year period (2007-2009), which was R$2.9 billion (including acquisitions). The aforementioned amount of R$5 billion includes the opening of approximately 300 new stores until 2012 (representing an average increase between 8% to 9% of sales area each year), as well as investments in renovation of existing stores, purchase of strategic property to support the Company s growth over the next years, infrastructure, IT and logistics. In 2010 alone the Company intends to open approximately 100 new stores focusing on Extra Fácil (quick-shop stores), Extra Supermercado and Assaí (cash&carry) formats. Furthermore, we plan to continue investing in gas stations and drugstores. Our investment plan reflects our positive expectations in relation to the performance of the Brazilian economy and reinforces our commitment regarding creation of new jobs and with the overall development of the country. We will prioritize the organic growth of the Company by opening new stores, however reviewing opportunities for new acquisitions which may add synergies to our activities and effectively create value for our Company.

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Our main sources of funds and financing for our activities are the Company's operating cash flow, bank loans, receivables securitization, loans obtained from the BNDES, as well as funds raised in the capital market through issue of debentures.

As of December 31, 2009, the Company had R$2.3 billion in cash and equivalents. It is our policy to maintain enough cash and equivalents to be able to promptly respond to the Company s liquidity requirements.

No significant divestitures were made in 2007, 2008, and 2009, and no divestiture was planned as of December 31, 2009.

(b) Provide it has already been disclosed, indicate the acquisition of any plant, equipment, patents or any other asset that may materially affect the productive capacity of the Company

In 2009 the Company directly acquired the controlling interest in the Assaí chain, which concern was already indirectly controlled by the Company. The Company also acquired majority shares of Globex and entered a joint venture agreement with Casa Bahia.

(c) *New products and services, indicating: (i) description of the findings of any ongoing survey(s); (ii) total amounts spent with Research and Development of new products and services; (iii) disclosed ongoing projects; and (iv) total amounts spent in the development of new products or services*

For 2010 the Management resolved that part of the investment planned to be made as per item (a) above will at some point be assigned to the development of new products and services, which have yet to be disclosed to the market.

10.11. Comments of the Executive Officers on other drivers that had a material influence on the operating performance and that were not identified or explained in other items herein contained

We are not aware of any other drivers that may have had a material influence on the operating performance and that were not identified nor explained in other items contained in this Section 10.

SIGNATURES

Pursuant to the requirement 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.

COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

Date: March 30, 2010

By: /s/ Enéas César Pestana Neto
Name: Enéas César Pestana Neto
Title: Chief Executive Officer

By: /s/ Daniela Sabbag
Name: Daniela Sabbag
Title: Investor Relations Officer

FORWARD-LOOKING STATEMENTS

This press release may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management's current view and estimates offuture economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.

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sp;$0.13 per shareOctober 15, 2003 $0.13 per shareJanuary 15, 2004 $0.13 per share

The Company is a legal entity separate and distinct from the Bank. The Company's shareholders are entitled to receive dividends when declared by its Board of Directors, out of funds legally available therefor, subject to the restrictions set forth in the California General Corporation Law (the Corporation Law). The Corporation Law provides that a corporation may make a distribution to its shareholders if the corporation's retained earnings equal at least the amount of the proposed distribution. The Corporation Law also provides that, in the event that sufficient retained earnings are not available for the proposed distribution, a corporation may, nevertheless, make a distribution to its shareholders if it meets two conditions, which generally stated are as follows: (i) the corporation's assets equal at least 1-1/4 times its liabilities, and (ii) the corporation's current assets equal at least its current liabilities or, if the average of the corporation's earnings before taxes on income and before interest expenses for the two preceding fiscal years was less than the average of the corporation's interest expenses for such fiscal years, then the corporation's current assets must equal at least 1-1/4 times its current liabilities.

The ability of the Company to pay a cash dividend depends largely on the Bank's ability to pay a cash dividend to the Company. The payment of cash dividends by the Bank is subject to restrictions set forth in the California Financial Code (the Financial Code). The Financial Code provides that a bank may not make a cash distribution to its shareholders in excess of the lesser of (a) the bank's retained earnings; or (b) the bank's net income for its last three fiscal years, less the amount of any distributions made by the bank or by any majority-owned subsidiary of the bank to the shareholders of the bank during such period. However, a bank may, with the approval of the DFI, make a distribution to its shareholders in an amount not exceeding the greater of (x) its retained earnings; (y) its net income for its last fiscal year; or (z) its net income for its current fiscal year. In the event that the DFI determines that the shareholders' equity of a bank is inadequate or that the making of a distribution by the bank would be unsafe or unsound, the DFI may order the bank to refrain from making a proposed distribution. The FDIC may also restrict the payment of dividends if such payment would be deemed unsafe or unsound or if after the payment of such dividends, the Bank would be included in one of the "undercapitalized" categories for capital adequacy purposes pursuant to federal law. (See, "Item 1 Prompt Corrective Action and Other Enforcement Mechanisms.") Additionally, while the Federal Reserve Board has no general restriction with respect to the payment of cash dividends by an adequately capitalized bank to its parent holding company, the Federal Reserve Board might, under certain circumstances, place restrictions on the ability of a particular bank to pay dividends based upon peer group averages and the performance and maturity of the particular bank, or object to management fees to be paid by a subsidiary bank to its holding company on the basis that such fees cannot be supported by the value of the services rendered or are not the result of an arm's length transaction.

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Whether or not dividends will be paid in the future will be determined by the Board of Directors after consideration of various factors. The Company's profitability and regulatory capital ratios in addition to other financial conditions will be key factors considered by the Board of Directors in making such determinations regarding the payment of dividends by the Company.

Transfer Agent

Mellon Investor Services, LLC serves as the Company's transfer agent. Shareholder inquiries regarding holdings of Mid-State Bancshares Common Stock can be directed to:

Mellon Investor Services, LLC
P. O. Box 3315
South Hackensack, NJ 07606-1915

Or

85 Challenger Road
Ridgefield Park, NJ 07660

By Phone:
1-(888)-540-9878 (U.S. & Canada)
1-(201)-329-8660 (Outside U.S.)

Alternatively, Mellon Investor Services, LLC can be contacted via the Internet at *www.melloninvestor.com.*

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ITEM 6. SELECTED FINANCIAL DATA

Selected Consolidated Financial Data Mid-State Bancshares

(In thousands except per share data)	**2003**	**2002**	**2001**	**2000**	**1999**
Year Ended December 31:					
Interest Income (not taxable equivalent)	$ 105,240	$ 109,332	$ 114,002	$ 109,967	$ 99,627
Interest Expense	9,699	16,381	26,480	27,599	26,071
Net Interest Income	95,541	92,951	87,522	82,368	73,556
Provision for Loan Losses	(969)	600	4,100	700	50
Net Interest Income after provision for loan losses	96,510	92,351	83,422	81,668	73,506
Non-interest income	29,059	24,321	23,254	17,805	17,465
Non-interest expense operating	74,691	70,925	64,444	57,982	54,558
Non-interest expense merger related			300		2,930
Income before income taxes	50,878	45,747	41,932	41,491	33,483
Provision for income taxes	17,714	15,892	14,530	14,142	11,430

(In thousands except per share data)	2003	2002	2001	2000	1999
Net Income	$ 33,164	$ 29,855	$ 27,402	$ 27,349	$ 22,053
Per share: *					
Net Income basic	$ 1.41	$ 1.25	$ 1.22	$ 1.23	$ 0.98
Net Income diluted	$ 1.40	$ 1.20	$ 1.18	$ 1.20	$ 0.97
Weighted avg. shares for Basic E.P.S. calculation	23,443	23,962	22,452	22,257	22,461
Weighted avg. shares for Diluted E.P.S. calculation	23,762	24,837	23,252	22,722	22,729
Cash dividends	$ 0.50	$ 0.41	$ 0.37	$ 0.34	$ 0.25
Book value at period-end	$ 11.56	$ 10.72	$ 9.74	$ 8.05	$ 7.10
Tangible book value at period-end	$ 9.15	$ 8.94	$ 7.96	$ 7.96	$ 7.02
Ending Shares	23,567	23,697	24,089	22,019	22,574
Period Averages:					
Total Assets	$ 2,045,252	$ 1,892,137	$ 1,570,098	$ 1,389,625	$ 1,391,279
Total Tangible Assets	2,000,406	1,850,671	1,558,507	1,388,210	1,389,734
Total Loans & Leases	1,131,932	1,109,245	999,501	847,797	685,566
Total Earning Assets	1,857,241	1,718,280	1,444,631	1,279,119	1,269,656
Total Deposits	1,763,215	1,623,510	1,351,256	1,205,826	1,220,340
Common Equity	261,103	244,295	195,955	166,402	155,419
Common Tangible Equity	217,982	202,829	184,364	164,987	153,874
At December 31,					
Cash and cash equivalents	$ 123,763	$ 128,036	$ 102,970	$ 88,988	$ 56,080
Investments and Fed Funds Sold	822,179	625,483	524,345	407,462	482,781
Loans held for sale	13,410	22,560	13,604		
Loans, net of deferred fees, before allowance	1,154,932	1,087,551	1,136,099	919,967	768,814
Allowance for Loan & Lease Losses	(16,063)	(17,370)	(19,073)	(10,920)	(10,905)
Goodwill and Core Deposit Intangibles	56,947	40,949	42,021	1,347	1,477
Other assets	53,664	47,531	53,698	51,394	59,171
Total Assets	$ 2,208,832	$ 1,934,740	$ 1,853,664	$ 1,458,238	$ 1,357,418
Non-interest bearing deposits	$ 487,624	$ 390,212	$ 367,370	$ 275,624	$ 230,271
Interest bearing deposits	1,424,807	1,262,735	1,216,796	955,538	938,183
Other borrowings	7,627	10,973	17,714	30,240	15,357
Allowance for losses unfunded commitments	1,941	1,771	1,586	2,360	2,200
Other liabilities	14,279	14,914	15,647	17,334	11,076
Shareholders' equity	272,554	254,135	234,551	177,142	160,331
Total Liabilities and Shareholders' equity	$ 2,208,832	$ 1,934,740	$ 1,853,664	$ 1,458,238	$ 1,357,418

* All historical share information has been adjusted to reflect the two for one stock split which took place in February 2001.

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(In thousands except per share data)	2003	2002	2001	2000	1999

(In thousands except per share data)	2003	2002	2001	2000	1999
Asset Quality					
Non-accrual loans	$ 12,312	$ 16,748	$ 2,986	$ 4,510	$ 1,520
Loans past due 90 days or more			690	222	4,199
Other real estate owned	3,428				
Total non performing assets	$ 15,740	$ 16,748	$ 3,676	$ 4,732	$ 5,719
Financial Ratios					
For the year:					
Return on assets	1.62%	1.58%	1.75%	1.97%	1.59%
Return on tangible assets	1.66%	1.61%	1.76%	1.97%	1.59%
Return on equity	12.70%	12.22%	13.98%	16.44%	14.19%
Return on tangible equity	15.21%	14.79%	14.90%	16.62%	14.37%
Net interest margin (not taxable equivalent)	5.14%	5.41%	6.06%	6.44%	5.79%
Net interest margin (taxable equivalent)(2)	5.54%	5.74%	6.36%	6.75%	6.02%
Net loan losses to avg. loans	0.06%	0.19%	0.22%	0.06%	0.20%
Dividend Payout Ratio	35.3%	32.8%	30.3%	27.6%	25.3%
Efficiency ratio	59.9%	60.5%	58.4%	57.9%	63.2%
At December 31:					
Equity to average assets (leverage ratio)	9.6%	10.6%	10.2%	12.3%	11.6%
Tier One capital to risk-adjusted assets	13.8%	14.7%	13.8%	15.5%	16.0%
Total capital to risk-adjusted assets	15.0%	16.0%	15.0%	16.7%	17.2%
Loan loss allowance to loans, gross(1)	1.6%	1.8%	1.8%	1.4%	1.7%
Non-accrual loans to total loans, gross	1.1%	1.5%	0.3%	0.5%	0.2%
Non performing assets to total assets	0.7%	0.9%	0.2%	0.3%	0.4%
Allowance for losses to non performing loans(1)	146%	114%	562%	281%	229%

(1) Includes allowance for loan losses and allowance for losses unfunded commitments

(2) Taxable equivalent converts tax exempt income as if it were taxable

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction and Business of the Company

The Company has as its single, wholly owned subsidiary, Mid-State Bank & Trust (the Bank). The Bank has two wholly owned subsidiaries MSB Properties and Mid Coast Land Company (discussed above in Part I of this report and later in this Management's Discussion and Analysis). The Bank was founded in 1961 and operates a full service commercial banking business serving its customers on the Central Coast of California. Headquartered in Arroyo Grande, it operates 41 offices in communities throughout San Luis Obispo, Santa Barbara and Ventura Counties and serves over 101,000 households and businesses.

The following discussion and analysis will provide insight and supplementary information into the accompanying consolidated financial statements of the Company. It also provides Management's assessment of the operating trends over the past few years and certain of their expectations for 2004.

Forward Looking Information

Certain statements contained in this Management's Discussion and Analysis (MD&A), including, without limitation, statements containing the words "believes", "anticipates", "intends", "expects", and words of similar impact, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any

future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions in those areas in which the Company operates, demographic changes, competition, fluctuations in interest rates, changes in business strategy or development plans, changes in governmental regulation, credit quality, the availability of capital to fund the expansion of the Company's business, economic, political and global changes arising from the terrorist attacks of September 11, 2001 and the on-going conflict in Iraq, and other factors referenced in this report, including in "Item 1. Business-Factors that May Affect Future Results of Operations." The Company disclaims any obligation to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

2003 RESULTS AND ACCOMPLISHMENTS

Financial Summary

The Company, on a consolidated basis, reported net income of $33.2 million in 2003 and $29.9 million in 2002 after generating $27.4 million in 2001. The diluted Earnings Per Share (EPS) was $1.40 for 2003 compared to $1.20 in 2002 and $1.18 in 2001. Consolidated total assets at December 31, 2003 were $2.209 billion compared to $1.935 billion at December 31, 2002, up 14.2%. Total deposits also increased from $1.653 billion as of December 31, 2002 to $1.912 billion as of December 31, 2003. Shareholders' common equity stood at $272.6 million at year end up from its $254.1 million level one year earlier. Factors contributing to the increase in shareholders' common equity included; 1) the $33.2 million of net income generated for the year, 2) a $11.8 million increase due to shares issued in connection with the merger with Ojai Valley Bank, and 3) the $2.3 million received for the exercise of stock options. Partially offsetting these increases were; 1) $11.7 million in dividends paid out during 2003, 2) $16.2 million paid for the repurchase of common stock outstanding, and 3) a $1.0 million reduction in accumulated other comprehensive income.

The table below illustrates net income by subsidiary unit.

Income (Loss) by subsidiary (000's)	**2003**	**2002**	**2001**
Bank only, pre-tax	$ 48,684	$ 44,292	$ 41,211
MSB Properties, pre-tax	2,376	2,142	844
Mid Coast Land Co., pre-tax	556	(153)	543
Parent only, pre-tax	(738)	(563)	(666)
Tax (expense)	(17,714)	(15,892)	(14,530)
Net Income Mid-State Bancshares	$ 33,164	$ 29,855	$ 27,402

Executive Summary

Management considers the following to be the most significant items affecting net income during 2003 compared to 2002.

The gain on sale of loans held for sale increased by $2.4 million owing to the low interest rate environment and the surge in refinance activity on single family residential mortgage loans. Management expects that the net gain on sale to be realized in 2004 will be lower than that achieved in 2003.

The Company took a benefit to provision for loan losses of $969 thousand in 2003 compared to a provision expense of $600 thousand in 2002 creating a positive pre-tax improvement to earnings of $1.6 million between the two years. The benefit taken to the provision for loan losses in 2003 reflected strong credit quality standards, consistent performance of the loan portfolio in recent years, improving trends in classified loans, improving trends in delinquencies and charge-offs, an improved outlook for the collection of the Company's non accrual loans, and an improved outlook for economic activity in general.

The impact of the lower interest rate environment in 2003 led to a decline in the Company's net interest margin to 5.54% (taxable equivalent) from 5.74% in 2002. This was offset by an increase in average earning assets of approximately $139 million, thereby allowing it to show a $2.6 million increase in net interest income from the prior year.

Various other non interest income and expense items showed variances which collectively reduced pre-tax income by $1.5 million. These are discussed in more detail in the Income Statement Analysis section below.

Management considers the following to be the most significant items affecting net income during 2002 compared to 2001.

The impact of the lower interest rate environment in 2002 led to a decline in the Company's net interest margin to 5.74% (taxable equivalent) from 6.36% in 2001 which was offset by an increase in average earning assets of approximately $274 million, thereby allowing it to show a $5.4 million increase in net interest income from 2001 to 2002.

Because of concerns of a pending economic slowdown in 2001, the Company added to its loan loss allowance through a charge to provision for loan loss expense of $4.1 million. This provision was reduced in 2002 to just $600 thousand, thus contributing a $3.5 million improvement to earnings in 2002.

The Company recorded a non-recurring gain on sale of its credit card portfolio of $1.7 million in 2001.

Salaries and benefits during 2002 were $3.1 million above the 2001 levels reflecting especially the Company's merger with Americorp in September 2001 resulting in additional staff expense for 2001 involving 3 months of activity compared to 12 months in 2002.

Occupancy expense during 2002 was $1.6 million above the 2001 levels reflecting especially the Company's merger with Americorp in September 2001 resulting in additional occupancy expense for 2001 involving 3 months of activity compared to 12 months in 2002.

Various other non interest income and expense items showed variances which collectively increased pre-tax income by $1.3 million. These are discussed in more detail in the Income Statement Analysis section below.

Management believes that the primary challenges and risks to the Company in 2004 are 1) the length of time that the continued low interest rate environment will last and the compression that environment is having on its net interest margin, 2) the ability of the economy to recover and enhance the Company's ability to grow its loan portfolio and the ability of the Company to develop and execute other means for increasing earning assets if the economy does not recover this year, 3) the ability of the Company to favorably resolve problem assets, and 4) the ability of the Company to contain salary and benefits costs . With these challenges and risks come opportunities. Management believes that some of the significant opportunities it has are 1) its ability to fund additional loans due to its liquidity at the present time, 2) its asset and liability maturity and rate structure are such that its net interest margin will improve in a rising rate environment, 3) its expanded presence in Ventura County will allow it to take advantage of the large and growing economic base in that part of the territory, and 4) as the Company is well capitalized and its stock price performed well, it is well positioned to continue to make strategic acquisitions in selected markets.

Other Events and Items of Note in 2003

On June 30, 2003, the Company signed a definitive agreement ("the Agreement") to acquire Ojai Valley Bank (Ojai) through merger. The Agreement provided Ojai Valley Bank shareholders with an election to choose Mid-State Bancshares common stock, cash, or a combination of Mid-State Bancshares common stock and cash that was subject to potential adjustments. Adjustments were then made based on changes in the price of Mid-State Bancshares stock preceding the effective date of the transaction and the necessary pro ration of the stock selections made by Ojai shareholders. Half of the consideration provided was in the form of Mid-State Bancshares stock with the balance being in cash. The transaction closed on October 31, 2003 and is expected to be accretive to earnings in the year 2004. The total consideration was valued at approximately $23.7 million. The merger was structured to be tax-free for the stock portion of the consideration. It gave the Company two additional offices in Ventura County located in the communities of Ojai and Oak View. It added approximately $104.6 million in assets and $78.8 million in deposits to the Company's Consolidated Statement of Financial Position and enhances its position in the important Ventura County market place.

Following the completion of the merger with Ojai, the Board of Directors appointed Mr. Alan Rains to a directorship with the Company and the Bank. Mr. Rains had served with Ojai as its Chairman of the Board since 1983 and had joined the Board in 1978. He also served as chairman of the loan committee and audit committee and is active in numerous civic organizations.

Another significant accomplishment of the Company during 2003 was the successful implementation of a new check imaging system for its customers. The fronts and backs of the customers' original checks are scanned, creating a permanent digital document which is stored on optical disk, ready to be retrieved and printed at any time. Benefits to the customer include easier statement reconciliation, a ready-made filing system for statements and checks, easier income tax preparation, and enhanced research capabilities. The initial cost of implementing this system was approximately $1.3 million and has resulted in on-going savings to the Bank especially in the area of postage expense estimated at between $20 and $30 thousand per month. Additionally, the implementation of Check Imaging was an important step for the Bank to take in order to capture, archive and exchange images of checks to comply with the provisions of the new Check Truncation Act ("Check 21" as it has come to be known) which was passed by the federal legislature and signed into law by President Bush in October 2003.

Along with the implementation of check imaging, the Company also invested $1.5 million in a new main-frame computer hardware configuration during 2003 to provide the necessary upgrade to its computing capacity. Its prior main-frame, installed in 1998 was fully depreciated in mid-year and was not projected to have sufficient capacity to handle the Bank's increasing requirements.

Also during the year, the Bank undertook significant steps to improve its retail banking sales efforts. It developed an automated scorecard system for tracking on a monthly basis its various sales goals for deposit and loan products by office and by officer. The Bank also hired an experienced banking sales officer to manage the sales process. These actions will allow the Bank to track sales performance, more effectively reward high performance, and to motivate when performance is below expectations.

The Company's stock repurchase program continued in 2003 with 800,006 shares repurchased, up from 477,264 and 454,126 shares repurchased in 2002 and 2001, respectively. The average price paid for the stock over this three year period was $20.27, $17.57 and $16.55, respectively. As of December 31, 2003, the Company had 872 shares remaining to repurchase on the original May 2002 authorization. At its regular Board meeting of January 21, 2004, the Board of Directors authorized the re-purchase of up to 1,178,352 additional shares.

Other items to note include the remodeling of the Bank's offices on Santa Rosa Street in San Luis Obispo, on "A" Street in Oxnard and on Spring Street in Paso Robles. Construction of the Bank's new permanent facility in Cambria was completed towards the end of 2003 with the grand opening taking place on January 12, 2004.

EXTERNAL FACTORS IMPACTING THE BANK

Economic Conditions

At the start of 2003, Management noted in last year's annual report that "While local conditions would appear to be relatively favorable in the near term, the effects of National and State conditions are likely to be negative. Management does not see a return of robust economic conditions until at least 2004 and that will be highly dependent on the outcome of events in the Middle East. Interest rates are not expected to rise until at least late 2003 and more than likely 2004. It is even possible that the Federal Reserve may, with no other effective tools available to it, lower rates again in their efforts to stimulate the economy." As the Company enters 2004, we note that our outlook for 2003 was reasonably accurate. While Gross Domestic Product did show larger increases in the third and fourth quarter than anticipated at 8.2% and 4.0%, respectively, concern over the viability of economic recovery and stubbornly high unemployment rates coupled with low inflation rates led the Federal Reserve to continue its accommodative stance throughout 2003. Indeed at the end of June 2003, the Federal Reserve actually lowered the target on the closely watched Federal Funds Rate by 0.25%.

Entering 2004, Management believes that the economy is entering a sustained recovery which will lead to lower unemployment rates, increases in inflation and eventually, a need to raise interest rates to combat fears of excessive growth and inflationary pressures. Management further believes that increases in interest rates will likely take place in the fourth quarter of 2004 and/or first quarter of 2005 amounting to a roughly 50 basis point increase in short term interest rates. Long term interest rates will rise also, albeit at reduced levels compared to short term rates, reflecting a flatter yield curve.

The most comprehensive review of local economic conditions known to Management comes from the University of California at Santa Barbara (UCSB) Economic Forecast Project. According to UCSB, Gross County Product in the tri-county area was estimated at $69.6 billion in 2003, up 3.3% from the $67.4 level in the prior year. Adjusted for real dollars, it was up 0.1% following a 2.0% growth rate in 2002 and 5.2% in 2001. While these rates of growth were down from the double digit increases witnessed in the late 1990's, they have been running better than those exhibited by the State as a whole. California's real State Product was -1.2% in 2001, -0.1% in 2002 and is estimated to have finally returned to a +0.2% in 2003. Expectations for 2004 are for further improvements with the real State Product growing 0.9% and the real Tri County Gross Product growing 1.9%. The difficulties experienced at the State level have certainly had a negative effect on the local tri-county area. It is estimated by UCSB that the public sector has lost some 1,660 jobs in the tri-county area, a 1.6% decline, clearly contributing to the slower growth rate in economic activity experienced locally compared to previous years. This notwithstanding, the tri counties continue to be fortunate in experiencing significantly lower unemployment rates compared to the near 6% level experienced nationally. The San Luis Obispo Metropolitan Statistical Area (MSA) had an unemployment rate of 3.1% at the end of December 2003 with the Santa Barbara MSA at 4.3% and the Ventura MSA at 5.3%. Management expects these levels to fall in 2004 as the pace of economic activity improves.

Median home prices are at record highs in excess of $400 thousand in Santa Barbara and Ventura counties and just under that level in San Luis Obispo County. In spite of numerous residential building projects in the Bank's trade area and housing affordability indices in the 20% to 25% range, the local real estate market continues strong with a combination of favorable interest rate levels and demand far outpacing supply. The strong trends in both residential and non-residential real estate continue with no signs of abating. Lenders are more prudent in their lending practices having learned the lessons of the early 1990's and hence building is far less speculative. Management does not see significant risk of a slowdown in real estate in 2004.

With positive indicators being revealed in the national economic statistics and a solid economic base locally, Management is encouraged that 2004 should be a very positive year for the economy in the Company's trade area. This optimism, however, must be tempered by the potential for disruption

resulting from geopolitical issues surrounding homeland security and terrorism. As we learned from the 9/11 terrorist attacks, the wars in Afghanistan and Iraq, and the international tensions surrounding those episodes, the effects of these episodes on economic activity can be significant. In spite of this caveat, our local trade area appears to be in a better position at the start of 2004 than it was one year earlier.

Competitive Factors

Competitive pressures from other financial institutions continue to be intense both in the Company's trade area and throughout the nation. Many banks are suffering from insufficient loan volumes and have become very aggressive on the pricing of those good credits available.

It should also be noted that the trend toward consolidation of banking assets exhibited over the past few years in California continued in 2003. Statewide, through November 2003, 21 banks were merged out of existence or liquidated during the year and 14 new banks commenced operation.

ANALYSIS OF STATEMENT OF FINANCIAL POSITION

Loans

The Bank experienced an increase in net loans from $1,070.2 million at the end of 2002, to $1,138.9 million at the end of 2003. This represents an increase in the loan portfolio of $68.7 million following the $46.8 million increase in 2002. Approximately $30.4 million of this increase is a result of the merger with Ojai Valley Bank. The loan portfolio represents approximately 52% of the Bank's assets. Additionally, loans held for sale (which are single family residential mortgages pending sale) total $13.4 million at the end of 2003, down from $22.6 million one year earlier.

The graph below displays the trend over the past five years in the various components of the loan portfolio. Construction loans have risen from their level five years earlier $117.3 million at December 31, 1999 compared to $239.3 million at year-end 2003. Real Estate loans generally trended up from $376.1 million at the end of 1999 to $565.4 million at the end of 2003. Home Equity Credit Lines have generally increased from $52.7 million at the end of 1999 compared to $91.0 million at the end of 2003. Consumer loans (installment and credit reserve) have decreased from $42.0 million at December 31, 1999 to $33.1 million at year-end 2003 which is due to the sale in December 2001 of the Company's Credit Card receivables. Commercial loans have grown in recent years through 2002, but fell to $191.9 million at December 31, 2003. Agricultural production loans decreased from $41.3 million at the end of 1999 to $33.3 million at the end of 2003. The Bank expects to continue to emphasize all types of lending activity in order to diversify the risk in its portfolio. Economic activity in the Central Coast will determine the types of credit the Bank will be able to extend and hence its ability to achieve this objective.

Mid-State Bancshares

Trends in Loan Categories

The Bank's allowance for losses stands at $18.0 million, or 1.6% of gross loans, and represents losses not yet realized, but inherent in the loan portfolio and on unfunded commitments. Approximately $391 thousand of the allowance was acquired through the merger with Ojai Valley Bank. The allowance for losses is down from the $19.1 million at December 31, 2002. The year-end 2003 balance now represents 146% of non-performing loans which is up slightly from 114% at the end of

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2002. A five-year review of activity in the allowance for losses and an allocation by loan type of the allowance is shown in the tables below.

Allowance for Losses (in 000's)	**2003**	**2002**	**2001**	**2000**	**1999**
Allowance for loan losses beginning of year	$ 17,370	$ 19,073	$ 10,920	$ 10,905	$ 14,122
Allowance for losses unfunded commitments	1,771	1,586	2,360	2,200	319

Allowance for Losses (in 000's)	**2003**	**2002**	**2001**	**2000**	**1999**
Total allowance for losses	$ 19,141	$ 20,659	$ 13,280	$ 13,105	$ 14,441
Provision for loan losses charged to operating expense	(969)	600	4,100	700	50
Provision for losses unfunded commitments charged to operating expense	170				
Adjustments acquisition through merger	391		5,464		
Loans charged off:					
Construction and development loans					(14)
Real estate loans	(1,106)		(3)	(93)	(15)
Home equity credit lines			(4)	(70)	(178)
Installment loans	(234)	(275)	(275)	(278)	(132)
Commercial loans	(488)	(2,475)	(2,377)	(512)	(1,852)
Credit cards and related loans	(66)	(88)	(255)	(239)	(331)
Recoveries of loans previously charged off:					
Construction and development loans		2	2	2	198
Real estate loans	45	8	147	14	180
Home equity credit lines		14		86	111
Installment loans	96	196	186	134	115
Commercial loans	963	451	309	330	425
Credit cards and related loans	61	49	85	101	107
Total Allowance for Losses	$ 18,004	$ 19,141	$ 20,659	$ 13,280	$ 13,105

Allocation of Allowance for Losses (in 000's)					
Allowance for loan losses	$ 16,063	$ 17,370	$ 19,073	$ 10,920	$ 10,905
Allowance for losses unfunded commitments	1,941	1,771	1,586	2,360	2,200
Total Allowance for Losses	$ 18,004	$ 19,141	$ 20,659	$ 13,280	$ 13,105
Ratio of Net Loan Losses to Average Loans Outstanding	0.06%	0.19%	0.22%	0.06%	0.20%

Allocation of the allowance for losses compared to loan category as a percent of total at December 31:

(dollars in 000's) Balance applicable to:	**2003**	**Category as a % of Loans**	**2002**	**Category as a % of Loans**	**2001**	**Category as a % of Loans**	**2000**	**Category as a % of Loans**	**1999**	**Category as a % of Loans**
Construction and Land	$ 2,680	20.8%	$ 2,636	19.7%	$ 1,969	18.8%	$ 2,095	18.3%	$ 1,979	15.3%
Real Estate	2,164	49.1%	4,047	48.4%	2,949	46.8%	3,993	48.4%	2,291	49.1%
H.E.C.L.	250	7.8%	295	6.8%	443	6.0%	390	6.0%	344	6.9%
Installment	244	2.2%	254	2.5%	780	3.1%	292	3.4%	283	3.9%
Credit Card and Related	229	0.6%	97	0.3%	393	0.3%	1,203	1.0%	770	1.6%
Commercial, Other	6,468	19.5%	6,296	22.3%	5,712	25.0%	2,247	22.9%	2,248	23.2%
Unfunded commitments	1,941	N/A	1,771	N/A	1,586	N/A	2,360	N/A	2,200	N/A
Unallocated	4,028	N/A	3,745	N/A	6,827	N/A	700	N/A	2,990	N/A
Balance at End of Year	$ 18,004	100.0%	$ 19,141	100.0%	$ 20,659	100.0%	$ 13,280	100.0%	$ 13,105	100.0%

(dollars in 000's) Balance applicable to:	2003	Category as a % of Loans	2002	Category as a % of Loans	2001	Category as a % of Loans	2000	Category as a % of Loans	1999	Category as a % of Loans

Non-accrual loans within the Bank's portfolio decreased from $16.7 million as of December 31, 2002, to $12.3 million, at the end of 2003. Loans 90 days or more past due remained the same at zero for the periods ending December 31, 2002 and December 31, 2003. Additional information on

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non-accrual loans, past due loans and troubled debt restructurings can be found in Footnote 5 to the financial statements. The level of non-accrual loans at the end of 2003 is centered primarily in two real estate secured loans (total $10.1 million). Management has established specific reserves that would offset potential losses, if any, arising from less than full recovery of the loans from the supporting collateral. Recoveries in 2003 of loans previously charged-off totaled $1.2 million compared to charge-offs of $1.9 million taken during the year resulting in net charge-offs of $0.7 million. This compares to net charge-offs incurred of $2.1 million and $2.2 million in 2002 and 2001, respectively. The Bank anticipates that charge-offs (actual losses) will continue during 2004. It is unlikely that recoveries would exceed charge-offs in the coming year.

With the combination of the collateral securing the problem loans and the size of the allowance for losses, Management feels that the allowance is sufficient to cover inherent losses. Management reviews the adequacy of the allowance and also employs an independent third party loan review group to, among other things, review the reasonableness of individual asset classifications. Management, as necessary, adjusts the allowance on a regular basis. The allowance is also examined annually by one or more of the Bank's regulatory bodies including the FDIC and DFI. During the fourth quarter of 2003, based on its review of the allowance, Management took a benefit to the provision for loan losses of $1.2 million resulting in a net benefit to the provision for loan losses of just under $1.0 million for the full year. This action reflected strong credit quality standards, consistent performance of the loan portfolio in recent years, improving trends in classified loans, improving trends in delinquencies and charge-offs, an improved outlook for the collection of the Company's non accrual loans, and an improved outlook for economic activity in general. The need for additional provision for loan losses or for further benefit to the provision for loan losses in 2004 will be dependent upon Management's on-going analysis of the adequacy of the allowance for loan losses. While Management believes it to be adequate at the present time, the appropriate value can fluctuate over time in response to economic conditions and the subjective decisions which must be made in response to those conditions.

The allowance for losses consists of a statistically allocated portion and a specifically allocated portion. The total of these components is considered adequate to provide for losses, which can be reasonably anticipated. However, since these amounts are based on estimates, ultimate losses relating to these loans may vary and Management believes that qualitative factors make it prudent to carry a reasonable level of an "unallocated portion" to absorb losses in excess of the allocated portion. Qualitative factors considered include, but are not limited to, portfolio composition, concentrations, off balance sheet risks, delinquencies and non-accruals, criticized and classified loans, non performing loans, gross and net loan losses, changes in lending function, changes in management, the Bank's organizational structure, the special assets group, lending and credit approval authorities, loan officer training, the credit review function, and real estate appraisal policies.

A summary of maturities and sensitivities of loans to changes in interest rates at December 31, 2003 is shown in the table below. A more complete discussion of the Bank's exposure to changes in interest rates can be found in the MD&A under the section titled "Net Interest Income and Interest Rate Risk."

(dollars in 000's) December 31, 2003	3 Months or less	Over 3 Months through 12 Months	Due after one year to three years	Due after three years to five years	Due after five years	Total
Fixed rate loans	$ 28,163	$ 48,732	$ 59,832	$ 48,367	$ 189,693	$ 374,787
Floating rate loans	544,822	9,706	111,954	77,881	23,470	767,833
Sub-total	572,985	58,438	171,786	126,248	213,163	1,142,620
Non accrual loans						12,312
Total loans, net of net deferred loan fees						$ 1,154,932

(dollars in 000's) December 31, 2003	3 Months or less	Over 3 Months through 12 Months	Due after one year to three years	Due after three years to five years	Due after five years	Total

Investment Portfolio

The Bank's investment portfolio primarily consists of U.S. Treasury Notes and Bills, Federal Agency Notes, Mortgage Backed Securities and Municipal Bonds. See Footnote No. 4 to the consolidated financial statements for a detailed composition of the investment portfolio. The Treasury and Agency portion of the portfolio increased by $113.0 million from one year ago. The Bank increased its holdings in the Municipal Bond portfolio from $323.5 million at the end of 2002, to $377.1 million at the end of 2003. The U.S. Treasury portion of the portfolio increased as well by $57.0 million as did the Federal Agencies by $56.0 million from December 31, 2002 to December 31, 2003. Mortgage Back Securities increased $1.8 million. In total, the Bank increased its investment portfolio from $609.0 million at the end of 2002 to $775.0 million at the end of 2003, a $166.0 million increase. Approximately $33.4 million of this increase relates to the portfolio acquired through the merger with Ojai Valley Bank. The balance of the increase reflects the growth in deposits not being fully deployed into the loan portfolio.

The Bank may segregate its portfolio into three categories a "Trading Portfolio" (which is carried at market value, with changes in market value reflected in the income statement), a "Held to Maturity" portfolio (which is carried at amortized cost, with changes in market value having no impact on the financial statements) and an "Available for Sale" portfolio (which is carried at market value, with changes in market value reflected in comprehensive income). The Bank holds no securities that should be classified as Trading or Held to Maturity securities. The Bank has determined that since its securities may be sold prior to maturity because of interest rate changes, to meet liquidity needs, or to better match the re-pricing characteristics of funding sources, that the entire portfolio should be classified as Available for Sale.

Adjustments to the Available for Sale portfolio for changes in market values resulted in an unrealized gain of $12.3 million included in accumulated other comprehensive income as of December 31, 2003 compared to an unrealized gain of $13.2 million at December 31, 2002, net of related taxes. Purchases exceeded maturities and sales over the full year and the total investment portfolio increased by $166.0 million from the end of 2002 to the end of 2003.

Shown below is a summary maturity distribution of the investment portfolio, which is all classified as available for sale, by type and weighted taxable equivalent yield as of December 31, 2003. Expected maturities may differ from contractual maturities because borrowers may have the right to call or

prepay obligations with or without call or prepayment penalties. Maturity information for Mortgage Backed securities shown below is based on contractual maturities.

(dollars in 000's)	One Year Or Less	After One Year to Five Years	After Five Years to Ten Years	After Ten Years	Total
Maturity Distribution:					
U.S. Treasury Securities	$ 17,895	$ 65,197	$ 510	$	$ 83,602
U.S. Government Agencies	73,902	217,535			291,437
Mortgage Backed Securities	119	580	6,437	610	7,746
Municipal Bonds, Other	31,140	196,635	162,368	1,751	391,894
Total	$ 123,056	$ 479,947	$ 169,315	$ 2,361	$ 774,679

One Year Or Less	After One Year to	After Five Years to	After Ten Years	Total

		Five Years	Ten Years		
Weighted Average Yield:					
U.S. Treasury Securities	3.05%	1.33%	4.22%		1.69%
U.S. Government Agencies	3.81%	3.04%			3.24%
Mortgage Backed Securities	6.32%	6.28%	6.08%	6.34%	6.12%
Municipal Bonds, Other	6.49%	5.88%	5.76%	6.00%	5.88%
Total	4.37%	3.98%	5.75%	6.09%	4.43%

Other Real Estate Owned ("OREO")

The Company held $3.4 million at December 31, 2003 compared to none in recent years. The balance represents two properties, $3.3 million of which was a foreclosed commercial real estate loan on non accrual and the balance represents a property acquired in the recent Ojai Valley Bank acquisition. Future OREO activity will depend, among other things, on how many borrowers the Bank may need to foreclose upon, and the strength of the real estate market and general economic activity.

Goodwill and Core Deposit Intangibles

Goodwill totaled $47.8 million at December 31, 2003 compared to $33.4 million one year earlier. The increase of $14.4 is a result of the acquisition of Ojai Valley Bank that was completed on October 31, 2003.

On an annual basis, the Company tests its Goodwill for impairment. The Goodwill is entirely attributable to the Company's community banking segment. Results of this test have indicated that there was no impairment of Goodwill in any of the past two years, 2002 through 2003, in which the testing commenced.

Core deposit intangibles total $9.1 million at December 31, 2003 compared to $7.5 million one year earlier. Of the year-end 2003 amounts, $6.4 million represents the amortized value of the core deposit intangible created with the American Commercial Bank acquisition and $2.7 million represents the core deposit intangible created upon the acquisition of Ojai Valley Bank. The core deposit intangibles represent the fair value of long-term deposit relationships acquired and is being amortized over expected useful economic lives of 8.25 and 9.00 years, respectively.

Deposits

While the Bank is competitive with major institutions in terms of its structure of interest rates on deposit products offered, Management was not overly aggressive during 2003 in terms of pricing to attract additional deposits, a decision which reflects the Bank's strong liquidity at the present time.

As discussed in the Income Statement Analysis, most of the Bank's deposit rates have fallen in concert with the general decline in rates. A comparison of the rates paid on the Bank's deposit products at December 31, 2003 and 2002 is as follows:

Selected Quoted Interest Rates	**2003**	**2002**	**Change**
Demand Deposits	0%	0%	0%
NOW Account (50 & Better over $2,500)	0.05%	0.15%	-0.10%
Money Market Deposits (over $100,000)	0.75%	0.69%	0.06%
Passbook Savings Account	0.25%	0.50%	-0.25%
Individual Retirement Account (2 Year term)	1.75%	2.00%	-0.25%
Time Deposit ($100,000 6 month term)	1.05%	1.35%	-0.20%
Wall Street Journal Prime Rate	4.00%	4.25%	-0.25%

Average deposits grew dramatically in 2003 reflecting growth at Mid-State Bank & Trusts' existing offices and the acquisition of Ojai Valley Bank on October 31, 2003 which had deposits of approximately $78.8 million at the time of the acquisition. Below is a summary of the average deposits outstanding and the average rate paid by category over the last three years.

(dollars in 000's)	Average Balance	2003 Interest	Rate	Average Balance	2002 Interest	Rate	Average Balance	2001 Interest	Rate
Interest Bearing Demand and Money Market Investment Accounts	$ 651,285	$ 1,527	0.23%	$ 581,439	$ 2,639	0.45%	$ 447,641	$ 3,829	0.83%
Savings Accounts	287,435	1,077	0.37%	245,615	2,255	0.92%	207,965	3,893	1.87%
Time Deposits	399,448	6,944	1.74%	418,536	11,275	2.69%	395,633	18,458	4.67%
Total Interest Bearing Deposits	1,338,168	9,548	0.71%	1,245,590	16,169	1.30%	1,051,239	26,180	2.45%
Non Interest Bearing Demand	425,047			377,920			300,017		
Total Deposits	$ 1,763,215	$ 9,548	0.54%	$ 1,623,510	$ 16,169	0.99%	$ 1,351,256	$ 26,180	1.94%

The majority of the Bank's time deposits (approximately 61%) have balances that are under $100,000 in size. While all time deposits are somewhat more rate sensitive than the Bank's other deposit categories, the smaller time deposit balances tend to be more stable and less sensitive to absolute rate levels than do time deposits of $100,000 or more. Approximately 88% of the Bank's time deposits mature within one year and would be potentially subject to a change in rate on their maturity date. The following table as of December 31, 2003, displays summary size and maturity information on the Bank's time deposits.

(dollars in 000's) Balance by Size	Three Months or Less	After Three Months to Six Months	After Six Months to One Year	After One Year	Total
Under $100,000	$ 91,818	$ 67,031	$ 47,905	$ 38,298	$ 245,052
$100,000 or More	81,166	41,003	22,158	11,221	155,548
Total Time Deposits	$ 172,984	$ 108,034	$ 70,063	$ 49,519	$ 400,600

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Other Borrowings

While not a significant component of the Bank's structure, other borrowings decreased from $11.0 million, at the end of 2002 to $7.6 million at the end of 2003. These consist primarily of borrowings under the U.S. Treasury Tax and Loan note account, Federal Home Loan Bank borrowings and mortgages payable. The Bank had outstanding borrowings of $5.6 million and $8.9 million at December 31, 2003 and 2002, respectively, under the U.S. Treasury Tax and Loan note account program. The Company had one borrowing from the Federal Home Loan Bank for $2.0 million at December 31, 2003 and 2002. Mortgages payable were $31 thousand and $70 thousand at year-end 2003 and 2002, respectively. There were no other borrowings that were acquired as part of the Ojai Valley Bank acquisition.

Capital

Capital ratios for commercial banks and their holding companies in the United States are generally calculated using three different formulas. These calculations are referred to as the "Leverage Ratio" and two "risk based" calculations known as "Tier One Risk Based Capital Ratio" and the "Total Risk Based Capital Ratio." The Company and the Bank are subject to certain standards concerning these ratios. These standards were developed through the joint efforts of banking authorities from 12 different countries around the world. The standards essentially take into account the fact that different types of assets have different levels of risk associated with them. Further, they take into account the off-balance sheet exposures of banks when assessing capital adequacy.

The Leverage Ratio calculation simply divides common stockholders' equity (reduced by goodwill and certain other intangibles that a bank may have) by the total assets of the bank. In the Tier One Risk Based Capital Ratio, the numerator is the same as the leverage ratio, but the denominator is the total "risk-weighted assets" of the bank. Risk-weighted assets are determined by segregating all the assets and off-balance sheet exposures into different risk categories and weighting them by a percentage ranging from 0% (lowest risk) to 100% (highest risk). The

Total Risk Based Capital Ratio again uses "risk-weighted assets" in the denominator, but expands the numerator to include other capital items besides equity such as a limited amount of the allowance for loan losses, long-term capital debt, preferred stock and other instruments. Summarized below are the capital ratios at December 31, 2003 and 2002, for both Mid-State Bancshares and Mid-State Bank & Trust. Additionally, the standards for a well-capitalized institution, as defined by the federal banking agencies, are displayed.

	Minimum Regulatory Standard	Well-Capitalized Regulatory Standard	Mid-State Bancshares		Mid-State Bank & Trust	
			2003	2002	2003	2002
Leverage Ratio	4.0%	5.0%	9.6%	10.6%	9.4%	10.4%
Tier One Risk Based Capital Ratio	4.0%	6.0%	13.8%	14.7%	13.5%	14.5%
Total Risk Based Capital Ratio	8.0%	10.0%	15.0%	16.0%	14.7%	15.7%

While it is the intent of management to continue to maintain strong capital ratios, the Board of Directors has initiated a stock repurchase program and increased the quarterly dividend payments in an effort to further utilize its equity and enhance shareholder value.

Without deducting for goodwill and other intangibles from equity, two other commonly followed ratios related to capital have trended as follows over the past three years.

	2003	2002	2001
Dividend Payout Ratio	35.3%	32.8%	30.3%
Average Common Equity to Average Assets	12.8%	12.9%	12.5%

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Liquidity

The focus of the Bank's liquidity management is to ensure its ability to meet cash requirements. Sources of liquidity include cash, due from bank balances (net of Federal Reserve requirements to maintain reserves against deposit liabilities), fed funds sold, investment securities (net of pledging requirements), loan repayments, deposits and fed funds borrowing lines. Typical demands on liquidity are deposit run-off from demand deposits and savings accounts, maturing time deposits, which are not renewed, and anticipated funding under credit commitments to customers.

The Bank has adequate liquidity at the present time. Its loan to deposit ratio at year-end was 60.4% versus 65.8% one year earlier. The Bank normally strives for a loan to deposit ratio in the 65% to 75% range. The Bank's internally calculated liquidity ratio stands at 45.2% at December 31, 2003, which is above its minimum policy of 15%. With the weaker loan demand experienced in recent years coupled with continued strong growth in the Bank's deposit base, the Bank has a stronger liquidity position and lower loan to deposit ratio than it would normally target.

Management is not aware of any trend, demand, commitment or event that would result in a material change in the Company's liquidity at the present time.

Capital Commitments

As of December 31, 2003, the Company does not have any material commitment for capital expenditures.

Contractual Obligations

As of December 31, 2003, the Company had the following contractual obligations.

	Less Than One Year	One to Three Years	Three to Five Years	Over Five Years	Total
Long Term Debt	$	$	$	$ 2,000	$ 2,000
Mortgages Payable	31				31
Operating Leases	1,885	3,509	3,008	5,375	13,777

	Less Than One Year	One to Three Years	Three to Five Years	Over Five Years	Total
Total Contractual Obligations	$ 1,916	$ 3,509	$ 3,008	$ 7,375	$ 15,808

Off Balance Sheet and Other Related Party Transactions

As noted in Footnote 12 to the financial statements, the Company is contingently liable for letter of credit accommodations made to its customers in the ordinary course of business totaling $31.0 million at December 31, 2003, down from $39.4 million one year earlier. Additionally, the Company has undisbursed loan commitments, also made in the ordinary course of business, totaling $523.4 million, which was up from the $436.7 million outstanding one year earlier. The Company has an allowance for losses-unfunded commitments totaling $1,941,000 and $1,771,000 at December 31, 2003 and 2002, respectively, to cover losses inherent in its letter of credit accommodations and undisbursed loan commitments.

There are no Special Purpose Entity ("SPE") trusts, corporations, or other legal entities established by Mid-State which reside off-balance sheet. There are no other off-balance sheet items other than the aforementioned items related to letter of credit accommodations and undisbursed loan commitments.

As noted in Footnote 5 to the financial statements, the Company does make loans and leases to related parties (directors and officers) in the ordinary course of business at prevailing rates and terms. These loans and leases totaled $1.2 million at the end of 2003 and 2002.

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INCOME STATEMENT ANALYSIS

Net Interest Income and Interest Rate Risk

Net Interest Income is the difference between interest and fees earned on all earning assets and interest paid on interest bearing liabilities. Net Interest Income for 2003 was $95.5 million, up from $93.0 million recorded in 2002 and $87.5 million in 2001. The components of net interest income change in response to both changes in rate, average balance and mix of both earning assets and liabilities. The following tables present an analysis of yields/rates, interest income and expense, and average balances for 2003, 2002, and 2001.

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ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSE

	2003			2002			2003 Compared to 2002 Composition of Change		
							Change Due To:		
(dollars in 000's)	Average Balance	Interest Income/ Expense	Average Yield / Rate	Average Balance	Interest Income/ Expense	Average Yield / Rate	Volume	Rate	Total Change
EARNING ASSETS:									
Loans	$ 1,131,932	$ 80,372	7.10%	$ 1,109,245	$ 84,962	7.66%	$ 1,674	$ (6,264)	$ (4,590)
Investment Securities	640,888	24,040	3.75%	533,427	23,201	4.35%	4,352	(3,513)	839
Fed Funds, Other	84,421	828	0.98%	75,608	1,169	1.55%	111	(452)	(341)
TOTAL EARNING ASSETS	$ 1,857,241	$ 105,240	5.67%	$ 1,718,280	$ 109,332	6.36%	$ 6,138	$ (10,230)	$ (4,092)

							2003 Compared to 2002 Composition of Change		
INTEREST BEARING LIABILITIES:									
NOW, Savings, and Money Market Accounts	$ 938,720	$ 2,604	0.28%	$ 827,054	$ 4,894	0.59%	$ 485	$ (2,775)	$ (2,290)
Time Deposits	399,448	6,944	1.74%	418,536	11,275	2.69%	(423)	(3,908)	(4,331)
Interest Bearing Deposits	1,338,168	9,548	0.71%	1,245,590	16,169	1.30%	62	(6,683)	(6,621)
Other Borrowings	4,423	151	3.41%	7,595	212	2.79%	(98)	37	(61)
TOTAL INTEREST BEARING LIABILITIES	1,342,591	9,699	0.72%	1,253,185	16,381	1.31%	(36)	(6,646)	(6,682)
NET INTEREST INCOME	$ 1,857,241	$ 95,541	5.14%	$ 1,718,280	$ 92,951	5.41%	$ 6,174	$ (3,584)	$ 2,590

	2002			2001			2002 Compared to 2001 Composition of Change		
							Change Due To:		
(dollars in 000's)	Average Balance	Interest Income/ Expense	Average Yield / Rate	Average Balance	Interest Income/ Expense	Average Yield / Rate	Volume	Rate	Total Change
EARNING ASSETS:									
Loans	$ 1,109,245	$ 84,962	7.66%	$ 999,501	$ 92,148	9.22%	$ 9,262	$ (16,448)	$ (7,186)
Investment Securities	533,427	23,201	4.35%	385,215	19,884	5.16%	7,048	(3,731)	3,317
Fed Funds, Other	75,608	1,169	1.55%	59,915	1,970	3.29%	379	(1,180)	(801)
TOTAL EARNING ASSETS	$ 1,718,280	$ 109,332	6.36%	$ 1,444,631	$ 114,002	7.89%	$ 16,689	$ (21,359)	$ (4,670)
INTEREST BEARING LIABILITIES:									
NOW, Savings, and Money Market Accounts	$ 827,054	$ 4,894	0.59%	$ 655,606	$ 7,721	1.18%	$ 1,517	$ (4,344)	$ (2,827)
Time Deposits	418,536	11,275	2.69%	395,633	18,459	4.67%	843	(8,027)	(7,184)
Interest Bearing Deposits	1,245,590	16,169	1.30%	1,051,239	26,180	2.49%	2,360	(12,371)	(10,011)
Other Borrowings	7,595	212	2.79%	6,733	300	4.46%	31	(119)	(88)
TOTAL	1,253,185	16,381	1.31%	1,057,972	26,480	2.50%	2,391	(12,490)	(10,099)

							2002 Compared to 2001 Composition of Change		
INTEREST BEARING LIABILITIES									
NET INTEREST INCOME	$ 1,718,280	$ 92,951	5.41%	$ 1,444,631	$ 87,522	6.06%	$ 14,299	$ (8,870)	$ 5,429

During 2003 there was a $4.1 million decrease in interest income along with a decrease of $6.7 million in interest expense compared to 2002. The resulting $2.6 million increase in net interest income for 2003 is a result of a number of dynamics affecting both average balance and interest rate considerations. First, the Company experienced an increase in its average earning assets outstanding of $139.0 million. The increase was divided amongst a net increase in average loans of $22.7 million, an increase in average investments of $107.5 million and an increase in average federal funds sold of $8.8 million. Second, while the Company's average interest bearing liabilities increased by $89.4 million, earning assets increased by a larger $139.0 million. The increases in earning assets and interest bearing liabilities are partly attributable to the acquisition of Ojai Valley Bank on October 31, 2003 which affected the averages of these categories (through the influence of their balances for the last two months of the year) in 2003 with no corresponding influence in 2002. Third, interest rates were lower in 2003 compared to the average for 2002. For example, the Prime Rate averaged 4.12% in 2003 compared to 4.68% in 2002.

During 2002 there was a $4.7 million decrease in interest income along with a decrease of $10.1 million in interest expense compared to 2001. The resulting $5.4 million increase in net interest income for 2002 was a result of a number of dynamics affecting both average balance and interest rate considerations. First, the Company experienced an increase in its average earning assets outstanding of $273.6 million. The increase was primarily attributable to the net increase in average loans, which were up by $109.7 million coupled with an increase in average investments of $148.2 million and an increase in average federal funds sold of $15.7 million. Second, while the Company's average interest bearing liabilities increased by $193.2 million, earning assets increased by a larger $273.6 million. Both increases in earning assets and interest bearing liabilities are largely attributable to the acquisition of American Commercial Bank on September 28, 2001 which had a larger affect on the averages of these categories in 2002 than it did in 2001. Third, interest rates were considerably lower in 2002 compared to the average for 2001. For example, the Prime Rate averaged 4.68% in 2002 compared to 6.91% in 2001. Fourth, there was a recovery of interest totaling $2.8 million in 2001 on a loan previously charged-off representing prior years interest which was recognized into interest income and unrelated to either volume or rate considerations for that year.

The Bank expects its risk exposure to changes in interest rates to remain manageable and well within acceptable policy ranges. A recent review as of the end of 2003 of the potential changes in the Bank's net interest income over a 12 month time horizon showed that it could fluctuate under extreme alternative rate scenarios from between +3.3% and -8.5% of the base case (rates unchanged) of $96.3 million. The Bank's policy is to maintain a structure of assets and liabilities which are such that net interest income will not vary more than plus or minus 15% of the base forecast over the next 12 months. Management expects that its exposure to interest rate risk is manageable and it will continue to strive for an optimal trade-off between risk and earnings.

The following table presents a summary of the Bank's net interest income forecasted for the coming 12 months under alternative interest rate scenarios.

	Change From Base
Rates Down Very Significant (Prime down to 2.00% over 8 months)	-8.5%
Rates Down Significant (Prime down to 3.00% over 9 months)	-2.6%
Rates Down Modestly (Prime down to 3.25% over 9 months)	-1.7%

	Change From Base
Base Case Rates Unchanged (Prime unchanged at 4.00% over 12 months)	
Rates Up Modestly (Prime up to 5.00% over 12 months)	+1.1%
Rates Up Aggressive (Prime up to 6.00% over 12 months)	+2.1%
Rates Up Very Aggressive (Prime up to 7.00% over 12 months)	+3.3%

Net interest income under the above scenarios is influenced by the characteristics of the Bank's assets and liabilities. In the case of N.O.W., savings and money market deposits (total $1.024 billion) interest is based on rates set at the discretion of management ranging from 0.05% to 0.75%. In a downward rate environment, there is a limit to how far these deposit instruments can be re-priced and this behavior is similar to that of fixed rate instruments. In an upward rate environment, the magnitude and timing of changes in rates on these deposits is assumed to be more reflective of variable rate instruments.

It is important to note that the above table is a summary of several forecasts and actual results may vary. The forecasts are based on estimates and assumptions of management that may turn out to be different and may change over time. Factors affecting these estimates and assumptions include, but are not limited to competitors' behavior, economic conditions both locally and nationally, actions taken by the Federal Reserve Board, customer behavior, and management's responses. Changes that vary significantly from the assumptions and estimates may have significant effects on the Bank's net interest income. Therefore the results of this analysis should not be relied upon as indicative of actual future results. Historically, the Bank has been able to manage its Net Interest Income in a fairly narrow range reflecting the Bank's relative insensitivity to interest rate changes. The impact of prepayment behavior on mortgages, real estate loans, mortgage backed securities, securities with call features, etc. is not considered material to the sensitivity analysis. Over the last 5 years, the Bank's net interest margin (which is net interest income divided by average earning assets of the Bank) has ranged from a low of 5.14% to a high of 6.44% (not taxable equivalent). The Bank's net interest margin in 2003 of 5.14% is at the low end of this range by historical standards, coming off the higher levels experienced in 2000 of 6.44%. This is a result of both the lower level of interest rates and the change in mix of earning assets (the Bank now has a smaller portion in loans vis-à-vis investment securities compared to 2000 when the margin was at its widest level). The net interest margin under the alternative scenarios ranges from 4.31% to 4.86%. Management feels this range of scenarios, while lower than historical standards, is consistent with current experience and interest rate levels, but no assurances can be given that actual future experience will fall within this range.

The Bank's exposure with respect to interest rate derivatives, exchange rate fluctuations, and/or commodity price movements is nil. The Bank does not own any instruments within these markets.

Provision for Loan Losses

The Company made provisions to the allowance for loan losses of $600 thousand and $4.1 million in 2002 and 2001, respectively. In 2003 however, it reduced the allowance for loan losses by $969 thousand through a benefit to the provision for loan losses. This action reflected strong credit quality standards, consistent performance of the loan portfolio in recent years, improving trends in classified loans, improving trends in delinquencies and charge-offs, an improved outlook for the collection of the Company's non accrual loans, and an improved outlook for economic activity in general. The need for additional provision for loan losses or for further benefit to the provision for loan losses in 2004 will be dependent upon Management's on-going analysis of the adequacy of the allowance for loan losses. While Management believes the allowance to be adequate at the present time, the appropriate value can fluctuate over time in response to economic conditions and the subjective decisions which must be made in response to those conditions.

Non-Interest Income

Non-Interest Income for 2003 totaled $29.1 million compared to $24.3 million in 2002 and $23.3 million in 2001. Service charges on deposit accounts increased $0.3 million to $9.3 million in 2003 versus 2002. This followed an increase of $0.8 million in 2002 over 2001. The increase in 2003 over 2002 reflects an increase in accounts and the merger with Ojai Valley Bank, but no significant increases in service charge rates. The increase in 2002 over 2001 was mostly related to increases in service charge rates, coupled with an increase in the number of deposits accounts acquired in the American Commercial Bank merger.

Commissions, fees and other service charges increased by $1.0 million in 2003 over 2002 after a $1.3 million increase in 2002. The increase in 2003 related to several items including a $285 thousand increase in income from the Trust and Investment Division, a $228 thousand increase in mortgage loan processing fees, a $182 thousand increase in real estate loan servicing fees, a $173 thousand increase in debit card fees and a $114 thousand increase in ATM fees and surcharges. The majority of the increase in 2002 was primarily related to increased fee income from its Debit Cards of $388 thousand along with increased fee income from its Trust and Investment Division activities of $311 thousand. In addition, approximately $451 thousand of the increase in 2002 was related to the Bank's MasterCard merchant fees. The balance is related to modest increases across several other fee areas and the fact that 2001 reflected three months of activity generated from the newly acquired American Commercial Bank, whereas in 2002, Mid-State benefited from their inclusion for the full year.

All other sources of income increased to $6.7 million in 2003, up from $3.4 million in 2002 and $4.4 million in 2001. The increase in 2003 of $3.3 million is largely a result of the refinance boom which dramatically increased the Company's Mortgage Banking activity resulting in net gains on sale of loans held for sale of $3.4 million compared to $1.0 million in the prior year a $2.4 million increase. Also contributing to the increase was a one-time gain on the sale of bank property of $273 thousand and $578 thousand realized from the on-going commissions on the sale of property formerly owned by Mid Coast Land Company. Results in 2001 reflect the gain on sale of the Bank's credit card portfolio in the amount of $1.7 million, thus providing the largest portion of the explanation for the decline from 2001 to 2002.

Non-Interest Expense

Total non-interest expense for 2003 was $74.7 million, up from $70.9 million in 2002 and $64.7 million in 2001. In comparing results across the three year periods, it should be noted that 2001 reflects

three months of activity generated by the overhead created from the acquisition of the former American Commercial Bank. Results for 2002 reflect a full year. Results in 2003 reflect two months of overhead created by the acquisition of Ojai Valley Bank which was not reflected in prior years. Economies of scale were realized from the mergers and it is estimated that the expenses of the combined Mid-State/Americorp are now approximately $2.9 million per year lower than the sum of the two institutions would have been on a stand alone basis. Similarly, for Mid-State/Ojai expenses are estimated to be approximately $0.7 million annually lower than the sum of the two institutions on a stand alone basis. In both mergers, savings have been realized due to reduced data processing costs, reduced salary and benefit costs, reduced directors fees, reduced insurance costs, and other similar savings.

Salaries and employee benefits increased by $2.6 million in 2003 compared to 2002 after having increased by $3.1 million in 2002 over 2001. The increase in 2003 over 2002 reflected a $506 thousand increase in total salaries paid along with a $2.1 million increase in employee benefit incentive expense reflecting both the improved performance of the Bank and enhancements made to the plan to remain competitive in recruiting, hiring and retaining the most qualified staff possible. The increase in 2002 over 2001 related to an increase in salaries of approximately $2.7 million with the balance representing health benefits cost increases. Management considers containment of salaries and benefits costs in 2004 to be one of its top challenges. A number of factors are continuing to create unusually strong upward pressure on these costs, especially in the areas of medical benefits, workers compensation costs and competitive wages. The Company is addressing this by focusing on ways of becoming more efficient in its processes and using technology wherever possible to hold down staffing requirements.

Occupancy expense increased to $11.6 million in 2003 from $11.0 million in 2002 and $9.3 million in 2001. The increase in 2002 over 2001 reflected increased rental payments on leased buildings, capital expenditures for computer equipment, ATM's and new signage due to the Bank's name change and the merger with American Commercial Bank. The new equipment and signage was placed into service in the middle of 2001 and occupancy expense increased as these items are depreciated over useful lives of between 5 and 7 years. The increase in 2003 reflects primarily increases in facilities maintenance of $375 thousand, increases in facilities rents of $84 thousand and increases in depreciation expense of $139 thousand. The purchase of a new mainframe computer system during the middle of 2003 did not have a significant impact on depreciation costs because of the parallel reduction in depreciation expense from the retirement of the old system. The purchase of new item imaging equipment which is improving checking account processing and research capabilities for customers, along with improving the efficiency of the Bank, did have a modest impact on depreciation expense for the year.

Advertising and promotion expenditures were $2.9 million in 2003 following charges of $3.0 million in 2002 and $3.1 million in 2001. Expenditures in 2001 reflect the impact of the Company's name change to Mid-State Bank & Trust on its 40th anniversary celebration in mid 2001 and the merger with American Commercial Bank later that year. Expenditures in 2003 and 2002 were fairly constant. The Company is however planning expanded marketing campaigns during 2004 and expects this category to increase by approximately $1.3 million in 2004.

General office expenditures were $3.8 million in 2003 compared to $4.1 million in 2002 and $3.5 million in 2001. This category includes primarily charges for stationery and supplies, telephone expenses, and postage. Mangement does not expect an increase in this expenditure area in 2004 as it has taken a number of steps to hold down costs related to telephone expenditures and expenditures on stationery and supplies. Moreover, the implementation in 2003 of item imaging will reduce postage costs.

Merchant processing and data processing charges were $6.2 million in 2003 compared to $6.6 million in 2002 and $5.6 million in 2001. Management's expectation for 2004 is that merchant

processing and data processing expense will increase due to additional activity and volume associated with an improving economy.

Professional services were $4.3 million in 2003, $4.1 million in 2002 and $3.5 million in 2001. The increase in 2003 over 2002 relates primarily to the utilization of outside consultants to develop enhancements to the Company's retail banking sales efforts. The increase in 2002 compared to 2001 is primarily a result of a $366 thousand increase in outside legal expenses, an increase in messenger service cost of $117 thousand, and increases in audit, accounting and utilization of outside consultants amounting to $130 thousand.

Regulatory assessments (charges for FDIC assessments and DFI fees) have grown with the size of the Bank over the past three years at $407, $368, and $326 thousand in 2003, 2002, and 2001, respectively. This trend is likely to continue as the Bank grows.

Other operating expenses increased in 2003 to $6.2 million up from $5.3 million in 2002 and $6.0 million in 2001. The increase in 2003 compared to 2002 reflects an increase in the provision for losses on unfunded commitments, an increase in Other Real Estate Owned expense and an increase in interest charged off from prior periods on special assets.

Taxes

Book tax expense amounted to $17.7 million in 2003, $15.9 million in 2002 and $14.5 million in 2001. While the statutory tax rate of the Company is 42.05%, the actual rate accrued was 34.8%, 34.7% and 34.7% in 2003, 2002, and 2001, respectively. The primary reason for the difference relates to the tax exempt income generated by the Company's Municipal bond portfolio.

As described in Footnote No. 10 to the financial statements, the Company has deferred tax assets primarily related to the timing difference associated with charge-offs and provisions for losses on certain loans and with the timing difference on deferred compensation.

SUBSIDIARY ACTIVITY

Mid Coast Land Company

Mid Coast Land Company recorded a profit of $322 thousand in 2003 compared to a loss during 2002 of $72 thousand and earnings during 2001 of $315 thousand. The gain in 2003 primarily relates to the on-going commissions on the sale of property formerly owned by Mid Coast Land Company. The loss in 2002 was related to the write-off of a note carried by the subsidiary to a developer for which no allowance had been provided based on the conditions of the loan prior to 2002. Mid Coast Land Company is no longer engaged in real estate development activity, having sold its final property which closed during the first quarter of 2003. It currently records residual activity resulting from prior years' operations.

MSB Properties, Inc.

This wholly owned subsidiary was formed to engage in the specific business of acquiring, owning, and improving real property and tangible personal property which may be necessary or convenient for the operation or housing of the administrative departments and branch offices of the Bank. Incorporated under the laws of the State of California in May of 1968, it also allows for the ownership of property which may be reasonably necessary for future expansion of the Bank's business, or which is otherwise reasonably related to the conduct of the Bank's business, pursuant to Section 752 of the Financial Code of the State of California.

Earnings for this subsidiary consist primarily of rental income from the Bank's offices and administrative center coupled with a minor amount of rental income from non-bank tenants and interest earnings on its cash assets. Leases are written with market terms and at market rates. Expenses are principally interest on mortgages, depreciation of leasehold improvements, general maintenance and utilities expense. The affairs of the subsidiary are managed by Bank employees and as such this subsidiary has no paid staff members.

Earnings for MSB Properties have remained relatively unchanged over the years with net earnings after-tax of $1.4 million, $1.3 million, and $1.7 million, in 2003, 2002 and 2001, respectively. The subsidiary benefited from a one-time pre-tax gain of $273 thousand in 2003 from the sale of a property. The larger gain in 2001 reflects the net benefit to the Company (accounted for on the subsidiary's books) of the donation of the Cambria property to obtain a Natural Heritage State Tax Credit.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as, disclosures included elsewhere in this Form 10-K, are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements require Management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingencies. Management believes that the most significant subjective judgements that it is required to make include the following:

Allowance for losses. Management reviews the adequacy of the allowance and also employs an independent third party loan review group to, among other things, review the adequacy of the allowance and make recommendations. Management, as necessary, adjusts the allowance for loan losses and the allowance for losses unfunded commitments, on a regular basis. These adjustments are made through a charge to expense or a benefit in the provision for loan losses on the income statement. The allowance is also examined annually by one or more of the Bank's regulatory bodies including the FDIC and DFI. The need for additional provision for loan losses in 2004 will be dependent upon Management's on-going analysis of the adequacy of the allowance for losses. While Management believes it to be adequate at the present time, the appropriate value can fluctuate over time in response to economic conditions and the subjective decisions which must be made in response to those conditions.

Fair Value. Where applicable, the Company is required by Generally Accepted Accounting Principles ("GAAP") to disclose the fair value of financial instruments and the methods and significant assumptions used to estimate those fair values. Also, the fair value calculated on collateral supporting the Bank's extensions of credit (e.g. appraisals on the property securing real estate loans) can have a significant effect on the determination of the adequacy of the the allowance for losses noted above. Wherever possible, fair value used by the Company equals quoted market price, as for example with its investment securities portfolio, if available. If it is not available, fair value is estimated by the Company using quoted market prices for similar assets. Fair value of other instruments involves discounting future cash flows using current market rates for instruments with similar maturity and credit characteristics. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-then-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Taxes. The Company estimates its quarterly effective income tax rate based upon a variety of factors, including, but not limited to, the expected revenues for the year and the product mix of revenue, and the ratio of permanent differences to total revenue. Any changes to the estimated rate are made prospectively in accordance with APB 28 "Interim Financial Reporting." Additionally, a valuation allowance, which was zero at December 31, 2003 and 2002, provides for deferred taxes that are not anticipated to be offset by taxable income projected for the next 12 months. A valuation allowance is based on estimates by Management which can change over time.

Goodwill. The Company is required by GAAP to perform an annual impairment analysis of the amount of Goodwill showing on its Consolidated Statement of Financial Position. The methodology utilized in this analysis is described under "Goodwill and Other Intangibles" earlier in this Managements Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Certain information concerning market risk is contained in the notes to the financial statements which are included in Item 8 of this Report and in Management Discussion and Analysis of Financial Condition and Results of Operations which is included in Item 7 of this Report.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Auditors

To the Board of Directors and Stockholders of Mid-State Bancshares:

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of income, of comprehensive income, of changes in capital accounts, and of cash flows present fairly, in all material respects, the financial position of Mid-State Bancshares and its subsidiary at December 31, 2003 and 2002, and the results of their operations and their cash flows for the two years ended December 31, 2003 and 2002, in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing standards generally accepted in the United States of America, which 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 financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note One to the Consolidated Financial Statements, the Company adopted Statement of Financial Accounting Standards No. 142 and consequently changed its method of accounting for goodwill in 2002.

The financial statements of Mid-State Bancshares for the year ended December 31, 2001, were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those financial statements in their report dated January 22, 2002.

PricewaterhouseCoopers LLP
Los Angeles, California
March 10, 2004

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The following report is a copy of a report previously issued by Arthur Andersen LLP and has not been reissued by Arthur Andersen LLP.

Report of Previous Independent Public Auditors

To the Shareholders and Board of Directors of Mid-State Bancshares:

We have audited the accompanying consolidated statements of financial position of Mid-State Bancshares and Subsidiary (the Company) as of December 31, 2001 and 2000, and the related consolidated statements of income, comprehensive income, changes in capital accounts and cash flows for the three years then ended. 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of Mid-State Bancshares and Subsidiary 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.

/s/ ARTHUR ANDERSEN LLP

ARTHUR ANDERSEN LLP

Orange County, California
January 22, 2002

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Consolidated Statements of Financial Position

(amounts in 000's except share amounts)

	December 31,	
Assets	**2003**	**2002**
CASH AND DUE FROM BANKS	**$ 123,763**	$ 128,036
FEDERAL FUNDS SOLD	**47,500**	16,500
SECURITIES AVAILABLE FOR SALE	**774,679**	608,983
LOANS HELD FOR SALE	**13,410**	22,560
LOANS, net	**1,138,869**	1,070,181
PREMISES AND EQUIPMENT, net	**26,325**	25,581
ACCRUED INTEREST RECEIVABLE	**12,174**	11,689

	December 31,	
OTHER REAL ESTATE OWNED	**3,428**	0
GOODWILL	**47,840**	33,448
CORE DEPOSIT INTANGIBLES, net	**9,107**	7,501
OTHER ASSETS	**11,737**	10,261
TOTAL ASSETS	**$ 2,208,832**	$ 1,934,740
Liabilities		
DEPOSITS:		
Demand deposits	**$ 487,624**	$ 390,212
Savings, money market and NOW accounts	**1,024,207**	863,142
Time deposits $100,000 or more	**155,548**	149,801
Time deposits Under $100,000	**245,052**	249,792
Total Deposits	**1,912,431**	1,652,947
OTHER BORROWINGS	**7,627**	10,973
ALLOWANCE FOR LOSSES UNFUNDED COMMITMENTS	**1,941**	1,771
ACCRUED INTEREST PAYABLE & OTHER LIABILITIES	**14,279**	14,914
TOTAL LIABILITIES	**1,936,278**	1,680,605
Commitments and Contingencies (Note 12)		
Capital Accounts		
CAPITAL STOCK, NO PAR VALUE:		
Authorized 100,000,000 shares		
Outstanding 23,567,478 shares in 2003 and 23,697,235 in 2002	**75,506**	77,588
UNDIVIDED PROFITS	**184,771**	163,309
ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES OF $8,200 IN 2003 AND $8,826 IN 2002	**12,277**	13,238
TOTAL CAPITAL ACCOUNTS	**272,554**	254,135
TOTAL LIABILITIES & CAPITAL ACCOUNTS	**$ 2,208,832**	$ 1,934,740

The accompanying notes are an integral part of these consolidated statements.

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Consolidated Statements of Income

(amounts in 000's except per share amounts)

	Year Ended December 31,		
	2003	**2002**	**2001**
Interest Income:			
Interest and fees on loans and leases	**$ 80,372**	$ 84,962	$ 92,148

	Year Ended December 31,		
Interest on securities:			
U.S. Treasury securities	**1,012**	1,281	1,737
U.S. Government agencies and corporations	**8,809**	8,888	5,857
Obligations of states and political subdivisions, other	**14,219**	13,032	12,290
Interest on federal funds sold	**828**	1,169	1,970
TOTAL INTEREST INCOME	**105,240**	109,332	114,002
Interest Expense:			
Interest on deposits	**9,548**	16,169	26,180
Interest on other borrowings	**151**	212	300
TOTAL INTEREST EXPENSE	**9,699**	16,381	26,480
Net Interest Income	**95,541**	92,951	87,522
(Benefit)/Provision for loan losses	**(969)**	600	4,100
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**96,510**	92,351	83,422
Other Income:			
Service charges on deposit accounts	**9,254**	8,909	8,122
Commissions, fees and other service charges	**13,064**	12,031	10,734
Gains on sale of securities	**40**	17	56
Gain on sale of loans held for sale	**3,385**	1,011	173
Other income	**3,316**	2,353	4,169
TOTAL OTHER INCOME	**29,059**	24,321	23,254
Other Expenses:			
Salaries & employee benefits	**39,156**	36,537	33,417
Occupancy expenses	**11,572**	10,954	9,304
Advertising & promotion	**2,938**	2,989	3,057
General office	**3,832**	4,141	3,505
Merchant processing and data processing fees	**6,207**	6,554	5,636
Professional services	**4,342**	4,114	3,473
Regulatory assessments	**407**	368	326
Other operating expenses	**6,237**	5,268	6,026
TOTAL OTHER EXPENSES	**74,691**	70,925	64,744
Income before taxes	**50,878**	45,747	41,932
Tax expense	**17,714**	15,892	14,530
NET INCOME	**$ 33,164**	$ 29,855	$ 27,402
Earnings per share:			
Basic	**$ 1.41**	$ 1.25	$ 1.22
Diluted	**$ 1.40**	$ 1.20	$ 1.18
Average shares used in earnings per share calculation:			
Basic	**23,443**	23,962	22,452
Diluted	**23,762**	24,837	23,252

The accompanying notes are an integral part of these consolidated statements.

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Consolidated Statements of Comprehensive Income

(amounts in 000's)

	Year Ended December 31,		
	2003	**2002**	**2001**
NET INCOME	**$ 33,164**	$ 29,855	$ 27,402
Other Comprehensive Income Before Taxes:			
Unrealized (losses) gains on securities available for sale:			
Unrealized holding (losses) gains arising during year	**(1,547)**	11,378	8,747
Reclassification adjustment for gains included in net income	**(40)**	(17)	(56)
Other comprehensive (loss) income, before tax	**(1,587)**	11,361	8,691
Income tax (benefit) expense	**(626)**	4,545	3,476
OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAXES	**(961)**	6,816	5,215
TOTAL COMPREHENSIVE INCOME	**$ 32,203**	$ 36,671	$ 32,617

The accompanying notes are an integral part of these consolidated statements.

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Consolidated Statements of

Changes in Capital Accounts

(amounts in 000's except share amounts)

	Number of Shares	**Capital Stock**	**Undivided Profits**	**Accumulated Other Comprehensive Income (Loss)**	**Total**
BALANCE, December 31, 2000	22,018,582	51,772	124,163	1,207	177,142
Cash dividend			(8,308)		(8,308)
Exercise of stock options	73,446	714			714
Shares issued in connection with merger	2,450,731	39,178			39,178
Fair market value of stock options issued in connection with merger		722			722
Net income			27,402		27,402
Change in net unrealized gain on available for sale securities, net of taxes of $3,476				5,215	5,215
Stock repurchased	(454,126)	(7,514)			(7,514)

	Number of Shares	Capital Stock	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, December 31, 2001	24,088,633	84,872	143,257	6,422	234,551
Cash dividend			(9,803)		(9,803)
Exercise of stock options	85,866	1,102			1,102
Net income			29,855		29,855
Change in net unrealized gain on available for sale securities, net of taxes of $4,545				6,816	6,816
Stock repurchased	(477,264)	(8,386)			(8,386)
BALANCE, December 31, 2002	23,697,235	$ 77,588	$ 163,309	$ 13,238	$ 254,135
Cash dividend			(11,702)		(11,702)
Exercise of stock options	172,096	2,284			2,284
Shares issued in connection with merger	498,153	11,846			11,846
Net income			33,164		33,164
Change in net unrealized gain on available for sale securities, net of taxes of $(626)				(961)	(961)
Stock repurchased	(800,006)	(16,212)			(16,212)
BALANCE, December 31, 2003	**23,567,478**	**$ 75,506**	**$ 184,771**	**$ 12,277**	**$ 272,554**

The accompanying notes are an integral part of these consolidated statements.

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Consolidated Statements of Cash Flows

(amounts in 000's)

	Year Ended December 31,		
	2003	**2002**	**2001**
Operating Activities:			
Net Income	**$ 33,164**	$ 29,855	$ 27,402
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for depreciation and amortization	**4,511**	4,372	4,396
Amortization of originated mortgage servicing rights	**804**	307	186
Amortization of investment security premiums, net	**4,204**	4,019	1,533
Amortization of deferred loan fees	**687**	(78)	(348)
Amortization of intangible assets	**1,121**	1,072	296
(Gain) loss on sale of investments	**(40)**	(17)	(56)
Originations of loans held for sale	**(222,486)**	(156,606)	(84,297)
Proceeds from sales of loans held for sale	**235,021**	148,661	70,866
Gain on sale of loans held for sale	**(3,385)**	(1,011)	(173)
(Benefit)/Provision for credit losses	**(969)**	600	4,100
Deferred tax (benefit) charge	**1,814**	(738)	1,389
Increase in other intangibles		(901)	(779)

	Year Ended December 31,		
Decrease (increase) in accrued interest	**(485)**	(636)	697
Decrease (increase) in other assets	**(2,938)**	3,845	(1,856)
(Decrease) increase in accrued interest payable and other liabilities	**(1,257)**	(1,307)	(2,103)
Net cash provided by operating activities	**49,766**	31,437	21,253
Investing Activities:			
Proceeds from sales and maturities of securities	**137,567**	112,811	137,709
Purchases of securities	**(275,591)**	(263,089)	(159,772)
Net decrease (increase) in loans	**(41,427)**	46,323	(27,936)
Receipts from real estate investments, net of advances		(6)	(5)
Cash acquired in acquisition, net of cash used	**9,959**		45,222
Purchases of premises and equipment	**(5,265)**	(3,878)	(876)
Proceeds from sales of premises and equipment	**10**	15	15
Net cash used in investing activities	**(174,747)**	(107,824)	(5,643)
Financing Activities:			
Net increase in deposits	**180,684**	68,781	99,006
Net (decrease) increase in other borrowings	**(3,346)**	(6,741)	(12,526)
Cash dividend paid	**(11,702)**	(9,803)	(8,308)
Proceeds from exercise of stock options	**2,284**	1,102	714
Purchase of bank stock for retirement	**(16,212)**	(8,386)	(7,514)
Net cash provided by financing activities	**151,708**	44,953	71,372
(DECREASE) INCREASE IN CASH & CASH EQUIVALENTS	**26,727**	(31,434)	86,982
CASH AND CASH EQUIVALENTS, beginning of year	**144,536**	175,970	88,988
CASH AND CASH EQUIVALENTS, end of year	**$ 171,263**	$ 144,536	$ 175,970

Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest (net of amounts capitalized)	**$ 9,424**	$ 16,678	$ 26,724
Taxes on income, net	**19,136**	15,265	12,925
Transfers from loans to other real estate owned	**3,279**		
ACQUISITIONS			
Fair value of tangible assets acquired	**$ 87,484**	$	$ 285,935
Fair value of core deposit intangible acquired	**2,727**		8,869
Goodwill created in acquisition	**14,392**		32,232
Liabilities assumed	**(79,592)**		(255,536)
Acquisition price, including direct costs	**25,011**		71,500
Less:			
Common stock issued	**(11,846)**		(39,900)

Amounts payable to shareholders and other accruals	**(203)**		(416)
Cash paid	**(12,962)**		(31,184)
Cash acquired	**22,921**		76,406
Cash acquired, net of cash paid	**$ 9,959**	$	$ 45,222

The accompanying notes are an integral part of these consolidated statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003

1. Summary of Significant Accounting Policies

The accounting and reporting policies of Mid-State Bancshares and subsidiary (the "Company") conform with accounting principles generally accepted in the United States (GAAP) and general practice within the banking industry. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following are descriptions of the more significant accounting policies of the Company.

Consolidation: The consolidated financial statements include the accounts of Mid-State Bancshares and its wholly owned subsidiary, Mid-State Bank & Trust, (the "Bank") which includes Mid-State Bank & Trust's wholly owned subsidiaries, Mid Coast Land Company and MSB Properties. All inter-company accounts and transactions have been eliminated in the consolidated financial statements.

Significant Group Concentrations of Credit Risk: Most of the Company's activities are with customers located within the three counties of San Luis Obispo, Santa Barbara and Ventura in California. Note 4 below discusses the types of securities that the Company invests in. Note 5 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents: For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, federal funds sold and securities purchased under agreements to resell, all of which mature within ninety days.

Securities: Securities for which the Company has the positive intent and ability to hold until maturity are classified as held-to-maturity securities. Securities which are purchased principally for the purpose of selling them in the near term for a gain are classified as trading securities. Securities not classified as held-to-maturity or trading are classified as available for sale. The Company holds no securities that should be classified as trading securities or held-to-maturity securities. Securities classified as available for sale are reported on the consolidated statements of financial position as of December 31, 2003 and 2002, at their market value. The net unrealized gains or losses for these securities are reported, net of related taxes, in the statements of comprehensive income for the years ended December 31, 2003, 2002 and 2001 and as a separate component of the capital accounts for the years ended December 31, 2003 and 2002.

In connection with the merger with Americorp (see Note 2 below), Mid-State Bancshares' classified approximately $3.7 million of securities as Available for Sale which were previously categorized as Held to Maturity on Americorp's Statement of Financial Position. In connection with the merger with Ojai Valley Bank (see Note 2 below), Mid-State Bancshares' classified approximately $28.7 million of securities as Available for Sale which were previously categorized as Held to Maturity on Ojai Valley Bank's Statement of Financial Position. These actions were taken in conformance with Mid-State Bancshares' overall asset/liability and investment management policy and are permitted under Statement of Financial Accounting Standards (SFAS) No. 115, *"Accounting for Certain Investments in Debt and Equity Securities."*

Interest income from the securities portfolio is accrued as earned including the accretion of discounts and the amortization of premiums based on the original cost of each security owned. The accretion of discounts and the amortization of premiums are on a straight-line basis to the expected maturity date of the bond. The gain or loss recognized on any security sold prior to maturity is based on the difference between principal proceeds and this amortized cost. Related income taxes are calculated at current federal and state statutory rates.

Loans Held for Sale: Loans held for sale are carried at the lower of cost or market, which is determined on an aggregate basis. They are stated at the amount of unpaid principal, reduced by market valuation adjustments and increased or reduced by net deferred loan origination fees and costs. Interest on loans is recognized over the terms of the loans and is calculated on principal amounts outstanding. Direct loan origination fees and costs are deferred until the related loan is sold.

Loans: Loans are stated at face amount, less payments collected and net deferred loan fees. Income is accrued daily as earned. Loan origination costs are netted against loan fees collected and the net amount is deferred in accordance with SFAS No. 91, *"Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases,"* and amortized into income over the expected life of the loan. The allowance for loan losses, which is based on estimates, is maintained at a level considered adequate to provide for losses that are considered to be inherent in the portfolio. Ultimate losses may vary from the current estimates. Management reviews these estimates periodically, considers the borrower's financial status, current economic conditions, historical loan loss experience and other factors. As adjustments become necessary, they are reported in earnings in the periods in which they become known. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs.

In determining income recognition on loans, generally no interest is recognized with respect to loans on which a default of interest or principal has occurred for a period of 90 days or more. Consumer loans are typically charged-off when they are 90 days or more past due. Other types of loans are placed on non-accrual status when management believes that the borrower's financial condition, after giving consideration to economic and business conditions and collection efforts, is such that the presumption of collectibility of interest no longer is prudent. When a loan is placed on non-accrual status, previously accrued and uncollected interest is reversed from income. Loans on non-accrual are charged off, or partially charged off, when collection of all, or a portion of, principal is considered doubtful. Payments received on non accrual loans are applied to principal unless the loan has had a partial charge off in which case payment is applied as a recovery to the allowance for loan losses. Once a loan is on non-accrual, it is generally not returned to accrual status until 1) all past due principal and interest payments have been paid, 2) there has been a demonstrated ability to make payments for 6 to 12 months, and 3) there is sufficient collateral supporting the loan.

Premises and Equipment: Premises and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed principally on the straight-line method over the lesser of the estimated useful life of each type of asset or the lease term.

Other Real Estate Owned: Other Real Estate Owned (OREO) is comprised of real estate acquired through foreclosure. It is carried at the lower of cost or estimated fair value less estimated costs of disposal.

Goodwill: The amounts presented on the Company's consolidated statements of financial position represents the excess of acquisition prices paid over and above the fair market value of net assets

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acquired. The Company Adopted SFAS No. 142, *Goodwill and Other Intangible Assets,* on January 1, 2002. In accordance with the terms of SFAS No. 142, on an annual basis, the Company tests its Goodwill for impairment. Goodwill is entirely attributable to the Company's community banking segment, and because the fair market value of Mid-State Bancshares' equity is a safe proxy for the fair market value of the community banking segment, the Company compares its fair market value of equity to its book value. This difference is compared to Goodwill. Provided the excess of fair market value to book value is above the Goodwill amount, there is no impairment of Goodwill.

Core Deposit Intangible: The fair market value of core deposits acquired are carried at cost, less accumulated amortization. The amounts carried are included in Core Deposit Intangibles, net, on the consolidated statements of financial position. The amortization of the Core Deposit Intangible (CDI) is computed principally on a straight-line basis over its expected useful life. On an annual basis, the Company tests it CDI for impairment. The amortized CDI is compared to the original amount of CDI booked at the time of the acquisition. This percentage is then compared to the percentage of customers acquired in the acquisition who are still banking with the Bank. Provided the percentage of the CDI does not exceed the percentage of customers who are still banking with the Bank, there is no impairment. The amortization of the CDI may be adjusted from time to time based on the results of this test.

Accounting for Income Taxes: Deferred income tax assets or liabilities are computed based on the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate. Deferred income tax expenses or benefits are based on the changes in the deferred asset or liability from period to period. The Company estimates its quarterly effective income tax rate based upon a variety of factors, including, but not limited to, the expected revenues for the year and the product mix of revenue, and the ratio of permanent differences to total revenue. Any changes to the estimated rate are made prospectively in accordance with APB 28 "Interim Financial Reporting." Additionally, Management makes estimates as to the amount of reserves, if any, that are necessary for known tax exposures.

Stock Option Plan: The Company applies Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees,"* and related Interpretations in accounting for its Plan. Accordingly, no compensation expense has been recognized for grants under the Plan. Consistent with the methods of SFAS No. 123, pro-forma compensation expense for the Plan is determined based on the fair value at the grant date. Fair values were estimated using the Black-Scholes option-pricing model and pro forma disclosures of net income and earnings per share, as if the fair value based method of accounting had been applied, are disclosed in Note 15.

Recent Accounting Pronouncements: The Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Recission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" in April of 2002. SFAS No. 145 amends existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. SFAS No. 145 was effective in fiscal years beginning after May 15, 2002, with certain provisions effective for financial statements issued on or after May 15, 2002, with early adoption permitted. The adoption of SFAS No. 145 did not have a material impact on its results of operations and financial position.

The FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" in June of 2002. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002, with early adoption permitted. The adoption of SFAS No. 146 did not have a material impact on the Company's results of operations and financial position.

The FASB issued SFAS No. 147, "Acquisitions of Certain Financial Institutions" in July of 2002. SFAS No. 147 addresses the financial accounting and reporting for the acquisition of all or part of a financial institution. SFAS No. 147 was effective on October 1, 2002. The Company adopted SFAS No. 147 on October 1, 2002, and the adoption did not have a material impact on its results of operations and financial position.

In November of 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 clarifies the requirements relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. The disclosure provisions of FIN No. 45 were effective for financial statements of periods that end after December 15, 2002, and the provisions for initial recognition and measurement were effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. Adoption did not have a material impact on the Company's results of operations and financial position.

The FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure" in December of 2002. SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123. SFAS No. 148 was effective for fiscal years ending after December 15, 2002. The Company adopted SFAS No. 148 on December 15, 2002 and adoption did not have a material impact on its results of operations and financial position. The effect of SFAS No. 148 is displayed in Note 15 below.

In January of 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." FIN No. 46 addresses consolidation by business enterprises of variable interest entities, which have one or both of the following characteristics: i) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, which is provided through other interests that will absorb some or all of the expected losses of the entity; and ii) the equity investors lack an essential characteristic of a controlling financial interest. FIN No. 46 was initially effective for all financial statements issued on or after February 1, 2003, but subsequently the adoption date was deferred to January 1, 2004. Management believes that the adoption of FIN No. 46 will not have a material impact on the Company's results of operations and financial position.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS 149 was effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively. The adoption of SFAS 149 did not have a material impact on the Company's results of operations and financial position.

The FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" in May of 2003. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 was effective for financial instruments entered into or modified after May 31, 2003, and otherwise was effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have a material impact on the Company's results of operations and financial position.

The FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Postretirement Benefits" in December of 2003. SFAS No. 132 requires additional disclosures about the assets, obligations and cash flows of defined benefit pension and postretirement plans, as well as the expense recorded for such plans. As of December 31, 2003, the Company has disclosed the required elements related to its defined benefit pension plan in Note 16 to these consolidated financial statements.

Reclassifications: Certain items in the consolidated financial statements for 2002 and 2001 were reclassified to conform to the 2003 presentation.

2. Mergers

Ojai Valley Bank

On October 31, 2003, Mid-State Bancshares and its wholly owned subsidiary Mid-State Bank & Trust acquired 100 percent of the outstanding common stock of Ojai Valley Bank. The results of Ojai Valley Bank's operations have been included in the consolidated financial statements since that date. Ojai Valley Bank was a community bank that served the communities of Ojai and Oak View in Ventura County. The merger gives Mid-State Bank & Trust two new offices in Ventura County.

The aggregate purchase price was $25.0 million, including $11.8 million in cash paid to Ojai Valley Bank shareholders, $11.8 million in Mid-State Bancshares' common stock issued and $1.3 million for other merger related expenses. The value of the 498,153 shares issued was determined based on the average closing market price of Mid-State Bancshares' common stock over the twenty consecutive trading days that Mid-State Bancshares' stock traded ending October 24, 2003. The average price of Mid-State Bancshares' stock over that period was $23.78. The merger was accounted for utilizing the purchase method of accounting.

A pro forma summary of revenue, net income and earnings per share, as if the merger was in effect at the beginning of each period, is presented below. This summary specifically excludes any expense savings achieved as a result of the merger. Adjustments have been made to reflect the amortization of the core deposit intangible and the loss of interest on cash utilized to complete the

merger. These results are not included in the financial statements included herein. Figures are in thousands.

	(unaudited) For the Year Ended December 31,		
	2003	**2002**	**2001**
Pro Forma Interest and Non Interest Income:			
Combined Mid-State Bancshares and Ojai Valley Bank	$ 138,789	$ 139,043	$ 143,012
Pro Forma Net Income:			
Combined Mid-State Bancshares and Ojai Valley Bank	$ 32,728	$ 30,637	$ 27,993

	(unaudited) For the Year Ended December 31,		
Pro Forma Earnings Per Share Basic	$ 1.37	$ 1.25	$ 1.22
Pro Forma Earnings Per Share Diluted	$ 1.35	$ 1.21	$ 1.18

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition, October 31, 2003 (in 000's).

Cash and Due From Banks	$ 4,731
Federal Funds Sold	18,190
Securities, net	33,423
Loans, Net	30,407
Goodwill (A)	14,392
Other Intangibles (B)	2,727
Other Assets	733
Total Assets Acquired	104,603
Total Deposits	(78,800)
Other Liabilities	(792)
Total Liabilities Assumed	(79,592)
Net Assets Acquired	$ 25,011

(A) Goodwill is completely attributable to the Community Banking segment of the Company and is not deductible for tax purposes.

(B) The entire amount displayed is attributable to a Core Deposit Intangible which is being amortized over its expected useful life of 9.00 years, i.e. through October 31, 2012.

Americorp

On September 28, 2001, Mid-State Bancshares and its wholly owned subsidiary Mid-State Bank & Trust acquired 100 percent of the outstanding common stock of Americorp. The results of Americorp's operations have been included in the consolidated financial statements since that date. Americorp was the holding company of American Commercial Bank. American Commercial Bank was a community bank that served Ventura County. The merger gives Mid-State Bank & Trust five new offices in Ventura County.

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The aggregate purchase price was $71.5 million, including $31.6 million in cash paid to Americorp shareholders and for other merger related expenses along with $39.9 million in Mid-State Bancshares' common stock and common stock options issued. The value of the 2.45 million shares issued was determined based on the average closing market price of Mid-State Bancshares' common stock over the twenty consecutive trading days that Mid-State Bancshares' stock traded ending September 21, 2001. The average price of Mid-State Bancshares' stock over that period was $15.9853. The merger was accounted for utilizing the purchase method of accounting.

A pro forma summary of revenue, net income and earnings per share, as if the merger was in effect at the beginning of each period, is presented below. This summary specifically excludes any expense savings achieved as a result of the merger. Adjustments have been made to reflect the amortization of the core deposit intangible and the loss of interest on cash utilized to complete the merger. These results are not included in the financial statements included herein. Pro forma information for 2003 and 2002 are not presented since the merger was completed in 2001. Figures are in thousands.

		(unaudited) For the Year Ended December 31, 2001
Pro Forma Interest and Non Interest Income:		
Combined Mid-State Bancshares and Americorp	$	154,174
Pro Forma Net Income:		
Combined Mid-State Bancshares and Americorp	$	26,312
Pro Forma Earnings Per Share Basic	$	1.08
Pro Forma Earnings Per Share Diluted	$	1.05

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition, September 28, 2001 (in 000's).

Cash and Due From Banks	$	24,406
Federal Funds Sold		52,000
Securities, net		14,606
Loans, Net		184,579
Goodwill (A)		32,232
Other Intangibles (B)		8,870
Deferred Tax Asset		3,641
Other Assets		6,702
Total Assets Acquired		327,036
Total Deposits		(253,998)
Other Liabilities		(1,538)
Total Liabilities Assumed		(255,536)
Net Assets Acquired	$	71,500

(A) Goodwill is completely attributable to the Community Banking segment of the Company and is not deductible for tax purposes.

(B) The entire amount displayed is attributable to a Core Deposit Intangible which is being amortized over its expected useful life of 8.25 years, i.e. through December 31, 2009.

3. Cash Reserves

The average reserve balances required to be maintained by the Federal Reserve Bank were approximately $13.1 million and $24.2 million at December 31, 2003 and 2002, respectively.

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4. Securities

A summary of investment securities owned is as follows:

December 31, 2003

(amounts in 000's) **Securities Available For Sale**	**Cost Basis**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Market Value**
U.S. Treasury securities	**$ 83,397**	**$ 289**	**$ (84)**	**$ 83,602**
Securities of U.S. government agencies and corporations	**287,224**	**4,716**	**(503)**	**291,437**
Mortgage backed securities	**7,126**	**620**		**7,746**
Obligations of states and political subdivisions	**362,332**	**15,333**	**(559)**	**377,106**
Other investments	**14,123**	**665**		**14,788**
TOTAL	**$ 754,202**	**$ 21,623**	**$ (1,146)**	**$ 774,679**

December 31, 2002

(amounts in 000's) **Securities Available For Sale**	**Cost Basis**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Market Value**
U.S. Treasury securities	$ 26,101	$ 497	$	$ 26,598
Securities of U.S. government agencies and corporations	228,653	6,472	(23)	235,102
Mortgage backed securities	5,842	106		5,948
Obligations of states and political subdivisions	309,236	14,396	(175)	323,457
Other investments	17,087	793	(2)	17,878
TOTAL	$ 586,919	$ 22,264	$ (200)	$ 608,983

The following table shows those investments with gross unrealized losses and their market value aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2003.

	Less than 12 months		**12 months or more**		**Total**	
(amounts in 000's)	**Market Value**	**Unrealized Losses**	**Market Value**	**Unrealized Losses**	**Market Value**	**Unrealized Losses**
U.S. Treasury securities	$ 30,903	$ (84)	$	$	$ 30,903	$ (84)
Securities of U.S. government agencies and corporations	87,777	(503)			87,777	(503)
Mortgage backed securities						
Obligations of states and political subdivisions	27,380	(559)			27,380	(559)
Other investments						
TOTAL	$ 146,060	$ (1,146)	$	$	$ 146,060	$ (1,146)

Securities having a fair value of $102,828,000 and $100,035,000 at December 31, 2003 and 2002, respectively, were pledged to secure public deposits and for other purposes as required by law.

Proceeds from maturities, calls, partial pay-downs and/or sales of securities were $137,567,000, $112,811,000, and $137,709,000 for the years ended 2003, 2002, and 2001, respectively. Gross gains of

$46,000, $27,000, and $155,000 and gross losses of $6,000, $10,000, and $99,000 were realized on that activity for the years ended 2003, 2002, and 2001, respectively.

The amortized cost and market value of securities at December 31, 2003 and 2002, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available For Sale	
(dollars in 000's) **December 31, 2003**	**Cost** **Basis**	**Market** **Value**