



**Community Bancorp Inc.**

**NASDAQ: CMBC – \$23.06**

Bank

**RATING: BUY**  
12-Month Price Target: \$28.50

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**Market Data**

Market Cap.	\$101 Mil.
Price/Book	259%
Price/Tang. Book	259%
52-Week High	\$25
52-Week Low	\$14
3-Mo. Avg. Daily Volume	4,100
Dividend Yield	0.87%
Total Assets	\$502 Mil.
* As of	03/31/2004
ROE	19.4%
Shares Outstanding (Mil)	4.7
Annual Dividend	\$0.20
Institutional Ownership	20.5%
Insider Ownership	21.5%

**Initiating Coverage on Community Bancorp with a BUY**

**EPS**

	Mar	Jun	Sep	Dec	Year	Growth	Estimate Change	P/E
<b>2003A</b>	\$0.30	\$0.36	\$0.35	\$0.41	\$1.43	—	NA	16.4x
<b>2004E</b>	\$0.40A	\$0.42	\$0.43	\$0.43	\$1.68	17.8%	NA	14.0x
<b>2005E</b>	\$0.46	\$0.49	\$0.52	\$0.54	\$2.01	19.2%	NA	11.7x

- Community Bancorp, with \$502 million in assets, is a growing franchise in a robust southern California footprint.
- Since 1999, Community Bancorp has experienced compounded annual EPS growth of 27% and compounded annual asset growth of 28%.
- In conjunction with expansion, the company has maintained strong asset quality. Nonperforming assets were 0.20% of loans and OREO for 1Q04, and net chargeoffs have averaged 11 basis points over the past five years.
- We expect Community Bancorp's quality growth to continue as it strives to be the community bank of choice in its region.



Community Bancorp, headquartered in Escondido, California, primarily focuses on community banking, with an emphasis on commercial real estate lending to small to medium-sized businesses. Community Bancorp operates five full-service branches and six SBA loan offices through its wholly owned bank subsidiary, Community National Bank, which opened for business in 1985. The company's primary market area is north San Diego County and southwest Riverside County along the I-15 corridor.

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## Investment Overview and Valuation

We are initiating coverage of Community Bancorp with a BUY rating and 12-month target price of \$28.50 per share. Our 2004 and 2005 operating EPS estimates are \$1.68 and \$2.01. Community Bancorp trades at 14x our 2004 EPS estimate, over a two-multiple discount to its California peers (California banks with market caps between \$100 million and \$500 million). It is likely that Community Bancorp's below-peer multiple reflects its status as a small-cap company under the radar of many investors, as well as below-average earnings metrics in the not too distant past. However, in light of robust and improving earnings performance since 2002, its footprint in a high-growth market, and an experienced management team, we expect Community Bancorp's stock to close this gap as the company produces double-digit EPS growth in 2004 and 2005.

Our 12-month price target of \$28.50 was produced by a blend of two methods. Applying Community Bancorp's current forward P/E multiple of 14 times to our projected 2005 earnings, we arrive at a price of \$28.14. Our discounted cash flow model generates a price of \$28.75. The primary assumptions incorporated in our DCF model are a return on equity that is maintained at 17.5%, a 10% cash dividend payout ratio, an 11.25% discount rate, and a terminal P/E multiple of 14.5 times, which is below the median peer multiple for California banks. Blending the two, we arrive at our 12-month price target of \$28.50. At our price target, shares of Community Bancorp offer a potential upside of 23.6%, warranting a BUY rating.

Community Bancorp Compared to California Peers							
	P/E 04 Est (x)	Tier 1(%) 2004Q1	Leverage (%) 2004Q1	NPAs/ Loans & OREO (%) 2004Q1	Reserves/ Loans (%) 2004Q1	ROAA (%) 2004Q1	ROAE (%) 2004Q1
CMBC	<b>13.73</b>	<b>11.82</b>	<b>10.67</b>	<b>0.20</b>	<b>1.29</b>	<b>1.55</b>	<b>19.43</b>
Peer Median*	16.27	10.64	8.98	0.41	1.43	1.38	17.25

Peer Group: California Banks w/Market Caps b/t \$100 MM and \$500 MM

Community Bancorp is a strong community banking franchise that is expanding to fill a void from a torrent of bank consolidations in the greater San Diego area between 1995 and 2000. While the trajectory of Community Bancorp's growth, earnings, and share price has been outstanding since 2001 we believe that the company's most impressive results lie ahead. Community Bancorp is among the highest performing publicly traded small-cap banking franchises in the country when measured by return on assets, return on equity, efficiency, loan growth, earnings growth, and asset quality - and it trades at a discount to its California and national peers! Under the guidance of a seasoned and inspired management team, the company is just hitting its stride. In this report we will discuss Community Bancorp's strategy of developing into the regional bank of choice for small and mid-sized businesses in its footprint, its service-oriented culture, its growth prospects in desirable markets, its strong credit quality, and the reasons that we believe Community Bancorp will achieve its own great expectations.

### Investment Risk Factors

**Credit Risk - Concentration in Real Estate Credits.** At March 31, 2004, real estate loans equaled \$368 million, representing a substantial 86.7% of total loans. These loans consisted of commercial real estate (69.0%), construction (16.0%), and one-to-four-family mortgages (1.8%). Due to the high volume of real estate exposure, a decline in local market conditions could reduce underlying collateral values and borrower repayment capacity. Mitigating risk factors are the expected continued in-market population growth and job creation and the company's conservative underwriting practices.

**Interest Rate Risk** - Like all depository institutions, Community Bancorp's balance sheet and income stream are affected by changes in interest rates. Mainly because of the considerable volume of the loan portfolio tied to the prime rate, the company is asset sensitive. In the face of significant cuts in the

Federal Funds target rate in 2001, the company's net interest margin compressed 102 basis points to a low of 3.85% in 3Q01. However, the margin has improved in recent quarters mainly because of reduced funding costs and because downward pressure on variable rate loans has subsided because a higher proportion are at floors. Most recently, for the quarter ended March 31, 2004, the company's margin was a solid 5.24% (FTE).

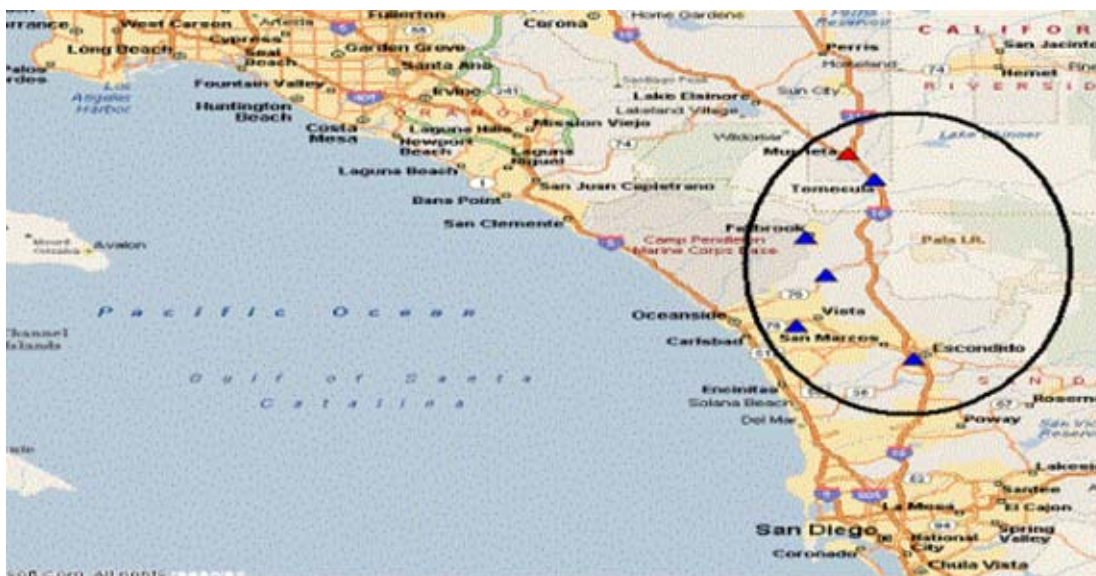
Although nearly 86% of the loan portfolio is tied to prime, according to the company's net interest income simulation for the quarter ended March 31, 2004, an immediate 100 basis point rate hike will only result in a 0.54% increase in net interest income for the year. The limited gain is because \$226.5 million (54% of the total portfolio) of loans have floors; with 94% at their floors. However, once the Fed bumps the federal funds rate up to about 2.25%, Community Bancorp should start to see a meaningful improvement in net interest income. According to the most recent simulation, an immediate 200 basis point rate increase would result in net interest income increasing 6.56%. However, if short-term rates remain stable, the company does not anticipate margin compression because the margin will be aided by the continued influx of noninterest bearing deposits.

**SBA Lending Program** – Because of funding shortages, the SBA stopped its 7(a) lending program for a short time in January 2004. Moreover, once the program was started back up, the maximum loan size was cut almost in half, from \$1.3 million to \$750,000. In April, new legislation was enacted that rescinded the \$750,000 cap. Although the temporary reduction in the 7(a) program did not have a material adverse impact on the company, it served as an example that the SBA is subject to political and regulatory risk. As a result, the SBA has a history of either temporarily stopping the program or placing limits on funding, and this will likely occur again in the future. Of note, SBA loans account for approximately 45% of Community Bancorp's commercial real estate portfolio, and the SBA division contributed 44% to net income in 1Q04.

**Share Liquidity** – The average daily trading volume of Community Bancorp shares for the past three months has approximated 6,000 shares. Because of the illiquidity of shares, those wishing to get into or out of a large position may find it challenging to do so.

### Community Bancorp – Summary Profile

Community Bancorp, headquartered in Escondido, California, primarily focuses on community banking, with an emphasis on commercial real estate lending to small to medium-sized businesses. Community Bancorp operates five full-service branches and six SBA loan offices through its wholly owned bank



subsidiary, Community National Bank, which opened for business in 1985. The company's primary market area is north San Diego County and southwest Riverside County along the I-15 corridor, including the communities of Escondido, Vista, Fallbrook, Bonsall, and Temecula. Community Bancorp's SBA program serves the states of Arizona, California, Nevada, and Oregon.

On June 28, 2004, the company announced the acquisition of Cuyamaca Bank, which will add four offices in San Diego County. Community Bancorp accepts demand, savings, and time deposits and invests these deposits primarily in commercial real estate and construction loans.

#### Selected Senior Management Officers

Name	Age	Title	Years with:	
			CMBC	Industry
Michael J. Perdue	50	President & CEO	1	25
L. Bruce Mills, Jr.	47	SVP & CFO	6	23
Donald W. Murray	46	EVP & CCO	10	21
Michael Patterson	47	SVP & CAO	4	28
Gary M. Youmans	52	EVP – in-charge of SBA	13	34

#### A Strategy of Quality Growth in Flourishing Markets

The most ambitious of Community Bancorp's strategic goals is reaching \$1.5 billion to \$2 billion in assets in five years. Although this may be a challenge, we believe it is achievable if the company is able to stick to its strategies of quality expansion in growing markets by attracting and retaining good employees, taking business from local competition by delivering superior customer service, improving profitability by expanding the core deposit base through its heightened emphasis on retail banking, strategic in-market acquisitions, and efficiently managing capital throughout this sustained growth process.

Community Bancorp continues to work to differentiate itself from competitors, both small and large. According to president and CEO, Michael Perdue, who joined the company in July 2003, management's strategy is to capitalize on the regional community bank void that resulted from the consolidation in its market from 1995 through 2000. Because of its size, the company is not as constrained by legal lending limits as some of its smaller competitors. On the other hand, the company remains sufficiently nimble to provide customers with quick lending decisions, unlike many of its larger competitors. Management's strategy is to build on its strong base and ultimately be the regional community bank of choice in the greater San Diego market place. According to management, "many bank customers feel displaced by large out-of-market acquirers and are attracted to local institutions that have local decision making capability and more responsive customer service." Moreover, Community Bancorp will continue to differentiate itself by expanding the SBA program. While its SBA division is already robust, management believes that expansion will continue because of consumer demand and because of the company's superior expertise.

While management has achieved impressive profitability growth over the past two years, their strategy of attracting core deposits while keeping operating costs in check should lead to even better metrics. In 2000, the company hired Mike Patterson to be in charge of retail banking, with the primary responsibility of improving the deposit base (increase demand and transaction deposits while reducing the company's reliance on wholesale funding sources). This strategy has been augmented by Community Bancorp's policy that loan customers are also depositors and by the company's continued expansion in its high-growth footprint, which will be pushed northward into Murrieta (the fastest growing city in California) in October 2004, and to the south through the acquisition of Cuyamaca Bank in east San Diego County. The company will continue to expand its footprint along the I-15 corridor and the

Inland Empire. Depending on personnel, management anticipates opening a de novo branch every 12-18 months. The company's growth strategy is based on organic growth and de novo branching, in addition to strategic acquisitions.

Perhaps most critical to Community Bancorp's strategy is the hiring and retention of strong personnel. Management believes that its incentive-based compensation structure has attracted desirable employees. While loan officers have a base salary, they enjoy additional compensation tied to the quality and profitability of the loans they originate. Moreover, in conjunction with the company's efforts to attract core deposits, employees are compensated based on core deposit growth. According to Mr. Perdue, "If [Community Bancorp] creates the right incentive compensation package, then the company will attract a higher quality employee." Because one of the company's core strategies is to differentiate itself from the competition by providing superior service, it is imperative that employees are able to deliver.

<b>Asset Quality: Community Bancorp Compared to CA Peers</b>				
	NPAs/ Loans & OREO (%) 2004Q1	NCOs/ Avg Loans (%) LTM	Reserves/ Loans (%) 2004Q1	Reserves/ NPAs (%) 2004Q1
CMBC	<b>0.20</b>	<b>0.08</b>	<b>1.29</b>	<b>640.85</b>
Peer Median*	0.41	0.11	1.43	267.92
<i>Peer Group: California Banks w/Market Caps b/t \$100 MM and \$500 MM</i>				

Strong **asset quality** is an integral part of Community Bancorp's strategy. Some companies are able to deliver while others struggle. As with everything else, Community Bancorp is delivering. At quarter-end March 31, 2004, nonperforming assets totaled \$1.42 million, or 0.34% of loans and OREO, and consisted of \$973,000 in nonperforming loans and \$450,000 in OREO (tied to a single aircraft – aircraft loans account for 9% of total loans). While this level of nonperforming assets is already better than its peers (NPAs/Loans and OREO averaged 0.41% in 1Q04), the actual risk exposure to Community Bancorp is significantly less. Nearly 60% of the combined balance of the five nonperforming loans is guaranteed by the government. Net of government guarantees, nonperforming assets represented only 0.20% of loans and OREO. Moreover, delinquencies remained low and classified assets declined \$100,000 from a year-ago to \$3.3 million. From 1999 through 2003, NPAs/Loans & OREO had a median average of 0.20%, with a low of 0.01% in 2000 and a high of 0.97% in 2001.

Consistently low levels of nonperformers have resulted in low net charge-offs. For the quarter-ended March 31, 2004, net charge-offs equaled 0.01% of average loans. Impressively, over the past five years net chargeoffs have averaged a modest 0.11% of average loans. The basis of Community Bancorp's strong credit culture is simple: Attract and retain strong lenders who are familiar with the local market, sustain conservative credit underwriting and strong monitoring practices, and know the borrowers. While asset quality has been solid, the company has continued to make quarterly provisions to sustain loan loss reserve levels in conjunction with loan growth. As of March 31, 2004, loan loss reserves equaled 1.29% of loans, in line with 2003 at 1.30%. Management's goal is to maintain reserve levels approximating its peers.

### **Effectively Managing Capital**

Community Bancorp is deemed "well capitalized" for supervisory purposes. At quarter-end March 31, 2004, the company's leverage, tier 1 risk-based, and total risk-based capital ratios were 10.7%, 11.8%, and 13.5%, exceeding the median for California peers across the board. For the five-year period from 1999-2003, these ratios averaged 7.2%, 8.5%, and 10.7%. The company strategically utilized a common stock offering and an issuance of trust preferred securities to boost capital levels. In August 2003, the company completed a private placement of 725,000 shares of common stock, bringing in net proceeds approximating \$10 million. In September 2003, Community Bancorp received nearly \$5 million in proceeds from its second trust preferred offering (the other was a \$10 million issuance in

2000). These transactions significantly augmented capital to provide for and sustain the company's rapid growth strategies.

As conveyed throughout this report, Community Bancorp has experienced significant growth over the past five years, which has required intermittent capital replenishment. As a result, the company has not repurchased shares during this growth stretch, and this trend will likely continue. However, Community Bancorp did buck a trend in 1Q04 by paying a cash dividend for the first time since 1998. As if Community Bancorp's 240% rise in share price over the past two years weren't enough, management decided to reward shareholders by paying a regular \$0.05 per share dividend, which it repeated in 2Q04. While there are no plans to up the dividend at this time, it is likely that the dividend payout will increase with continued revenue growth.

### **Community Bancorp's SBA Division – A Summary**

To a greater extent than most community banks, Community Bancorp's revenue is linked to its SBA division, which originates and services SBA loans that are either retained in the bank's loan portfolio or sold to third-party investors. According to SBA data, the company ranked tenth in 7(a) loan production in California in 2003 (fiscal year). Community Bancorp has placed more emphasis and has been more successful than its community bank peers mainly because Gary Youmans, the "Godfather of SBA lending in San Diego," runs the program and because the company is committed to it. Community Bancorp is an SBA "preferred lender" in all states in which it originates SBA loans – Arizona, California, Nevada, and Oregon. Although the company has historically originated a greater volume of 7(a) loans than 504 loans, Community Bancorp placed more emphasis on 504 in 2003 and, as a result, the SBA portfolio is split nearly fifty-fifty between the two (504 production accounted for 47% of total SBA production in 2003).

Through the 7(a) product, the SBA guarantees up to 75% on loans over \$150,000, with a \$2 million cap. Such 7(a) loans are either typical business lines of credit or real estate loans. Through the 504 product, the SBA guarantees up to \$1 million, but it does not restrict the bank's first lien amount. 504 loans are for financing fixed assets, mainly commercial real estate. Community Bancorp's SBA portfolio is almost exclusively composed of commercial real estate loans. Overall, SBA loans account for approximately 45% of the company's commercial real estate portfolio, and the SBA division contributed 44% to net income in 1Q04.

### **The Acquisition of Cuyamaca Bank**

Community Bancorp recently announced its pending acquisition of Cuyamaca Bank, a \$113 million asset company with four offices in San Diego County, three in the east and one in north. On a combined basis, the company would have total assets of \$615 million (at March 31, 2004) and nine full-service banking offices. Management expects the deal to close by September 30, 2004, and to be accretive to earnings within the first year of operations.

Under the terms of the acquisition, and based on Community's June 25 closing price of \$24.34, Cuyamaca's total consideration will approximate \$25 million, \$7.5 million (30%) in cash and \$17.5 million (70%) in stock. In terms of Cuyamaca's March 31, 2004 financial information, the purchase price represents 263.0% of tangible book, 261.4% of book, and 29.9 times trailing earnings.

In our view, the acquisition will augment Community Bancorp's operations in four ways. First, Cuyamaca expands Community Bancorp's existing footprint into neighboring high-growth markets with no overlap. Second, the acquisition will immediately increase Cuyamaca's legal lending limit, fostering greater loan growth. Third, the acquisition is expected to have low integration risk and it is anticipated to be accretive to earnings while modestly dilutive to tangible book. Lastly, the absorption of Cuyamaca will create a balance sheet that supports additional expansion.

## A Thriving Southern California Footprint

Community Bancorp's market area runs northwest up the Interstate 15 corridor from its base in Escondido, and includes five branches spread between north San Diego County and southwest Riverside County. This highly desirable footprint has experienced strong population and job growth in recent years, a trend that is expected to continue. The markets along the I-15 corridor north of San Diego and into the Inland Empire have flourished because it offers a more affordable alternative to the coastal areas of Southern California, and because businesses are growing and hiring. For example, according to U.S. census data, San Diego County and Riverside County were two of the top ten fastest growing counties by population in the U.S. between 2000 and 2003. Moreover, according to the Bureau of Labor Statistics, of the 51 metro areas with an estimated population of \$1 million or more, San Diego County had the fourth-lowest unemployment rate at 3.9% (as of April 2004). Similarly, the Riverside/San Bernadino area had the fourth-highest year-over-year percentage increase in employment among the 39 metro areas with annual average employment levels above 750,000.

The outlook for both the Riverside/San Bernadino area and the San Diego area remain favorable. Some of the positive factors influencing Riverside/San Bernadino are continued strong homebuilding activity (in which the area is once again expected to lead California), increasing diversity of the area's manufacturing base, growth in the distribution industry because of expanding international trade in southern California, and the continued growth of Indian gaming. It is expected that the industries with the largest job gains in the Riverside/San Bernadino area in 2004 will be retailing (second largest employment sector), construction (fifth largest), and leisure/hospitality (fourth largest), while government (largest) is expected to experience moderate contraction. Finally, total per capita income in this area is expected to gain 5.4% in 2004 – the highest of any southern California metro area.

San Diego County is expected to remain strong in 2004 as well. The key drivers behind San Diego County's solid economy are tourism, bio-medicine, and real estate development. In 2004, the tourist industry is expected to get a boost from the opening of a new baseball stadium near downtown San Diego. The area is also expected to benefit from a pickup in aerospace activity, bio-medicine, and expected improvement in the technology sector. Moreover, forecasts target a gain in per capita income of 3% in 2004 - the second highest increase in southern California. Of note, a particular "hot spot" for growth is the I-15 corridor in the northern part of the county (where Community Bancorp is headquartered).

### **Profitability**

#### ***Metrics from the Past and Present***

Community Bancorp's profitability metrics have improved substantially since 1999, with particularly impressive results over the past two years. Since 1999, the company has achieved compounded annual EPS growth of 26.8%. The increase in EPS has resulted from net income growth, which has increased at a compounded annual rate of 39.6% over the past four years. Moreover, revenues have increased at a compounded annual rate of 19.0%, substantially outpacing expense growth of 11.1%. Although profitability slipped in 2000 and 2001 because of substantial net interest margin compression and low efficiency, the company's earnings rebounded strongly over the past two years. Since year-end 2001, Community Bancorp's EPS has grown at a compounded annual rate of 117.6%, fueled by compounded annual net income growth of 131.6% and compounded annual revenue growth of 34.4%, nearly double the compounded annual expense growth of 18.0%.

Superior Performance				
	ROAA	ROAE	NIM	Efficiency
<i>Data for the quarter ended March 31, 2004</i>	%	%	%	%
<b>CMBC</b>	<b>1.55</b>	<b>19.43</b>	<b>5.24</b>	<b>58.41</b>
California Peer Median	1.38	17.25	4.51	57.61
National Peer Median	1.11	12.65	3.98	60.72

As indicated by the chart above, for the quarter ended March 31, 2004, Community Bancorp's return on equity of 19.43% and return on assets of 1.55% were better than peer group averages. In addition, these ratios are indicative of the substantial improvement in profitability since 2001, when the company's return on equity was 7.79% and return on assets was 0.34%. In 2000 and 2001, the company's profitability was hindered by operating inefficiency and the net interest margin, which compressed 102 basis points between 2000 and 2001 due to substantial easing by the Federal Reserve. In 2000, Community Bancorp's efficiency ratio was 81.3%, and management has worked hard to control operating expenses. For example, in 2001, Community Bancorp opened two full-service branches and gained 32% in assets, but did not increase full-time employees. Moreover, the hiring of Mike Patterson in 2000 affirmed the company's resolve to solidify its retail banking platform, fostering both transaction and noninterest bearing deposit growth.

### Contribution from Two Divisions: Banking and SBA

In order to get a better picture of Community Bancorp's revenue stream, we will break out earnings the same way the company does, between its two operating divisions, Banking and SBA. Since 1998, Community Bancorp has broken out both divisions in its reports to provide better earnings clarity. In 2003, the Banking Division accounted for approximately 58% of net income with SBA accounting for the remainder.

On the banking side, revenues increased nearly 30% in 2003 to \$18.4 million. The increase was driven mainly by an increase in loans and a dramatic 42% reduction in interest expense, resulting in a 60 basis point increase in the net interest margin to 5.00%. Banking Division revenues are almost exclusively from spread income, which increased 34% from the prior year and accounted for 92% of revenues. Noninterest income of \$1.5 million accounted for only about 8% of revenues in 2003, and was down slightly from the prior year because of a decline in mortgage loan sales gains. In January 2003, the company closed its mortgage banking department, which resulted in loan sales gains of only \$48,000 compared to \$233,000 in 2002.

The SBA Division recorded a 17.3% increase in revenues in 2003 to \$10 million. The increase was mainly a result of higher premiums on loans sold in the secondary market and because of an increase in net interest income from a higher volume of loans retained. The SBA Division makes money three ways: interest income on retained loans, gain on sales of loans, and servicing on loans sold to others in the secondary market. In 2003, net interest income of \$3.8 million accounted for nearly 38% of SBA revenues, while loan sales gains of \$5.1 million contributed 51% as the company sold 60%, or \$63.4 million, of the SBA loans it originated during the year. In addition, loan servicing income totaled \$666,000 in 2003. Because loan sales gains account for the largest piece of SBA revenues and have historically been difficult to forecast, the company has stated its intention to generate loan sales gains between \$1 million and \$1.5 million each quarter.

### Profitability – Impacted by Loan Growth and a Shifting Deposit Mix

As discussed throughout this report, Community Bancorp has benefited from substantial loan growth, net interest margin expansion, and an improving deposit base. In 2003, the company originated a total of \$320.8 million in loans, \$214.3 million from the Banking Division and \$106.5 million from SBA. Overall, net loans increased 16.1% in 2003 to \$394.2 million. On an average basis, loans represented 89.5% of earning assets, with securities representing only 7.2%. Of note, on an average basis, earning

assets represented a substantial 93.5% of total assets in 2003. Loan growth was primarily driven by commercial real estate and commercial business loan demand. Mainly on the strength of the SBA 504 loans and general in-market demand for commercial real estate loans, the company reported a 30.1% increase in these loans to \$270.4 million, or 67.3% of total loans. In addition, commercial loans increased 25.5% in 2003 to \$20.6 million. While total construction loans were flat (down 0.7% in 2003), they remained the second largest piece of the portfolio at 16.7% of loans. Community Bancorp's strategic decision to close its mortgage loan department in January 2003 resulted in the one-to-four-family portfolio being cut almost in half to \$9.7 million.

CMBC: Loan & Deposit Composition						
Loan Composition (%)	2000 Y	2001 Y	2002 Y	2003 Y	1Q04	Combined <sup>1*</sup>
Construction	20.90%	19.54%	19.64%	20.27%	19.68%	18.33%
1-4 Family	10.27%	3.68%	4.91%	2.93%	2.24%	4.75%
Home Equity	1.18%	0.85%	0.99%	0.59%	0.37%	1.97%
Comm'l RE	48.55%	61.40%	60.51%	60.92%	62.43%	58.83%
C&I Loans	4.46%	4.97%	4.78%	6.23%	6.52%	8.88%
Consumer	4.61%	1.83%	1.14%	0.63%	0.57%	0.51%
Aircraft/Other	10.01%	7.76%	8.58%	9.19%	8.91%	7.40%

- Construction
- 1-4 Family
- Home Equity
- Comm'l RE
- C&I Loans
- Consumer
- Aircraft/Other

Deposit Composition (%)	2000 Y	2001 Y	2002 Y	2003 Y	1Q04	Combined <sup>1*</sup>
Trans Accts	22.51%	19.88%	24.26%	29.47%	29.41%	30.56%
MMDA&Savings	17.56%	17.98%	14.05%	16.02%	16.48%	20.53%
Jumbo CDs	29.62%	38.15%	37.60%	35.25%	37.39%	32.97%
Retail CDs	30.31%	23.99%	24.08%	19.27%	16.71%	15.93%
Total CDs	59.93%	62.14%	61.68%	54.52%	54.10%	48.90%

- Trans Accts
- MMDA&Savings
- Jumbo CDs
- Retail CDs

\*Includes pro-forma combined loan portfolio and deposits of CMBC & CUYA at 1Q04

While robust loan growth substantially boosted revenues, net interest margin expansion was primarily driven by reduced funding costs. The primary driver behind reduced funding costs has been management's efforts to improve the retail deposit base through customer service, marketing, and cross-selling. Total deposits increased 8% in 2003 to \$393.1 million. Importantly, noninterest bearing deposits increased 33% to nearly \$69 million. Meantime, core deposits represented 65% of total deposits, which remains below most community banks. The reason that Community Bancorp's deposit base consists of a high volume of jumbo certificates of deposit/wholesale funds is because of the SBA portfolio. In 2000 and 2001, the company commenced a wholesale deposit program to fund the retained portion of SBA loans. While management expects to continue to fund these loans with wholesale deposits, the company's reliance on these funds should dissipate as its retail deposit base continues to expand. As this occurs, funding costs will continue to decline, boosting the net interest margin and profitability. It is important to note that Community Bancorp enjoys a cumulative 8.1% deposit market share in the five cities that it serves, ranking it first among community banks and fourth among all banks and thrifts.

### Favorable Profitability Prospects

We anticipate Community Bancorp's earnings growth to continue. We expect Community Bancorp's return on assets to approximate 1.55% in 2004 and 1.60% in 2005, exceeding the company's stated goal of 1.25%. We expect return on equity to remain in the 19% to 20% range in 2004 and 2005, exceeding the company's goal of 15%. In addition, we forecast EPS growth of 17.8% in 2004 and 19.2% in 2005. Community Bancorp's revenue growth will continue to be fostered by strong loan demand in its growing markets and the addition of Cuyamaca's loan portfolio. We forecast loan growth of 30% in 2004 (with the majority from acquisition) and 16% in 2005, fostering revenue growth of 20% in 2004 and 26% in 2005. We assume the net interest margin will expand to about 5.29% (non-FTE) in

our earnings forecast for 2004 and at 5.36% (non-FTE) for 2005. Of course, given the company's level of asset sensitivity, margin expansion could be considerable if the Federal Reserve decides to tighten later this year. Moreover, we expect Community Bancorp's earnings to benefit from increased fee generation from strong core retail deposit growth. We are projecting a slight dropoff in SBA loan sales gains in 2004 to \$5 million, which assumes gains of \$1.25 million each quarter.

### Earnings Outlook

Our EPS estimates for 2004 and 2005 are \$1.68 and \$2.01.

The primary assumptions behind our 2004 estimate are:

- Average earning asset growth of 18.5%, and net loan growth of 32% (not averaged). Double-digit loan growth from the Cuyamaca acquisition as well as continued strong commercial real estate, construction, and commercial loan demand.
- Average NIM of 5.29%.
- Net interest income of \$25.9 million, an increase of 25.5% from 2003.
- Loan loss provisions totaling \$1.13 million.
- NPAs approximating 0.3% of loans and OREO in 2004, in line with the current level of NPAs (not factoring in government guarantees). Cuyamaca does not currently have any NPAs.
- NCOs equaling 22 basis points in 2004 as the company maintains strong credit quality, with the loan loss reserve approximating 1.25% of loans.
- Moderate noninterest income growth of 6.6%, reflecting an expectation for continued deposit growth, but stable SBA loan sales gains.
- G&A expense growth of 14%, reflecting an increase in salaries and employee benefits from good loan production, overhead tied to branch expansion in the second half of the year, and the absorption of Cuyamaca's operating expenses in 4Q04.
- FTE tax rate of 37.5%.

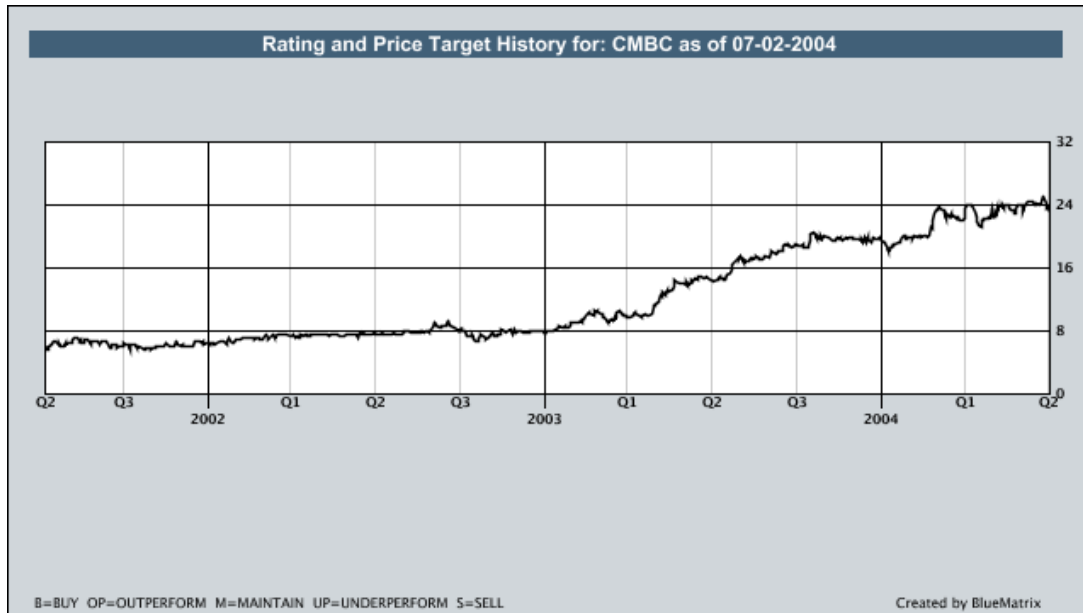
The primary assumptions behind our 2005 estimate are:

- Average earning asset growth of 28%, driven by loan growth from 4Q04 and 16.1% in 2005.
- Average NIM of 5.36%, up 7 basis points from the 2004 average.
- Net interest income of \$33.6 million, an increase of nearly 30% from 2004.
- Noninterest income growth of 15.8%.
- G&A expenses of \$23.75 million, an increase of 15%. This includes estimated cost saves of 10% of Cuyamaca's operating expenses spread equally over the first year of integration.
- Loan loss provisions of \$1.5 million, with a loan loss reserve at 1.25%.
- FTE tax rate stable at 37.5%.

## APPENDIX

I attest that all of the views expressed in this report accurately reflect my personal views about the security covered by this report as of the date of this report, and that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this report. S/Ramsey Gregg

### IMPORTANT DISCLOSURES:



### Price Target

Our 12-month price target is \$28.50 per share.

### Valuation Methodology

Our price target is based on a blend of peer multiples and our discounted cash flow model, which assumes a terminal P/E multiple of 14.5x, a discount rate of 11.25%, a payout rate of 10%, and a return on equity that is maintained at 17.5%.

### Risk Factors

The primary risks to our price target include a significant deterioration in asset quality, a drop-off in regional economic activity, and a decline in California bank valuations.]

### Distribution of Ratings/IB Services Firmwide

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [B]	91	45.50	47	51.65
HOLD [H]	103	51.50	46	44.66
SELL [S]	6	3.00	2	33.33

### Our Ratings System

Sandler O'Neill & Partners, L.P. ("Sandler O'Neill") currently uses the following three-tiered ratings system:

**BUY** - In the opinion of our analyst, a stock rated BUY is materially undervalued and represents an attractive investment candidate. The analyst expects the stock to appreciate by more than 10% within the next 12 months.

**HOLD** - In the opinion of our analyst, a stock rated HOLD is either fairly valued or modestly undervalued. The analyst expects the stock to appreciate between 0% and 10% within the next 12 months.

**SELL** - In the opinion of our analyst, a stock rated SELL is overvalued and could decline in value within the next 12 months. The potential price decline could be of any magnitude and is quantified by the analyst's price target.



During the period July 8, 2002 through April 6, 2003, Sandler O'Neill used a three-tiered ratings system of BUY, MAINTAIN and REDUCE. The definitions of each respective rating corresponded exactly to the respective definitions of BUY, HOLD and SELL in our current ratings system. Prior to July 8, 2002, Sandler O'Neill used the following five-tiered ratings system:

BUY - We expect this stock to outperform the general stock market by more than 15% over a twelve month time period.

OUTPERFORM - We expect this stock to outperform the general stock market by 5% to 15% over a twelve month time period.

MARKET PERFORM - We expect this stock to perform in line with the general stock market.

UNDERPERFORM - We expect this stock to underperform the general stock market during the next twelve months for reasons related to price.

SELL - We expect this stock to substantially underperform the general stock market due to weakness in its fundamental trends.

#### **Research Analyst Compensation Policy**

The compensation of Sandler O'Neill's research analysts is based upon a number of factors, including the firm's revenues from investment banking and other business activities. No research analyst receives any compensation based upon revenues from any specific investment banking transaction.

#### **Certain Interests in Securities Covered by this Report**

Sandler O'Neill generally prohibits research analysts and members of their households from maintaining a financial interest in securities or options of any company that the analyst covers. If Sandler O'Neill was making a market in securities covered by this report at the time this report was published, that fact is disclosed below.

#### **Certain Relationships with Companies Covered in this Report**

Sandler O'Neill expects to receive or intends to seek compensation from this company for investment banking services in the next three months.

As of the date of this report, Sandler O'Neill currently acts as a market maker in the securities of this company.

Sandler O'Neill has received compensation from this company for providing products or services other than investment banking services in the 12-month period ending as of the second most recent month preceding the date of this report.

This company is a client of and receives non-investment banking securities-related services from Sandler O'Neill (based on information as of the end of the second most recent month immediately preceding the date of this report).

#### **Important Information Regarding the Preparation and Use of this Report**

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**Performance Summary - Community Bancorp Inc.**

	2004Q1	2003Y	2002Y	2001Y	2000Y	1999Y
<b>Pricing Data</b>						
Share Price	\$22.35	\$19.61	\$8.10	\$6.57	\$6.69	\$5.08
Price/Core EPS	13.97 (x)	13.81 (x)	9.64 (x)	18.77 (x)	19.11 (x)	9.24 (x)
Price/ Tangible Book	251.10%	230.70%	139.40%	138.40%	160.80%	131.50%
<b>Performance Ratios</b>						
Core ROAA	1.55%	1.34%	0.84%	0.34%	0.40%	1.17%
Core ROAE	19.43%	21.34%	17.58%	7.79%	8.13%	17.64%
NIM	5.24%	5.00%	4.40%	4.18%	5.20%	6.23%
Efficiency	58.41%	60.68%	68.41%	78.61%	81.32%	77.86%
<b>Annualized Growth Rates</b>						
Asset Growth	29.11%	59.50%	31.89%	12.28%	14.67%	21.53%
Loan Growth	38.38%	64.23%	15.00%	7.83%	13.69%	16.49%
Deposit Growth	27.67%	60.55%	31.91%	9.19%	8.02%	36.55%
Core EPS Growth	33.30%	53.80%	163.80%	6.00%	-47.90%	40.70%
<b>Asset Quality</b>						
NPAs/Loans&OREO	0.20%	0.18%	0.19%	0.97%	0.01%	0.28%
NCOs/Avg Loans	0.01%	0.09%	0.16%	0.23%	0.03%	0.04%
Reserves/Loans	1.29%	1.30%	1.15%	0.90%	0.80%	0.77%
<b>Capital Ratios</b>						
Tier 1 Ratio	11.82%	11.88%	7.88%	7.65%	7.12%	7.78%
Total Capital Ratio	13.54%	13.77%	9.99%	10.30%	10.68%	8.71%
Leverage Ratio	10.67%	10.67%	6.80%	6.18%	5.88%	6.67%
<b>Balances (000s)</b>						
Assets	502,353	476,698	415,698	370,223	280,696	175,981
Loans (net)	416,428	394,212	339,471	305,686	245,437	144,402
Deposits	429,052	393,126	363,952	333,334	252,697	157,392
Total Equity	38,922	37,081	20,573	16,501	12,236	11,337
<i>Source: SNL DataSource</i>						

## Community Bancorp Inc. (CMBC) - Summary Earnings Model

\*Acquisition of Cuyamaca expected to close 9/30/2004 - affecting results for 4Q04

Income Statement (\$ in millions)	1Q03	2Q03	3Q03	4Q03	1Q04A	2Q04E	3Q04E	4Q04E	1Q05E	2Q05E	3Q05E	4Q05E	2003A	2004E	2005E
Average earnings assets	393.31	402.83	424.51	429.56	448.49	456.79	465.24	585.79	601.90	618.45	635.46	651.35	412.55	489.08	626.79
Net interest margin	4.79%	4.98%	4.91%	5.28%	5.20%	5.23%	5.25%	5.30%	5.32%	5.32%	5.32%	5.32%	5.00%	5.29%	5.36%
Net interest income before LLP	4.64	5.00	5.26	5.71	5.87	6.02	6.16	7.83	8.06	8.29	8.52	8.73	20.62	25.87	33.61
Loan loss provision	0.38	0.34	0.47	0.44	0.23	0.35	0.35	0.20	0.30	0.38	0.40	0.40	1.64	1.13	1.48
Net interest income after LLP	4.26	4.66	4.78	5.27	5.65	5.67	5.81	7.63	7.76	7.92	8.12	8.33	18.98	24.74	32.14
Noninterest income	1.78	1.78	2.01	2.11	1.86	2.02	2.03	2.29	2.33	2.36	2.39	2.42	7.69	8.20	9.50
Noninterest expense	4.13	4.23	4.37	4.45	4.52	4.56	4.59	5.99	5.96	5.92	5.89	5.98	17.18	19.65	23.75
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gain (Loss) on sale of securities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Real estate operations	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Earnings before taxes and extra. Items	1.91	2.22	2.43	2.93	2.99	3.13	3.24	3.93	4.14	4.36	4.62	4.77	9.49	13.29	17.88
Tax rate	41.2%	38.6%	37.9%	35.1%	37.4%	38.0%	38.0%	37.5%	37.5%	37.5%	37.5%	37.5%	37.9%	37.7%	37.5%
Income taxes	0.79	0.86	0.92	1.03	1.12	1.19	1.23	1.47	1.55	1.63	1.73	1.79	3.60	5.01	6.70
Net earnings before extra. Items	1.12	1.36	1.51	1.90	1.87	1.94	2.01	2.46	2.58	2.72	2.89	2.98	5.90	8.28	11.17
Extraordinary Items & discont. Op's	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net earnings available to common	1.12	1.36	1.51	1.90	1.87	1.94	2.01	2.46	2.58	2.72	2.89	2.98	5.90	8.28	11.17

Revenue	6.43	6.79	7.27	7.83	7.73	8.04	8.18	10.12	10.39	10.66	10.91	11.15	28.31	34.07	43.11
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### Per Share Data:

	0.30	0.36	0.35	0.41	0.40	0.42	0.43	0.43	0.46	0.49	0.52	0.54	1.43	1.68	2.01
Earnings	0.30	0.36	0.35	0.41	0.40	0.42	0.43	0.43	0.46	0.49	0.52	0.54	1.43	1.68	2.01
Core Operations	0.30	0.36	0.35	0.41	0.40	0.42	0.43	0.43	0.46	0.49	0.52	0.54	1.43	1.68	2.01
Dividends	0.00	0.00	0.00	0.00	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.00	0.20	0.20
Tangible book value	6.11	6.47	8.03	8.50	8.90	9.29	9.70	7.68	8.29	8.81	9.36	9.93	8.50	7.68	9.90
Book value	6.11	6.47	8.03	8.50	8.90	9.29	9.70	9.80	10.39	10.86	11.36	11.88	8.50	9.80	11.88
Shares outstanding (millions)	3.57	3.63	4.36	4.36	4.37	4.37	4.37	5.34	5.26	5.26	5.26	5.26	4.36	5.34	5.26
Avg diluted shares (millions)	3.71	3.82	4.32	4.64	4.66	4.67	4.68	5.66	5.57	5.57	5.57	5.57	4.13	4.92	5.57

Ratios	1Q03	2Q03	3Q03	4Q03	1Q04A	2Q04E	3Q04E	4Q04E	1Q05E	2Q05E	3Q05E	4Q05E	2003A	2004E	2005E
Net interest margin	4.79%	4.98%	4.91%	5.28%	5.20%	5.23%	5.25%	5.30%	5.32%	5.32%	5.32%	5.32%	5.00%	5.29%	5.36%
G&A expense/average assets	3.95%	3.92%	3.84%	3.86%	3.74%	3.57%	3.50%	4.09%	3.68%	3.58%	3.47%	3.44%	2.59%	2.89%	3.41%
Efficiency ratio	64.31%	62.26%	60.10%	56.87%	58.41%	56.66%	56.14%	59.16%	57.31%	55.60%	54.01%	53.64%	60.68%	57.68%	55.10%
Non int. revenues / gross revenues	29.48%	27.68%	29.60%	28.63%	24.76%	26.31%	25.87%	23.12%	23.07%	22.98%	22.74%	22.48%	28.84%	24.89%	22.81%
Non int. expense / avg assets	3.95%	3.92%	3.84%	3.86%	3.74%	3.57%	3.50%	4.09%	3.68%	3.58%	3.47%	3.44%	2.59%	2.89%	3.41%
Net charge-offs / avg loans	0.06%	0.08%	0.50%	-0.25%	0.01%	0.07%	0.07%	0.04%	0.04%	0.05%	0.04%	0.04%	0.01%	0.01%	0.01%
ROAE	21.35%	24.11%	19.77%	20.81%	19.28%	19.38%	19.18%	20.57%	19.15%	19.31%	19.58%	19.34%	10.54%	14.16%	18.27%
ROAA	1.09%	1.27%	1.32%	1.64%	1.54%	1.51%	1.52%	1.66%	1.59%	1.63%	1.69%	1.70%	0.89%	1.22%	1.61%
Equity / assets	5.12%	5.35%	7.60%	7.78%	7.75%	7.86%	7.96%	8.21%	8.36%	8.52%	8.70%	8.87%	7.78%	8.21%	8.87%

Balance Sheet Data (EOP) (\$ Mil.)	3/31/03A	6/30/03A	9/30/03A	12/31/03A	3/31/04A	6/30/04E	9/30/04E	12/31/04E	3/31/05E	6/30/05E	9/30/05E	12/31/05E	12/31/03A	12/31/04E	12/31/05E
Total assets	425.2	438.8	461.1	476.7	502.4	517.4	532.9	638.5	654.5	670.8	687.6	704.8	476.7	638.5	704.8
Loans, net	351.1	368.1	380.4	394.2	416.4	424.0	431.6	521.1	559.8	575.1	590.7	605.3	394.2	521.1	605.3
Securities	38.3	25.4	27.5	27.9	50.0	50.6	51.3	62.7	63.5	64.3	65.1	65.9	27.9	62.7	65.9
Deposits	363.5	373.1	381.2	393.1	429.1	434.4	439.8	552.6	563.6	580.5	597.9	615.9	393.1	552.6	615.9
Loans/deposits	97%	99%	100%	100%	97%	98%	98%	94%	99%	99%	99%	98%	100%	94%	98%
Borrowings	24.9	26.2	39.0	39.7	28.1	28.1	28.1	28.5	28.5	28.5	28.5	28.5	39.7	28.5	28.5
Intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.3	11.1	10.8	10.5	10.2	0.0	11.3	10.2
Common equity	21.8	23.5	35.0	37.1	38.9	40.6	42.4	52.4	54.7	57.2	59.8	62.5	37.1	52.4	62.5