Fresno First Bank

2009

Annual Report

FRESNO FIRST BANK

Mission Statement

The mission of Fresno First Bank is to become the Bank of choice for business owners, professionals, entrepreneurs and individuals that value a high touch approach, or "relationship" approach to their banking needs. We will accomplish this by:

- Developing an ownership culture that fosters a working environment which encourages professional and financial growth and entrepreneurial freedom.
- Committing to exceed customer service expectations for quality, responsiveness and professional excellence.
- Generating a superior return for our shareholders while investing in the communities we serve.

Values Statement

Fresno First Bank will be the Bank of choice for successful businesses and individuals who value superior service and a relationship approach to their banking and financing needs. Our group of experienced professional bankers will help clients navigate through complex financial choices which will ultimately assist in stimulating economic growth in our community. Our commitment to an ownership culture will foster an exceptional work environment that generates a fair return for our shareholders.

Core Values

We Value:

- The highest standard of ethical behavior and professional integrity.
- An owner-orientated working environment dedicated to teamwork that encourages respect and dignity, while recognizing and rewarding innovation and exceptional performance.
- Proactive, solutions-orientated recommendations that consistently exceed client expectations.
- The loyalty of our client relationships gained by knowing, understanding and placing their needs first.

FRESNO FIRST BANK

"Employees are the heart of a Company, the corporate culture is the soul."

Jon M. Huntsman, **Winners Never Cheat**

At Fresno First Bank we believe the strength of a company can truly be measured in times of adversity. The economic climate throughout 2009 may have posed challenges in the financial markets. However, the Management Team, with counsel from the Board of Directors, made adjustments that were appropriate for the status of the economy. Fresno First Bank saw consistent progress in 2009, achieving three quarters of profitability and a significant increase in our share price.

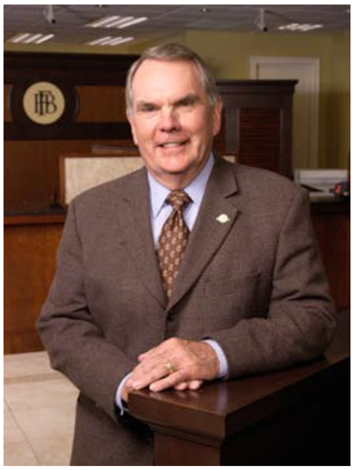
Since 2005 when Fresno First Bank was founded, the Board of Directors has maintained a strong foundation of best-practice corporate governance guidelines paired with open-book management and shared employee ownership. At our bank, the Board of Directors and the Management Team are engaged in order to keep our vision for the bank in focus and capitalize on the opportunity for success.

The Board of Directors demands a commitment from each member of the Management Team and each Associate working at the bank. Our culture of shared employee ownership encourages everyone at Fresno First Bank to take a strong interest in the success of the bank since each one of us has a stake in the outcome.

At Fresno First Bank we value the relationships we have established with our clients and shareholders and have established high standards of customer service as a large part of our culture. We are strongly committed to the greater Fresno area and its surrounding communities and we feel that our culture, which sets us apart, is the key to making a difference as we move forward to a bright and financially successful future.

David N. Price
Chairman of the Board

President's Message



I hope you are as pleased as we are with the results accomplished in 2009. We, that is the Board, Associates, Ambassadors and Shareholders, were able to navigate through an economic downturn resulting in sustainable profitability, growth in key areas, and improved efficiency. In addition, we have built a strong foundation for continued success in 2010.

Looking forward, 2010 will be another challenging year. As in any time of uncertainty, there are risks and opportunities. We have analyzed the current economic and regulatory forecasts for the upcoming year and have developed a plan to take advantage of a number of opportunities and have a plan of action to grow Fresno First Bank in a safe and sound manner. Our plans include continuing to communicate about how community banks like Fresno First will make your financial life simple and convenient.

In addition to a full line of financial services, we will continue to introduce products and services to meet the needs of our growing customer base. As an example, we now have in place a real estate mortgage department which has a suite of products to fit almost any need, from the traditional thirty-year fixed and adjustable products to a tailor-made mortgage product designed to meet the unique needs of our customers.

In January 2010, we introduced our government guaranteed lending department. By offering both SBA and USDA loans we can better serve the needs of small business owners who may be unable to secure traditional financing. The government guaranteed lending programs allow us to offer more favorable terms like down payments as low as 10% on commercial real estate with terms up to 25 years.

When we combine these new initiatives to better serve our customers with the growth of our culture of employee ownership, we feel confident that 2010 will be another successful year for Fresno First Bank.

Richard "Rick" Whitsell
President & CEO

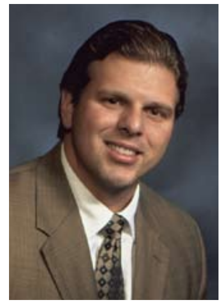
FRESNO FIRST BANK

Board of Directors

Jack Holt,
Director / President of Holt Lumber Company, Inc.

Dr. Robert Kubo,
Director/Orthodontist, Kubo Orthodontic Group

Lorrie Lorenz,
Director / Principal of Lorenz & Associates



Jared Martin,
Director / Realtor, Keller Williams Realty

David Price,
Chairman of the Board / President and CEO of David N. Price & Associates

Mark Saleh,
Director / President of Wm. B. Saleh & Company

Joel Slonski,
Director / CPA with Slonski & Sailors

Al Smith,
Director / President and CEO of the Greater Fresno Area Chamber of Commerce

Dr. Daniel Suchy,
Director / Retired Physician

Richard Whitsell,
Director / President and CEO of Fresno First Bank

Since the founding of our Bank in 2005, our dedicated Board of Directors has provided leadership and an unwavering commitment to the strength of the Bank and the communities we serve.

At Fresno First Bank we believe that corporate governance begins with a well educated and informed Board, Management and Staff. Our Directors participate in a rigorous education program and actively participate in conferences conducted by the Western Independent Bankers, the National Association of Corporate Directors, the California Bankers Association and various regulatory compliance courses throughout the year. The Bank's Chairman, David Price, is also a member of the WIB Advisory Committee for the Annual Bank Chairman's Forum and a regular participant in the Annual Corporate Governance Conference.

The Board of Directors will continue to work with the management team to increase efficiency, grow our core deposits and maintain a high quality loan portfolio. The Board understands that their diligence and efforts are paramount for the success and creation of long-term value for the shareholders of Fresno First Bank.

Meet Our Employee Owners

ESOP Mission Statement

Through education, empowerment and communication, we will engage our employees to build a great company and ownership culture. We will accomplish this mission by encouraging our employees, as owners, to accept responsibility and accountability for increasing the bottom line while creating value for all shareholders of Fresno First Bank.

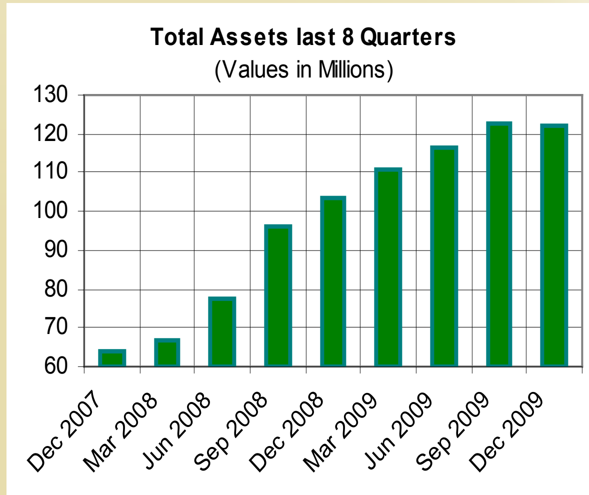
Pictured Front row from left to right: ***Lee Reed,*** SVP / Senior Loan Officer; ***Rick Whitsell,*** President & CEO; ***Steve Canfield,*** EVP / Chief Financial Officer; ***Evangelina Gonzalez,*** SVP / Senior Operating Officer. Left to right: ***Debbie Cameron,*** VP / Executive Assistant; ***Lisa Bassill,*** AVP / Personal Banker; ***Jennifer Peterson,*** Business Banking Officer; ***Craig DeShields,*** VP / Commercial Lending Officer; ***Julie Henvit,*** Operations Officer; ***Louie Nonini,*** Note Clerk; ***Lanny Chan,*** VP / Personal Banker; ***Alice Shevenell,*** AVP / Note Department Manager; ***Tobi Burnes,*** Loan Assistant; ***Teresa Palsgaard,*** VP / Commercial Relationship Manager; ***Margarita Rodriguez,*** Customer Service Representative; ***Jill Monaco,*** Real Estate Mortgage Department Manager; ***Doug Constant,*** VP / Commercial Lending Officer; ***Melissa Garcia-Porto,*** Customer Service Representative; ***Rebecca Bishel,*** Accounting Clerk; ***Kim Zack,*** Senior Credit Analyst; ***Ruth Setencich,*** Business Banking Officer; ***Craig Howells,*** VP / SBA Loan Manager.

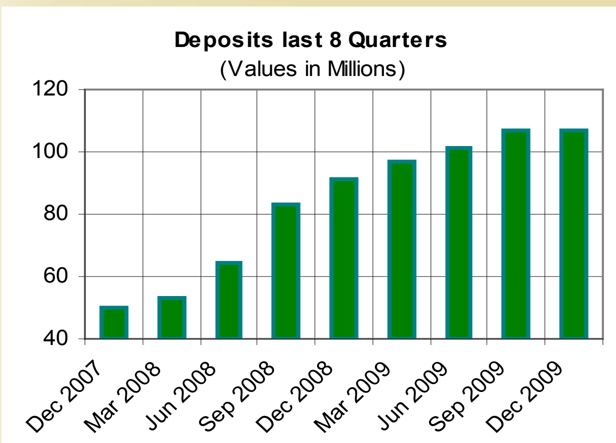
Know and teach the rules "think like an owner"

Follow the Action and Keep Score "act like an owner"

Provide a stake in the Outcome "feel like an owner"

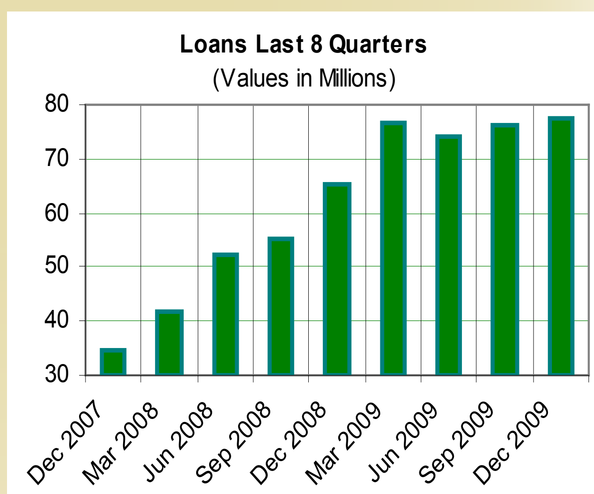
In the last two years total assets have nearly doubled from $64 million to more than $122 million at year end. Our ability to grow organically and leverage our facilities, systems and people will continue to drive increased profits and increase shareholder value.

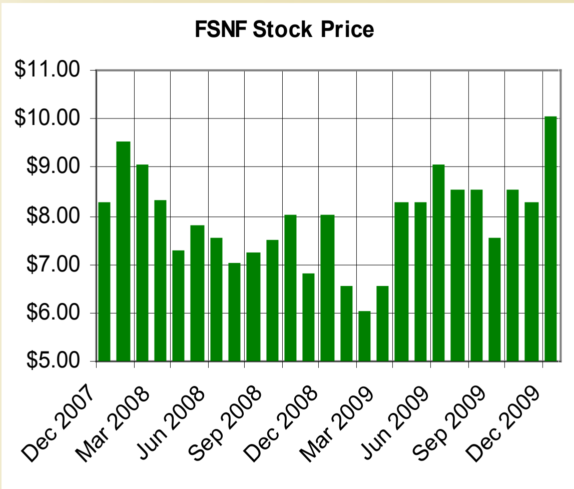




Obtaining core local deposits is the fuel that allows us to generate new loans and increase overall assets. Over the past two years our deposit base has increased 114%, all from local sources.

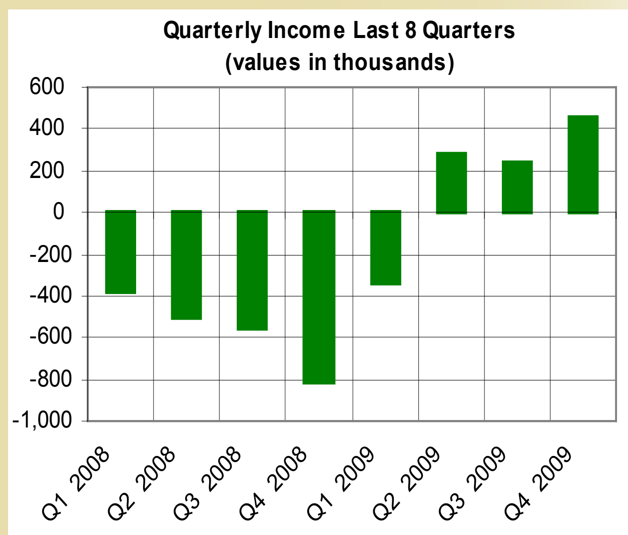
Our loan portfolio is our primary earning asset, the source of the majority of our revenue and a significant way in which we impact our local economy. The loans we make create jobs, allow businesses to expand, thrive and allow local business owners and individuals to achieve their dreams.





As with many small cap stocks, the price of our stock has varied quite a bit over the last two years. At Fresno First Bank we are focused on creating long term, sustainable shareholder value. As our profitability has increased in 2009 our stock price has shown a steady upward trend.

2009 was a turnaround year for our Bank. In 2008 profits were battered by the unstable financial markets and elevated reserves for loan losses. In 2009 interest rates stabilized and we saw steady increases in revenue, lower overall operating expense and as a result steady increases in net income.



FRESNO FIRST BANK

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2009 AND 2008

FRESNO FIRST BANK

CONTENTS

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders of
Fresno First Bank

We have audited the accompanying statements of financial condition of Fresno First Bank as of December 31, 2009 and 2008 and the related statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank'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 of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fresno First Bank as of December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day + Co., LLP

Laguna Hills, California
April 2, 2010

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FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA

FRESNO FIRST BANK

STATEMENTS OF FINANCIAL CONDITION
December 31, 2009 and 2008

ASSETS

	2009	2008
Cash and Due from Banks	$ 2,410,196	$ 4,900,141
Interest-Bearing Deposits in Financial Institutions	-	4,005,758
Federal Funds Sold	3,070,000	815,000
TOTAL CASH AND CASH EQUIVALENTS	5,480,196	9,720,899
Investment Securities Available for Sale	37,700,040	28,009,252
Loans:		
Construction and Land Development	11,201,388	17,763,961
Real Estate - Other	32,912,610	23,395,774
Commercial	31,508,227	21,486,886
Consumer	1,696,604	2,511,993
TOTAL LOANS	77,318,829	65,158,614
Deferred Loan Fees, Net of Costs	(45,788)	(86,426)
Allowance for Loan Losses	(1,445,788)	(1,426,013)
NET LOANS	75,827,253	63,646,175
Federal Home Loan Bank Stock, at Cost	441,400	244,900
Premises and Equipment	841,897	1,059,501
Other Real Estate Owned	170,633	-
Accrued Interest and Other Assets	1,907,359	792,320
	$ 122,368,778	$ 103,473,047

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

FRESNO FIRST BANK

STATEMENTS OF FINANCIAL CONDITION
December 31, 2009 and 2008

LIABILITIES AND SHAREHOLDERS' EQUITY

	2009	2008
Deposits:		
Noninterest-Bearing Demand	$ 26,071,166	$ 21,844,092
Savings, NOW and Money Market Accounts	40,061,179	37,705,526
Time Deposits Under $100,000	23,898,745	19,459,210
Time Deposits $100,000 and Over	17,058,929	11,955,115
TOTAL DEPOSITS	107,090,019	90,963,943
Accrued Interest and Other Liabilities	485,072	607,446
TOTAL LIABILITIES	107,575,091	91,571,389
Commitments and Contingencies - Notes D and L	-	-
Shareholders' Equity:		
Preferred Stock - 5,000,000 Shares Authorized, $1,000 Par Value; Series A Shares and Series B Shares Issued and Outstanding 1,968 and 98, respectively in 2009	1,997,945	-
Common Stock - 5,000,000 Shares Authorized, No Par Value; Issued and Outstanding 1,674,497 in 2009 and 2008	16,819,686	16,819,686
Additional Paid-in Capital	1,390,889	1,234,643
Accumulated Deficit	(5,855,824)	(6,401,611)
Accumulated Other Comprehensive Income - Unrealized Gain on Available-for-Sale Securities, Net of Taxes of $227,178 in 2009	440,991	248,940
TOTAL SHAREHOLDERS' EQUITY	14,793,687	11,901,658
	$ 122,368,778	$ 103,473,047

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

FRESNO FIRST BANK

STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2009 and 2008

	2009	2008
INTEREST INCOME		
Interest and Fees on Loans	$ 4,860,279	$ 3,400,118
Interest on Investment Securities	1,200,136	808,744
Interest on Federal Funds Sold and Other	41,151	222,935
TOTAL INTEREST INCOME	6,101,566	4,431,797
INTEREST EXPENSE		
Interest on Savings Deposits, NOW and Money Market Accounts	484,398	485,336
Interest on Time Deposits	671,140	899,288
Interest on Other Borrowings	310	981
TOTAL INTEREST EXPENSE	1,155,848	1,385,605
NET INTEREST INCOME	4,945,718	3,046,192
Provision for Loan Losses	709,917	1,062,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,235,801	1,984,192
NONINTEREST INCOME		
Service Charges, Fees and Other	189,191	116,892
Gain on Sale of Investment Securities	-	48,396
	189,191	165,288
NONINTEREST EXPENSE		
Salaries and Employee Benefits	1,915,488	2,111,972
Occupancy and Equipment Expenses	610,420	697,634
Other Expenses	1,589,818	1,600,845
	4,115,726	4,410,451
INCOME (LOSS) BEFORE INCOME TAXES	309,266	(2,260,971)
Income Taxes (Benefit)	(320,076)	800
NET INCOME (LOSS)	$ 629,342	$(2,261,771)
NET INCOME (LOSS) PER SHARE - BASIC	$ 0.33	$(1.35)
NET INCOME (LOSS) PER SHARE - DILUTED	$ 0.33	$(1.35)

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

FRESNO FIRST BANK

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
December 31, 2009 and 2008

	Comprehensive Income	Preferred Stock Number of Shares	Preferred Stock Amount	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2008		-	$ -	1,674,497	$ 16,819,686	$ 765,440	$(4,139,840)	$ 47,624	$ 13,492,910
Stock-Based Compensation						469,203			469,203
Comprehensive Income:									
Net Loss	$(2,261,771)						(2,261,771)		(2,261,771)
Unrealized Gain on Available-for-Sale Securities	249,712							249,712	249,712
Less Reclassification Adjustment for Gains Included in Net Loss	(48,396)							(48,396)	(48,396)
Total Comprehensive Income	$(2,060,455)								
Balance at December 31, 2008		-	-	1,674,497	16,819,686	1,234,643	(6,401,611)	248,940	11,901,658
Stock-Based Compensation						156,246			156,246
Issuance of Preferred Stock, Net		2,066	1,968,000						1,968,000
Dividends Paid on Preferred Stock							(53,610)		(53,610)
Accretion on Preferred Stock			29,945				(29,945)		-
Comprehensive Income:									
Net Income	$ 629,342						629,342		629,342
Unrealized Gain on Available-for-Sale Securities Net of Tax of $227,178	192,051							192,051	192,051
Total Comprehensive Income	$ 821,393								
Balance at December 31, 2009		2,066	$ 1,997,945	1,674,497	$ 16,819,686	$ 1,390,889	$(5,855,824)	$ 440,991	$ 14,793,687

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

FRESNO FIRST BANK

STATEMENTS OF CASH FLOWS
December 31, 2009 and 2008

	2009	2008
OPERATING ACTIVITIES		
Net Income (Loss)	$ 629,342	$(2,261,771)
Adjustments to Reconcile Net Income (Loss) to Net Cash from Operating Activities:		
Depreciation and Amortization	237,186	339,967
Provision for Loan Losses	709,917	1,062,000
Stock-based Compensation	156,246	469,203
Deferred Taxes	(321,000)	-
Gain on Sale of Investment Securities	-	(48,396)
Prepayment of FDIC Assessment	(897,334)	-
Other Items	(80,178)	17,275
NET CASH FROM OPERATING ACTIVITIES	434,179	(421,722)
INVESTING ACTIVITIES		
Purchase of Available-for-Sale Securities	(41,167,329)	(24,012,521)
Proceeds from Maturities of Available-for-Sale Securities	29,979,762	10,276,543
Proceeds from Sale of Available-for-Sale Securities	1,741,729	891,145
Net Increase in Loans	(14,016,530)	(31,522,610)
Purchase of Federal Home Loan Bank Stock	(188,300)	(79,000)
Proceeds from Sale of Other Real Estate Owned	954,902	456,613
Purchases of Premises and Equipment	(19,582)	(33,028)
NET CASH FROM INVESTING ACTIVITIES	(22,715,348)	(44,022,858)
FINANCING ACTIVITIES		
Net Increase in Demand Deposits and Savings Accounts	6,582,727	24,393,795
Net Increase in Time Deposits	9,543,349	16,627,528
Proceeds from Issuance of Preferred Stock	1,968,000	-
Payment of Dividends on Preferred Stock	(53,610)	-
NET CASH FROM FINANCING ACTIVITIES	18,040,466	41,021,323
DECREASE IN CASH AND CASH EQUIVALENTS	(4,240,703)	(3,423,257)
Cash and Cash Equivalents at Beginning of Period	9,720,899	13,144,156
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 5,480,196	$ 9,720,899
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 1,201,230	$ 1,305,055
Taxes Paid	$ 800	$ 800
Loans Transferred to Other Real Estate Owned	$ 1,125,535	$ 456,613

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Bank has been incorporated in the State of California and organized as a single operating segment that operates one full-service office in Fresno, California. The Bank's primary source of revenue is providing loans to customers, who are predominately small and middle-market businesses and individuals.

Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure through April 2, 2010, which is the date the financial statements were available to be issued.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks, interest-bearing deposits in financial institutions and federal funds sold. Generally, federal funds are sold for one-day periods and interest-bearing deposits are for periods of ninety days or less.

Cash and Due from Banks

Banking regulations require that banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The Bank complied with the reserve requirements as of December 31, 2009.

The Bank maintains amounts due from banks, which may exceed federally insured limits. The Bank has not experienced any losses in such accounts.

Investment Securities

Investment securities are classified as held-to-maturity when the Bank has the positive intent and ability to hold the securities to maturity. Securities held-to-maturity are carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investment Securities - Continued

Investments not classified as trading securities nor as held-to-maturity securities are classified as available-for-sale securities and recorded at fair value. Unrealized gains or losses on available-for-sale securities are excluded from net income and reported as an amount net of taxes as a separate component of other comprehensive income included in shareholders' equity. Premiums or discounts on held-to-maturity and available-for-sale securities are amortized or accreted into income using the interest method. Realized gains or losses on sales of held-to-maturity or available-for-sale securities are recorded using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis and more frequently when economic or market conditions warrant.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days based on the contractual terms of the loan or when, in the opinion of management, there is reasonable doubt as to collectibility. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

<u>Loans - Continued</u>

The Bank considers a loan to be impaired when it is probable that the Bank will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are to be discounted at the loan's effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Bank selects the measurement method on a loan-by-loan basis except that collateral-dependent loans for which foreclosure is probable are measured at the fair value of the collateral. The Bank recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans.

<u>Allowance for Loan Losses</u>

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the loan is uncollectible. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

<u>Federal Home Loan Bank ("FHLB") Stock</u>

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

<u>Premises and Equipment</u>

Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives, which ranges from three to seven years for furniture, equipment and computer equipment. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements or the remaining lease term, whichever is shorter. Expenditures for betterments or major repairs are capitalized and those for ordinary repairs and maintenance are charged to operations as incurred.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Advertising Costs

The Bank expenses the costs of advertising in the period incurred.

Other Real Estate Owned

Real estate acquired by foreclosure or deed in lieu of foreclosure is recorded at fair value at the date of foreclosure, establishing a new cost basis by a charge to the allowance for loan losses, if necessary. Other real estate owned is carried at the lower of the Bank's carrying value of the property or its fair value, less estimated carrying costs and costs of disposition. Fair value is based on current appraisals less estimated selling costs. Any subsequent write-downs are charged against operating expenses and recognized as a valuation allowance. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other operating expenses.

Income Taxes

Deferred income taxes are computed using the asset and liability method, which recognizes a liability or asset representing the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events that have been recognized in the consolidated financial statements. A valuation allowance is established to reduce the deferred tax asset to the level at which it is "more likely than not" that the tax asset or benefits will be realized. Realization of tax benefits of deductible temporary differences and operating loss carryforwards depends on having sufficient taxable income of an appropriate character within the carryforward periods.

The Bank has adopted guidance issued by the Financial Accounting Standards Board ("FASB") that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

Comprehensive Income

Changes in unrealized gain and loss on available-for-sale securities is the only component of accumulated other comprehensive income for the Bank.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurement

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

> Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect a Bank's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

See Note O for more information and disclosures relating to the Bank's fair value measurements.

Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit as described in Note L. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Earnings Per Share ("EPS")

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Stock-Based Compensation

The Bank recognizes the cost of employee services received in exchange for awards of stock options, or other equity instruments, based on the grant-date fair value of those awards. This cost is recognized over the period which an employee is required to provide services in exchange for the award, generally the vesting period. See Note M for additional information on the Bank's stock option plan.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Reclassification

Certain reclassifications have been made in the 2008 financial statements to conform to the presentation used in 2009. These classifications are of a normal recurring nature.

Adoption of New Accounting Standards

Subsequent Events
In May 2009, the FASB issued guidance which requires the effects of events that occur subsequent to the balance-sheet date be evaluated through the date the financial statements are either issued or available to be issued. Entities are to disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. Entities are required to reflect in their financial statements the effects of subsequent events that provide additional evidence about conditions at the balance-sheet date (recognized subsequent events). Entities are also prohibited from reflecting in their financial statements the effects of subsequent events that provide evidence about conditions that arose after the balance-sheet date (nonrecognized subsequent events), but requires information about those events to be disclosed if the financial statements would otherwise be misleading. This guidance was effective for annual financial periods ended after June 15, 2009 with prospective application. The Bank adopted the guidance for the year ended December 31, 2009 by including the required disclosures in Note A to the financial statements.

Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles
In June 2009, accounting standards were revised to establish the Accounting Standards Codification (the "Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with Generally Accepted Accounting Principles ("GAAP"). The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. The Codification is effective for annual periods ended after September 15, 2009, and as of the effective date, all existing accounting standard documents were superseded. Adoption of the Codification in 2009 did not have a material impact on the Bank's financial statements.

Fair Value Measurements
In April 2009, accounting standards were amended to provide additional guidance for determining the fair value of a financial asset or financial liability when the volume and level of activity for such asset or liability decreased significantly and also to provide guidance for determining whether a transaction is orderly. The amendments were effective for annual reporting periods ended after June 15, 2009. Adoption of the amendments in 2009 did not have a material impact on the Bank's financial statements.

In February 2008, the FASB issued instructions that delayed the effective date of fair value measurement for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) for fiscal years beginning after November 15, 2008. Adoption of the fair value measurement rules in 2009 for non-financial assets and non-financial liabilities subject to the delay did not have a material impact on Bank's financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

<u>Adoption of New Accounting Standards - Continued</u>

Other-Than-Temporary Impairment

In April 2009, accounting standards were amended to provide expanded guidance concerning the recognition and measurement of other-than-temporary impairments of debt securities classified as available for sale or held to maturity. The amendments require an entity to recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the noncredit component in other comprehensive income when the entity does not intend to sell the security and it is more likely than not that the entity will not be required to sell the security prior to recovery. Expanded disclosures are also required concerning such impairments. The amendments were effective for annual reporting periods ended after June 15, 2009. Adoption of the amendments in 2009 did not have a material impact on the Bank's financial statements.

NOTE B - INVESTMENT SECURITIES

Debt and equity securities have been classified in the statements of condition according to management's intent. The carrying amount of securities and their approximate fair values at December 31 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
December 31, 2009				
U.S. Government and Agency Securities	$26,821,212	$ 387,639	$(92,228)	$27,116,623
Mortgage-Backed Securities	9,715,221	360,167	-	10,075,388
State and Municipal Securities	495,438	12,591	-	508,029
	$37,031,871	$ 760,397	$(92,228)	$37,700,040
Available-for-Sale:				
December 31, 2008				
U.S. Government and Agency Securities	$20,470,396	$ 151,711	$(38,681)	$20,583,426
Mortgage-Backed Securities	6,556,706	135,570	(13,534)	6,678,742
State and Municipal Securities	488,422	14,362	-	502,784
Corporate Debt Securities	244,788	-	(488)	244,300
	$27,760,312	$ 301,643	$(52,703)	$28,009,252

NOTE B - INVESTMENT SECURITIES - Continued

The amortized cost and estimated fair value of all investment securities as of December 31, 2009 by expected maturities 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	
	Amortized Cost	Fair Value
Due in One Year or Less	$ 3,091,856	$ 3,160,539
Due from One Year to Five Years	12,937,268	13,319,309
Due from Five to Ten Years	11,080,301	11,239,854
Due after Ten Years	9,922,446	9,980,338
	$ 37,031,871	$ 37,700,040

During 2009 the Bank had proceeds from the sale of investment securities in the amount of $1,741,729 and realized a loss of $228. During 2008 the Bank had proceeds from the sale of investment securities in the amount of $891,145 and realized a gain of $54,270 and a loss of $5,874.

Investment securities carried at approximately $3,545,000 and $6,561,000 at December 31, 2009 and 2008, respectively, were pledged to secure public deposits and other purposes as permitted or required by law.

NOTE B - INVESTMENT SECURITIES - Continued

The gross unrealized loss and related estimated fair value of investment securities that have been in a continuous loss position for less than twelve months and over twelve months at December 31, 2009 and 2008 are as follows:

	Less than Twelve Months		Over Twelve Months		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized losses	Fair Value
December 31, 2009:						
U.S. Government and Agencies	$(91,122)	$ 12,889,537	$(1,106)	$ 456,313	$(92,228)	$ 13,345,850
	$(91,122)	$ 12,889,537	$(1,106)	$ 456,313	$(92,228)	$ 13,345,850
December 31, 2008:						
U.S. Government and Agencies	$(38,681)	$ 2,993,961	$ -	$ -	$(38,681)	$ 2,993,961
Mortage-Backed Securities	-	-	(13,534)	1,163,305	(13,534)	1,163,305
Corporate Debt Securities	(488)	244,300	-	-	(488)	244,300
	$(39,169)	$ 3,238,261	$(13,534)	$ 1,163,305	$(52,703)	$ 4,401,566

As of December 31, 2009, the Bank had fourteen U.S. Government and Agencies investment securities where estimated fair value had declined 0.69% from the Bank's amortized cost. Management does not have the intent to sell these securities and it is likely that the Bank will not be required to sell the securities before their anticipated recovery. The fair value is expected to recover as the bonds approach maturity.

NOTE C - LOANS

The Bank's loan portfolio consists primarily of loans to borrowers within Fresno County, California. Although the Bank seeks to avoid concentrations of loans to a single industry or based upon a single class of collateral, real estate and real estate associated businesses are among the principal industries in the Bank's market area and, as a result, the Bank's loan and collateral portfolios are, to some degree, concentrated in those industries.

A summary of the changes in the allowance for loan losses as of December 31 follows:

	2009	2008
Beginning Balance	$ 1,426,013	$ 739,000
Additions to the Allowance Charged to Expense	709,917	1,062,000
Recoveries on Loans Charged Off	-	13,091
	2,135,930	1,814,091
Less Loans Charged Off	(690,142)	(388,078)
Ending Balance	$ 1,445,788	$ 1,426,013

The following is a summary of the investment in impaired loans, the related allowance for loan losses, income recognized thereon and information pertaining to nonaccrual and past due loans as of December 31:

	2009	2008
Recorded Investment in Impaired Loans	$ 1,635,000	$ 1,598,000
Related Allowance for Loan Losses	$ 36,000	$ 280,000
Average Recorded Investment in Impaired Loans	$ 1,192,000	$ 548,000
Interest Income Recognized from Cash Payments	$ 9,000	$ -
Total Nonaccrual Loans	$ 378,000	$ 1,598,000
Total Loans Past-Due Ninety Days or More and Still Accruing	$ -	$ -

NOTE D - PREMISES AND EQUIPMENT

A summary of premises and equipment as of December 31 follows:

	2009	2008
Leasehold Improvements	$ 1,123,897	$ 1,114,902
Furniture, Fixtures, and Equipment	463,660	463,660
Computer Equipment	439,923	429,336
	2,027,480	2,007,898
Less Accumulated Depreciation and Amortization	(1,185,583)	(948,397)
	$ 841,897	$ 1,059,501

The Bank has entered into a ten-year lease for its main banking office and administrative offices. The Bank is responsible for common area maintenance, taxes and insurance to the extent they exceed the base year amounts. The lease expires on January 31, 2016.

At December 31, 2009, the future lease rental payable under noncancellable operating lease commitments for the Bank's main banking office and administrative offices were as follows:

2010	$ 294,118
2011	302,940
2012	312,028
2013	321,388
2014	331,030
Thereafter	369,444
	$ 1,930,948

The minimum rental payments shown above are given for the existing lease obligation and are not a forecast of future rental expense. Total rental expense was approximately $295,000 for the years ended December 31, 2009 and 2008.

NOTE E - DEPOSITS

At December 31, 2009, the scheduled maturities of time deposits are as follows:

2010	$ 36,775,352
2011 to 2012	2,579,577
2013 to 2014	1,602,745
	$ 40,957,674

NOTE F - BORROWING ARRANGEMENTS

The Bank may borrow up to $6,000,000 overnight on an unsecured basis from two correspondent banks. The Bank may also borrow up to approximately $18,371,000 from the Federal Home Loan Bank of San Francisco, subject to providing collateral and fulfilling other conditions of the credit facility. The Bank has pledged investment securities of approximately $3,545,000 for the credit facility at Federal Home Loan Bank. The Bank may also borrow from the Federal Reserve Bank of San Francisco, subject to fulfilling other conditions of the credit facility and providing collateral. As of December 31, 2009, no amounts were outstanding under these arrangements.

NOTE G - EMPLOYEE BENEFITS

The Bank sponsors an employee stock ownership plan ("ESOP") for eligible employees. Eligibility begins after an employee has attained the age of 21 and completed one year of service, as defined in the Plan document. Under the ESOP, the Bank contributes a discretionary amount to the ESOP for the purchase of the Bank's stock, to be held in trust for each participant to later be distributed in accordance with the ESOP. For the year ended December 31, 2009 and 2008, contributions to the ESOP were $54,400 and $50,000, respectively.

The Bank sponsors a 401k plan for the benefit of its employees. The Bank can match employee contributions and make additional contributions as determined by the Board of Directors annually. For the year ended December 31, 2008 contributions to the 401k plan were $6,000. The Bank made no contributions for the year ended December 31, 2009.

NOTE H - INCOME TAXES

The income tax expense (benefit) for the years ended December 31, is comprised of the following:

	2009	2008
Current Taxes:		
Federal	$ -	$ -
State	924	800
	924	800
Deferred	(321,000)	-
	$(320,076)	$ 800

Deferred taxes are a result of differences between income tax accounting and generally accepted accounting principles with respect to income and expense recognition. The following is a summary of the components of the net deferred tax asset accounts recognized in the accompanying statements of financial condition at December 31:

	2009	2008
Deferred Tax Assets:		
Pre-Opening Expenses	$ 189,000	$ 205,000
Depreciation Differences	135,000	103,000
Allowance for Loan Losses Due to Tax Limitations	505,000	509,000
Stock-based Compensation	319,000	302,000
Operating Loss Carryforwards	1,360,000	1,472,000
Other	36,000	25,000
	2,544,000	2,616,000
Valuation Allowance	(2,058,000)	(2,507,000)
Deferred Tax Liabilities:		
Accrual to Cash	(108,000)	(86,000)
Unrealized Gain on Available-for-Sale Securities	(227,000)	-
Other	(57,000)	(23,000)
	(392,000)	(109,000)
Net Deferred Tax Assets	$ 94,000	$ -

NOTE H - INCOME TAXES - Continued

The valuation allowance was established because the Bank has not reported earnings sufficient enough to support the recognition of the deferred tax assets. The Bank has net operating loss carryforwards of approximately $2,885,000 for federal income and $5,293,000 for California franchise tax purposes. Federal and California net operating loss carryforwards, to the extent not used will expire in 2028 and 2029, respectively.

The Bank is subject to federal income tax and franchise tax of the state of California. Income tax returns for the years ended December 31, 2008, 2007 and 2006 are open to audit by the federal authorities and income tax returns for the years ended December 31, 2008, 2007, 2006, and 2005 are open to audit by state authorities. Unrecognized tax benefits are not expected to significantly increase or decrease within the next twelve months.

A comparison of the federal statutory income tax rates to the Bank's effective income tax rates at December 31 follows:

	2009		2008	
	Amount	Rate	Amount	Rate
Statutory Federal Tax	$ 105,000	34.0%	$(768,000)	(34.0%)
State Franchise Tax, Net of Federal Benefit	(19,000)	(6.1%)	(189,000)	(8.4%)
Stock-Based Compensation	39,000	12.6%	69,000	3.1%
Increase (Reduction) in Valuation Allowance	(449,000)	(144.8%)	879,000	38.9%
Other Items, Net	3,924	1.3%	9,800	0.4%
Tax Expense (Benefit)	$(320,076)	(103.0%)	$ 800	-

NOTE I - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to certain directors and their related interests with which they are associated. The balance of these loans outstanding was approximately $226,000 and $1,717,000 at December 31, 2009 and 2008, respectively.

Deposits from certain directors, officers and their related interests with which they are associated held by the Bank at December 31, 2009 and 2008 amounted to approximately $3,605,000 and $4,075,000, respectively.

NOTE J - OTHER EXPENSES

Other expenses as of December 31 are comprised of the following:

	2009	2008
Data Processing	$ 324,630	$ 342,206
Marketing and Business Promotion	140,874	190,744
Professional Fees	244,063	272,609
Office Expenses	85,694	95,708
Insurance	18,600	28,084
Director Fees and Stock-based Compensation	45,166	263,724
Regulatory Assessments	335,265	91,023
Other Expenses	395,526	316,747
	$ 1,589,818	$ 1,600,845

NOTE K - EARNINGS PER SHARE ("EPS")

The following is a reconciliation of net loss and shares outstanding to the income and number of shares used to compute EPS:

	2009		2008	
	Income	Shares	Loss	Shares
Net Income (Loss) as Reported	$ 629,342		$(2,261,771)	
Accretion of Preferred Stock	(29,945)			
Dividends Paid on Preferred Stock	(53,610)			
Shares Outstanding at Year End		1,674,497		1,674,497
Impact of Weighting Shares Issued During the Year		-		-
Used in Basic EPS	545,787	1,674,497	(2,261,771)	1,674,497
Dilutive Effect of Outstanding Stock Options		-		-
Used in Diluted EPS	$ 545,787	1,674,497	$(2,261,771)	1,674,497

At December 31, 2009 and 2008 there were 400,832 and 407,082 stock options, respectively, that could potentially dilute earnings per share in the future that were not included in the computation of diluted earnings per share because to do so would have been antidilutive.

NOTE L - COMMITMENTS

In the ordinary course of business, the Bank enters into financial commitments to meet the financing needs of its customers. These financial commitments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk not recognized in the Bank's financial statements.

The Bank's exposure to loan loss in the event of nonperformance on commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments as it does for loans reflected in the financial statements.

As of December 31, 2009 and 2008, the Bank had the following outstanding financial commitments whose contractual amount represents credit risk:

	2009	2008
Commitments to Extend Credit	$ 18,712,000	$ 22,036,000
Letters of Credit	400,000	300,000
	$ 19,112,000	$ 22,336,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. The Bank evaluates each client's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank is based on management's credit evaluation of the customer. The majority of the Bank's commitments to extend credit and standby letters of credit are secured by real estate.

NOTE M - STOCK OPTION PLAN

The Bank's 2005 Equity Based Compensation Plan was approved by its shareholders in February 2006. Under the terms of the 2005 Equity Based Compensation Plan, officers and key employees may be granted both nonqualified, incentive stock options and restricted stock award and directors, who are not also an officer or employee, may only be granted nonqualified stock options and restricted stock awards. The Plan provides for a maximum number of shares that may be awarded to eligible employees and directors not to exceed 495,000 shares. Stock options are granted at a price not less than 100% of the fair market value of the stock on the date of grant. Stock options expire no later than ten years from the date of the grant and all equity based awards generally vest over three years. The Plan provides for accelerated vesting if there is a change of control, as defined in the Plan. The Bank recognized stock-based compensation cost of $156,246 and $469,203 in 2009 and 2008, respectively. The Bank recognized tax benefits related to stock based compensation of $17,128 in 2009.

NOTE M - STOCK OPTION PLAN - Continued

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions presented below:

	2009	2008
Expected Volatility	25.00%	25.00%
Expected Term	6.5 Years	6.5 Years
Expected Dividends	None	None
Risk Free Rate	2.62%	3.12%
Weighted-Average Grant Date Fair Value	$ 3.16	$ 2.44

Since the Bank has a limited amount of historical stock activity the expected volatility is based on the historical volatility of similar banks that have a longer trading history. The expected term represents the estimated average period of time that the options remain outstanding. Since the Bank does not have sufficient historical data on the exercise of stock options, the expected term is based on the "simplified" method that measures the expected term as the average of the vesting period and the contractual term. The risk free rate of return reflects the grant date interest rate offered for U.S. Treasury bonds over the expected term of the options.

A summary of the status of stock options that have been granted by the Bank as of December 31, 2009 and changes during the year ending thereon is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at Beginning of Year	407,082	$ 10.72		
Granted	15,500	$ 10.00		
Forfeited or Expired	(21,750)	$ 10.23		
Outstanding at End of Year	400,832	$ 10.72	6.6 Years	None
Options Exercisable	351,664	$ 10.86	6.3 Years	None

As of December 31, 2009 there was approximately $119,000 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted average period of 1.4 years.

FRESNO FIRST BANK

NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE N - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2009, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2009, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action (there are no conditions or events since that notification that management believes have changed the Bank's category). To be categorized as well capitalized, the Bank must maintain minimum ratios as set forth in the table below. The following table also sets forth the Bank's actual capital amounts and ratios (dollar amounts in thousands):

			Amount of Capital Required			
	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2009:						
Total Capital (to Risk-Weighted Assets)	$15,345	19.5%	$ 6,311	8.0%	$ 7,888	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$14,353	18.2%	$ 3,155	4.0%	$ 4,733	6.0%
Tier 1 Capital (to Average Assets)	$14,353	11.5%	$ 5,015	4.0%	$ 6,269	5.0%
As of December 31, 2008:						
Total Capital (to Risk-Weighted Assets)	$12,556	17.6%	$ 5,700	8.0%	$ 7,126	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$11,653	16.4%	$ 2,850	4.0%	$ 4,275	6.0%
Tier 1 Capital (to Average Assets)	$11,653	11.6%	$ 4,037	4.0%	$ 5,046	5.0%

The California Financial Code provides that a bank may not make a cash distribution to its shareholders in excess of the lesser of the bank’s undivided profits or the bank’s net income for its last three fiscal years less the amount of any distribution made by the bank’s shareholders during the same period without the approval in advance of the Commissioner of the California Department of Financial Institutions.

NOTE O - FAIR VALUE MEASUREMENT

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Securities:

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1) or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2).

Collateral-Dependent Impaired Loans:

The Bank does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect (1) partial write-downs, through charge-offs or specific reserve allowances, that are based on the current appraised or market-quoted value of the underlying collateral or (2) the full charge-off of the loan carrying value. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for collateral-dependent impaired loans are obtained from real estate brokers or other third-party consultants (Level 3).

Other Real Estate Owned:

Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned are measured at the lower of the carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a level 3 classification. In cases where the carrying amount exceeds the fair value, less cost to sell, an impairment loss is recognized.

NOTE O - FAIR VALUE MEASUREMENT - Continued

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value at December 31, 2009:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
December 31, 2009				
Assets and liabilities measured at fair value on a recurring basis				
Assets:				
Securities Available for Sale	$ -	$ 37,700,000	$ -	$ 37,700,000
Assets measured at fair value on a non-recurring basis				
Collateral-Dependent Impaired Loans, Net of Specific Reserves	$ -	$ -	$ -	$ -
Other Real Estate Owned	$ -	$ -	$ 171,000	$ 171,000
December 31, 2008				
Assets and liabilities measured at fair value on a recurring basis				
Assets:				
Securities Available for Sale	$ -	$ 28,009,000	$ -	$ 28,009,000
Assets measured at fair value on a non-recurring basis				
Collateral-Dependent Impaired Loans, Net of Specific Reserves	$ -	$ -	$ 1,318,000	$ 1,318,000

Other real estate owned which is measured at the lower of carrying amount or fair value less costs to sell, had a carrying amount of $171,000 at December 31, 2009.

At December 31, 2008, collateral-dependent impaired loans, which are measured for impairment using the fair value of the collateral, had a carrying value of approximately $1,598,000, with a specific reserve of $280,000.

NOTE P - FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount at which the asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on financial instruments both on and off the balance sheet without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Additionally, tax consequences related to the realization of the unrealized gains and losses can have a potential effect on fair value estimates and have not been considered in many of the estimates.

The following methods and assumptions were used by the Bank in estimating fair values of financial instruments:

Financial Assets

The carrying amounts of cash, short-term investments, due from customers on acceptances, and bank acceptances outstanding are considered to approximate fair value. Short-term investments include federal funds sold, securities purchased under agreements to resell, and interest bearing deposits with banks. The fair values of investment securities, including available for sale and held to maturity, are generally based on quoted market prices. The fair value of variable loans that reprice frequently and that have experienced no significant change in credit risk are based on carrying values. The fair values for all other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. Loans are generally expected to be held to maturity and any unrealized gains or losses are not expected to be realized. Fair value for Federal Home Loan Bank stock approximates its carrying value.

Financial Liabilities

The carrying amounts of deposit liabilities payable on demand, commercial paper, and other borrowed funds are considered to approximate fair value. For fixed maturity deposits, fair value is estimated by discounting estimated future cash flows using currently offered rates for deposits of similar remaining maturities. The fair value of long term debt is based on rates currently available to the Bank for debt with similar terms and remaining maturities.

NOTE P - FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

Off-Balance Sheet Financial Instruments

The fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements. The fair value of these financial instruments are not deemed to be material.

The estimated fair value of financial instruments at December 31 is summarized as follows (dollar amounts in thousands):

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Cash and Due From Banks	$ 2,410	$ 2,410	$ 4,900	$ 4,900
Interest-Bearing Deposits	-	-	4,006	4,006
Federal Funds Sold	3,070	3,070	815	815
Investment Securities	37,700	37,700	28,009	28,009
Loans, Net	75,827	77,947	63,646	64,123
Federal Home Loan Bank Stock	441	441	245	245
Accrued Interest Receivable	640	640	616	616
Financial Liabilities:				
Deposits	107,090	107,292	90,964	91,117
Accrued Interest and Other Liabilities	485	485	607	607

NOTE Q – PREFERRED STOCK

On January 23, 2009, the Bank, in connection with the Troubled Assets Relief Program ("TARP") Capital Purchase Program, entered into a Purchase Agreement with the United States Department of the Treasury (the "Treasury"), pursuant to which the Bank issued 1,968 shares of the Bank's Preferred Stock as Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock") and 98 shares of Fixed Rate Non-Cumulative Perpetual Warrant Preferred Stock, Series B (the "Series B Preferred Stock") for an aggregate purchase price of $1,968,000 in cash.

Both Series A and Series B Preferred stock will qualify as Tier 1 Capital. Series A Preferred Stock will pay non-cumulative dividends at a rate of 5% per annum for the first five years and 9% per annum thereafter. Series B Preferred Stock will pay non-cumulative dividends at a rate of 9% per annum. Series A Preferred stock can be redeemed after three years for $1,968,000, and Series B can be redeemed for $98,000 after Series A Preferred Stock has been redeemed.

FRESNO FIRST BANK

Corporate Information

Corporate Office

7690 N. Palm Avenue, Ste. 101
Fresno, CA 93711
559.439.0200
www.fresnofirstbank.com

Notice of Annual Meeting

Thursday, July 22, 2010 at 5:30 pm
Fort Washington Country Club
10272 N. Millbrook
Fresno, CA 93730

Independent Auditors

Vavrinek, Trine, Day & Co., LLP
25231 Paseo De Alicia, Ste. 100
Laguna Hills, CA 92653
949.768.0833

Legal Counsel

Stuart & Moore
641 Higuera Street, Ste. 302
San Luis Obispo, CA 93401
805.545.8590

Transfer Agent

Continental Stock Transfer & Trust Co.
17 Battery Place
New York, NY 10004
212.509.4000

Stock Facilitators

Troy Norlander	800.288.2811
Michael Hedrei	800.774.8723
Tom Weil	888.883.8207