Fresno First Bank

2010

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

"Never follow the crowd."

Bernard Baruch,
American Financier, Politician, and Businessman

Since the time Fresno First Bank opened its doors in December 2005, the Board of Directors had a vision of creating a unique bank with a culture which ensured each client and shareholder would experience professional and personalized service unparalleled in the banking community. After five strong years we continue to stand firm in our commitment to our culture; a culture where every Associate at the bank has a "stake in the outcome" which drives us all to give 100% in doing our part to make Fresno First Bank a success.

The Fresno First Bank culture of shared employee ownership has created an environment which empowers our Associates to think creatively when faced with a challenge, create opportunities for unequaled customer service, and utilize their passion and skill each and every day. We believe our culture is evident as soon as you walk in the doors however, we continue to make improvements to ensure we are always giving our best.

While the financial landscape has changed in recent years, our goal remains the same. We continue to provide outstanding banking services to our clients, turning challenges into new opportunities to prove ourselves as unique and progressive in the world of community banks, working with our clients to move forward and prosper together.

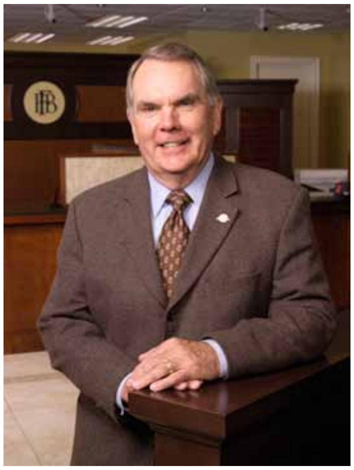
At the close of 2010, Fresno First Bank is committed to our clients, our community, our Associates, and our Shareholders. We are proud of our accomplishments and will continue to move forward on the exciting journey of success.

David N. Price

David N. Price
Chairman of the Board

FRESNO FIRST BANK

Strategies for Continued Success in "The New Normal"



2010 resulted in a year of strong financial performance for Fresno First Bank. Our net income was $1,520,000 for the year ended December 31, 2010 compared to $629,000 for the year ended 2009, or a 142% increase. 2011 results for the first quarter continue to show consistent growth and profitability. Notable financial trends for the quarter compared to year end 2010 include total assets of $152.9 million, up 6.88% and total deposits of $135.5 million, up 7.45%. Net income after tax for the quarter totaled $430,000 compared to $248,000 in the first quarter of 2010, a 73% increase. These results are due to the focused effort of our Board, Management and Staff.

So what lies ahead for the Banking industry? Recent economic news indicates that we are emerging from the recession. Employment and job numbers are showing signs of life and consumer confidence seems to be building, however there are still major concerns in a number of areas of our economy, like housing, commercial real estate and the fiscal instability of local, state and federal governments. Of course the impact of the recession has had a dramatic effect on the banking industry. Some view that the change in economic conditions, regulatory requirements and customer needs have created a "new normal" environment. The future environment in which banks operate will not be like the past, with the probability of a prolonged recovery, the forthcoming Dodd-Frank, Basel 3 and other consumer protection legislation, the industry is looking at challenging times ahead.

So how can Fresno First Bank continue to succeed in the "new normal" environment? The Board, Management and Staff of Fresno First Bank recognize that being an average or ordinary bank in this "new normal" world could very well limit their success. Therefore, we must continue to adjust our strategic plan to incorporate new thinking to adapt to changing conditions by strategically positioning our bank to out maneuver our competition and firmly establish Fresno First Bank as the "go to" bank in the markets we serve. Our strategies include:

- Maintaining a strong capital position
- Reduce the cost of delivery through technology and cost control
- Diversify our income by developing multiple streams of non-interest revenue
- Improve risk management practices
- Continue to build a culture of employee ownership

As we, the Board, Management and Staff work together to accomplish these strategies we will ensure our long term success in the "new normal" world.

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

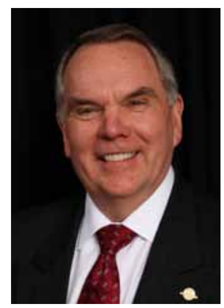
David Price,
Chairman of the Board / President and CEO of David N. Price & Associates

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.

Our Board of Directors and the employees of Fresno First Bank also actively support a number of non-profit organizations throughout the year. Some of which include the American Heart Association, Cystic Fibrosis Foundation, H.O.P.E Animal Foundation, March of Dimes, Easter Seals, Pop Laval Foundation, Habitat for Humanity, Make A Wish Foundation, the Central Valley Cycling Charitable Association and many other local community non-profit organizations.

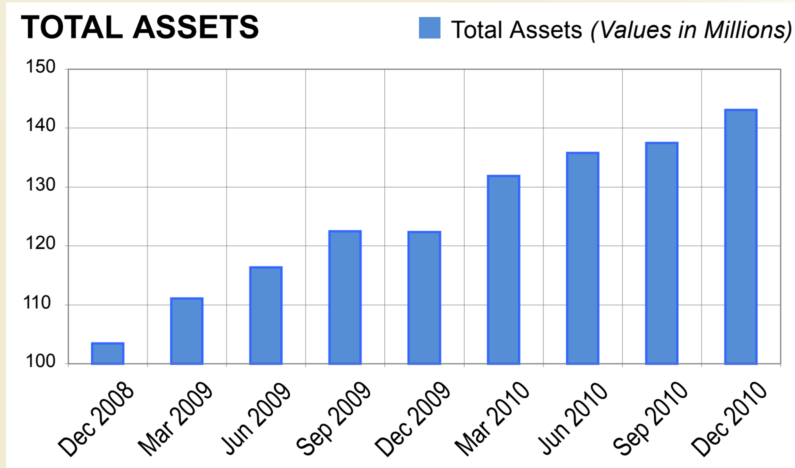
FRESNO FIRST BANK

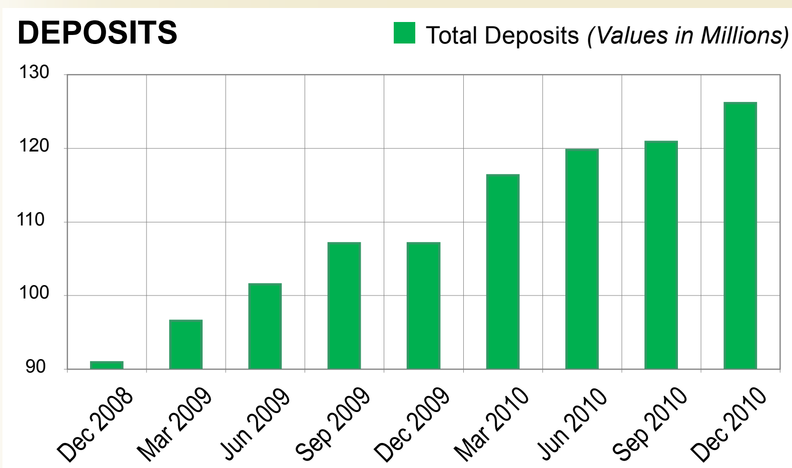
Meet Our Employee Owners

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.

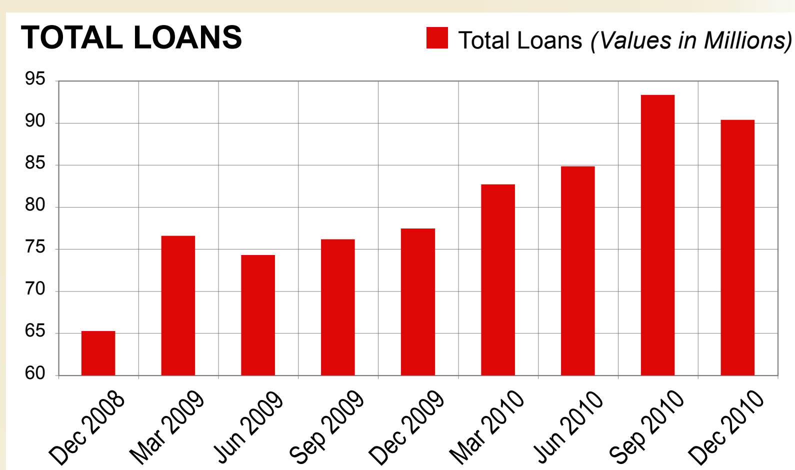
In the last two years, total assets have grown steadily from just over $100 million to more than $143 million. As our assets grow so does our ability to generate additional interest income which will increase earnings and shareholder value.





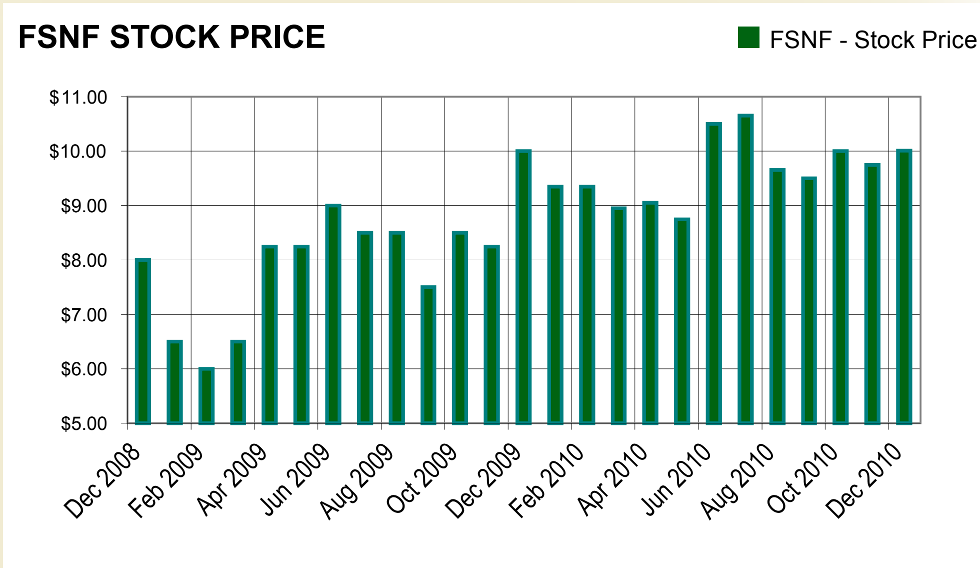
Deposit growth is the catalyst for our growth in assets. Obtaining low cost local core deposits one relationship at a time is what we do every day. Over the past two years our deposit base has grown steadily.

During a time when other local banks have ceased to lend and in some cases shrunk their loan portfolio, our loan portfolio has grown by nearly 40%. While there are still pitfalls and weakness in our economy, there are also good successful businesses that appreciate the service Fresno First Bank provides.

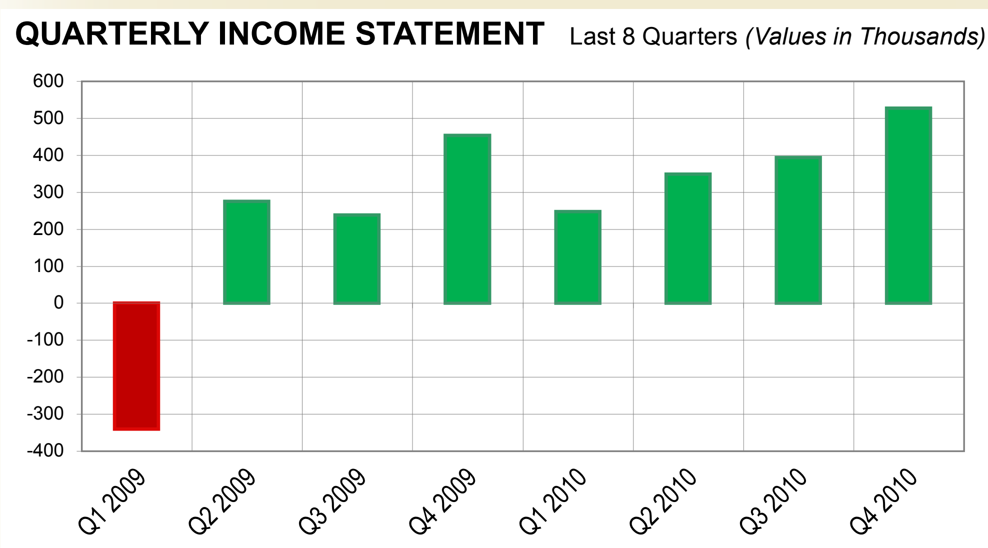


Fresno First Bank

Financial stocks have all been hurt in the economic downturn the last few years and our stock is no exception, but the trend over the last two years has definitely been positive. We continue to focus on creating long term shareholder value.



In 2009 we reached sustainable profitability and have now recorded two years of increasing profitability. Fresno First Bank's performance compared to industry peers is very positive but Management, the Board and our Associates are seeking ever higher financial performance.



Report of Independent Auditors and
Financial Statements

Fresno First Bank

December 31, 2010 and 2009

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

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MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders
Fresno First Bank

We have audited the accompanying balance sheet of Fresno First Bank (the Bank) as of December 31, 2010, and the related statements of operations, changes in shareholders' equity, and cash flows for the year 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 audit. The financial statements of the Bank as of and for the year ended December 31, 2009 were audited by other auditors whose report dated April 2, 2010 expressed an unqualified opinion on those statements.

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

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of Fresno First Bank as of December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Stockton, California
April 11, 2011

ASSETS

	DECEMBER 31, 2010	DECEMBER 31, 2009
Cash and due from banks	$ 1,869,053	$ 2,410,196
Federal funds sold	9,185,000	3,070,000
Total cash and cash equivalents	11,054,053	5,480,196
Securities available-for-sale	40,950,119	37,700,040
Loans, net	87,587,993	75,827,253
Federal Home Loan Bank stock, at cost	636,300	441,400
Premises and equipment	688,622	841,897
Other real estate owned	-	170,633
Interest receivable and other assets	2,190,782	1,907,359
	$ 143,107,869	$ 122,368,778

LIABILITIES AND SHAREHOLDERS' EQUITY

	2010	2009
Deposits	$ 126,106,564	$ 107,090,019
Interest payable and other liabilities	578,233	485,072
Total liabilities	126,684,797	107,575,091
Commitments and contingencies (Notes 4 and 11)		
Shareholders' equity:		
Preferred stock – 5,000,000 shares authorized, $1,000 par value; Series A shares and Series B shares 1,968 and 98 issued and outstanding, respectively in 2010 and 2009	2,030,611	1,997,945
Common stock – 5,000,000 shares authorized, no par value; 1,678,663 and 1,674,497 shares issued and outstanding in 2010 and 2009, respectively	16,861,096	16,819,686
Additional paid-in capital	1,486,202	1,390,889
Accumulated deficit	(4,475,311)	(5,855,824)
Accumulated other comprehensive income, net	520,474	440,991
Total shareholders' equity	16,423,072	14,793,687
Total liabilities and shareholders' equity	$ 143,107,869	$ 122,368,778

See accompanying notes

	YEARS ENDED DECEMBER 31, 2010	2009
INTEREST INCOME		
Interest and fees on loans	$ 5,692,434	$ 4,860,279
Interest on investment securities	1,113,352	1,200,136
Interest on federal funds sold and other	22,987	41,151
Total interest income	6,828,773	6,101,566
INTEREST EXPENSE		
Interest on savings deposits, NOW and money market accounts	262,882	484,398
Interest on time deposits	660,702	671,140
Interest on other borrowings	-	310
Total interest expense	923,584	1,155,848
Net interest income	5,905,189	4,945,718
PROVISION FOR LOAN LOSSES	1,283,000	709,917
Net interest income after provision for loan losses	4,622,189	4,235,801
NON-INTEREST INCOME		
Gain on sale of loans	513,248	-
Service charges on deposits	244,728	162,229
Loss on sale of other real estate owned	(2,982)	-
Other operating income	30,931	26,962
Total non-interest income	785,925	189,191
NON-INTEREST EXPENSES		
Salaries and employee benefits	2,288,623	1,915,488
Occupancy and equipment expenses	558,963	610,420
Regulatory assessments	371,008	335,265
Data processing fees	328,898	324,630
Professional fees	181,735	244,063
Marketing and business promotion	145,204	140,874
Director fees and stock-based compensation	91,789	45,166
Other expenses	476,495	499,820
	4,442,715	4,115,726
Income before income taxes	965,399	309,266
Benefit for income taxes	(555,000)	(320,076)
Net income	$ 1,520,399	$ 629,342
Preferred stock dividends and accretion	139,886	83,555
Net income available to common shareholders	$ 1,380,513	$ 545,787
Net income per share – basic	$ 0.82	$ 0.33
Net income per share – diluted	$ 0.82	$ 0.33

FRESNO FIRST BANK
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Preferred Stock		Common Stock		Additional	Accumulated	Accumulated Other Comprehensive		Total Comprehensive
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit	Income	Total	Income
Balances, 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	
Dividend paid on preferred stock						(53,610)		(53,610)	
Accretion of preferred stock		29,945				(29,945)		-	
Comprehensive income:									
Net income						629,342		629,342	629,342
Other comprehensive income, net of taxes:									
Net unrealized gain on securities available-for-sale, net of tax of $227,178	-	-	-	-	-	-	192,051	192,051	192,051
Total comprehensive income									$ 821,393
Balances, 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	
Stock-based compensation					95,313			95,313	
Exercise of stock options			4,166	41,410				41,410	
Dividend paid on preferred stock						(107,220)		(107,220)	
Accretion of preferred stock		32,666				(32,666)		-	
Comprehensive income:									
Net income						1,520,399		1,520,399	$ 1,520,399
Other comprehensive income, net of taxes:									
Net unrealized gain on securities available-for-sale, net of tax of $40,945	-	-	-	-	-	-	79,483	79,483	79,483
Total comprehensive income									$ 1,599,882
Balances, December 31, 2010	2,066	$ 2,030,611	1,678,663	$ 16,861,096	$ 1,486,202	$ (4,475,311)	$ 520,474	$ 16,423,072	

See accompanying notes

STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,520,399	$ 629,342
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization of premises and equipment	180,682	237,186
Amortization and accretion of premiums and discounts on securities available-for-sale, net	269,956	179,547
Provision for loan losses	1,283,000	709,917
Gain on sale of loans	(513,248)	-
Loss on sale of other real estate owned	2,982	-
Stock-based compensation	95,313	156,246
Increase in deferred taxes	(708,000)	(321,000)
Prepayment of FDIC assessment	-	(897,334)
Increase (decrease) in interest payable and other liabilities	93,161	(122,374)
Decrease (increase) in interest receivable and other assets	383,632	(137,351)
Net cash from operating activities	2,607,877	434,179
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale securities	(28,912,750)	(41,167,329)
Proceeds from maturities of available-for-sale securities	25,513,143	29,979,762
Proceeds from sale of available-for-sale securities	-	1,741,729
Net increase in loans	(12,530,492)	(14,016,530)
Purchase of Federal Home Loan Bank stock	(194,900)	(188,300)
Proceeds from sale of other real estate owned	167,651	954,902
Purchases of premises and equipment	(27,407)	(19,582)
Net cash from investing activities	(15,984,755)	(22,715,348)

	YEARS ENDED DECEMBER 31,	
	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits and savings accounts	14,358,219	6,582,727
Net increase in time deposits	4,658,326	9,543,349
Proceeds from issuance of preferred stock	-	1,968,000
Payment of dividends on preferred stock	(107,220)	(53,610)
Common stock issued	41,410	-
Net cash from financing activities	18,950,735	18,040,466
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,573,857	(4,240,703)
CASH AND CASH EQUIVALENTS, beginning of period	5,480,196	9,720,899
CASH AND CASH EQUIVALENTS, end of period	$ 11,054,053	$ 5,480,196
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ 955,053	$ 1,201,230
Taxes paid	$ 69,000	$ 800
Loans transferred to other real estate owned	$ -	$ 1,125,535

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Fresno First Bank (the Bank) conform to generally accepted accounting principles and general practices within the banking industry. A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows.

Nature of operations – The Bank is 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.

Estimates – In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates.

The allowance for loan losses is the most significant accounting estimate reflected in the Bank's financial statements. The allowance for loan losses includes charges to reduce the recorded balances of loans receivable to their estimated net realizable value, as appropriate. The allowance is based on estimates, and ultimate losses may vary from current estimates. These estimates for losses are based on individual assets and their related cash flow forecasts, sales values, independent appraisals, the volatility of certain real estate markets, and concern for disposing of real estate in distressed markets. Although management of the Bank believes the estimates underlying the calculation of specific allowances are reasonable, there can be no assurances that the Bank could ultimately realize these values. In addition to providing valuation allowances on specific assets where a decline in value has been estimated, the Bank establishes general valuation allowances for losses based on the overall portfolio composition, general market conditions, concentrations, and prior loss experience.

Other significant management judgments and accounting estimates reflected in the Bank's financial statements include:

- Decisions regarding the timing and placement of loans on non-accrual;
- Determination, recognition, and measurement of impaired loans;
- Recognition and measurement of asset servicing rights;
- Determination and evaluation of deferred tax assets and liabilities;
- Determination of the fair value of other real estate owned; and
- Determination of the fair value of financial instruments.

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of credit risk – Assets and liabilities that subject the Bank to concentrations of credit risk consist of cash balances at other banks, loans, and deposits. Most of the Bank's customers are located within Fresno County and the surrounding areas. The Bank's primary lending products are discussed in Note 3 to the financial statements. The Bank did not have any significant concentrations in its business with any one customer or industry. The Bank obtains what it believes to be sufficient collateral to secure potential losses on loans. The extent and value of collateral varies based on the details underlying each loan agreement.

As of December 31, 2010 and 2009, the Bank has cash deposits at other financial institutions in excess of FDIC insured limits. However, as the Bank places these deposits with major financial institutions and monitors the financial condition of these institutions, management believes the risk of loss to be minimal. 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, 2010 and 2009.

Cash and cash equivalents – For purposes of reporting cash flows, 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.

Securities available-for-sale – Available-for-sale securities consist of U.S. Treasury securities, U.S. Agency securities, obligations of states and political subdivisions, obligations of U.S. Corporations, mortgage-backed securities and other securities not classified as trading securities or held-to-maturity securities. These securities are carried at estimated fair value with unrealized holding gains and losses, net of tax, reported as a separate component of shareholder's equity, accumulated other comprehensive income, until realized. Gains and losses on the sale of available-for-sale securities are determined using the specific identification method. The amortization of premiums and accretion of discounts are recognized as adjustments to interest income using the interest method over the period to call or maturity.

Investments with fair values that are less than amortized cost are considered impaired. Impairment may result from either a decline in the financial condition of the issuing entity or, in the case of fixed interest rate investments, from rising interest rates. At each financial statement date, management assesses each investment to determine if impaired investments are temporarily impaired or if the impairment is other than temporary. This assessment includes a determination of whether the Bank intends to sell the security, or if it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other than temporarily impaired and that the Bank does not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, the amount of impairment is separated into the amount that is credit related (credit loss component) and the amount due to all other factors.

The credit loss component is recognized in earnings and is calculated as the difference between the security's amortized cost basis and the present value of its expected future cash flows. The remaining difference between the security's fair value and the present value of the future expected cash flows is deemed to be due to factors that are not credit related and is recognized in other comprehensive income.

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans – Loans are reported at the principal amount outstanding, net of deferred loan fees and costs and the allowance for loan losses. Unearned discounts on installment loans are recognized as income over the terms of the loans. Interest on other loans is calculated by using the simple interest method on the daily balance of the principal amount outstanding.

Loan fees, net of certain direct costs of origination, are deferred and amortized over the contractual term of the loan as an adjustment to the interest yield. During the years ended December 31, 2010 and 2009, salaries and employee benefits expense totaling $66,705 and $45,721, respectively, were deferred as loan origination costs.

Loans on which the accrual of interest has been discontinued are designated as non-accrual loans. Accrual of interest on loans is discontinued either when reasonable doubt exists as to the full and timely collection of interest or principal or when a loan becomes contractually past due by 90 days or more with respect to interest or principal. When a loan is placed on non-accrual status, all interest previously accrued, but not collected, is reversed against current period interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

Allowance for loan losses – The allowance for loan losses is established through a provision for loan losses charged to operations. Loan losses are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Subsequent recoveries of previously charged off amounts, if any, are credited to the allowance.

Management employs a systematic methodology for determining the allowance for loan losses. On a regular basis, management reviews the credit quality of the loan portfolio and considers problem loans, delinquent loans, existing general economic conditions affecting the key lending areas of the Bank, credit quality trends, collateral values, loan volumes and concentrations, seasoning of the loan portfolio, specific industry conditions, recent loss experience, duration of the current business cycle, bank regulatory examination results and findings of the Bank's internal credit examiners. The allowance for loan losses at December 31, 2010 and 2009 reflects management's estimate of probable losses in the portfolio. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired. Impaired loans, as defined, are measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate or the fair value of the collateral if the loan is collateral dependent. The general component relates to non-impaired loans and is based on historical loss experience and loss history experienced by the Bank’s peers when the Bank did not have losses in a particular loan class, adjusted for qualitative factors impacting the loan portfolio. An unallocated component is maintained to cover uncertainties that could affect management’s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for loan losses – (continued)

The Bank considers a loan impaired when it is probable that all amounts of principal and interest due will not be collected according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, current credit worthiness, and the amount of the shortfall in relation to the principal and interest owed.

Federal Home Loan Bank (FHLB) Stock – 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.

Premises and equipment – 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 range from three to seven years for computer equipment, equipment, and furniture. 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.

Advertising costs – The Bank expenses the costs of advertising in the period incurred. Advertising expense was $66,000 and $83,302 for the years ended December 31, 2010 and 2009, respectively.

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. 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.

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes – The Bank uses the asset and liability method to account for income taxes. Under such method, deferred tax assets and liabilities are recognized for the future tax consequences of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis (temporary differences). Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes in the period of enactment.

A valuation allowance against net deferred tax assets is established to the extent that it is more likely than not that the benefits associated with the deferred tax assets will not be fully realized.

In accordance with accounting standards, the Bank has assessed its tax positions and has concluded there are no unrecognized tax benefits at December 31, 2010 and 2009.

The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2010 and 2009, the Bank recognized no interest and penalties.

The Bank files income tax returns in the U.S. federal jurisdiction and with the state of California. The Bank is subject to U.S. federal or state income tax examinations by tax authorities for years beginning 2006.

Comprehensive income – Changes in unrealized gains and losses on available-for-sale securities are the only component of accumulated other comprehensive income for the Bank.

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 a liability.

See Note 14 for more information and disclosures relating to the Bank's fair value measurements.

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 15. 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, such as stock options, were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The treasury stock method is applied to determine the dilutive effect of stock options when computing diluted earnings per share.

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 12 for additional information on the Bank's stock option plan.

Transfers of financial assets – Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Servicing rights – The Bank sells or transfers loans, including the guaranteed portion of United States Department of Agriculture (USDA) loans (with servicing retained) for cash proceeds equal to the principal amount of loans, as adjusted to yield interest to the investor based upon the current market rates. The Bank records an asset representing the right to service a loan for others when it sells a loan and retains the servicing rights. The carrying value of the loan is allocated between the loan and the servicing rights, based on their relative fair values. The fair value of servicing rights is estimated by discounting estimated future cash flows from servicing using discount rates that approximate current market rates and using estimated prepayment rates.

The servicing rights are initially measured at fair value and amortized in proportion to and over the period of the estimated net servicing income assuming prepayments. Additionally, management assesses the servicing rights for impairment as of each financial reporting date. For purposes of evaluating and measuring impairment, servicing rights are based on a discounted cash flow methodology, current prepayment speeds and market discount rates. Any impairment is measured as the amount by which the carrying value of servicing rights for a stratum exceeds its fair value. The carrying value of servicing rights at December 31, 2010 and 2009 were $56,535 and $0, respectively. No impairment charges were recorded for the years ended December 31, 2010 or 2009 related to servicing assets.

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications – Certain reclassifications have been made to the 2009 financial statements to conform to the classifications used in 2010.

Adoption of new accounting standards – In January 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-01, Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20. The amendments in this update temporarily delay the effective date of the disclosures about troubled debt restructurings in ASU No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses for public entities. The delay is intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, the guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011. The amendments in this update apply to all public-entity creditors that modify financing receivables within the scope of the disclosure requirements about troubled debt restructurings in update 2010-20. The amendments in this update do not affect nonpublic entities. As this ASU is disclosure-related only, the Bank's adoption of this ASU in 2011 is not expected to impact the Bank's financial condition or results of operations.

In July 2010, the FASB issued ASU No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This update amends Topic 310 to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class, certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The amendments in this update apply to all entities, both public and nonpublic. The amendments in this update affect all entities with financing receivables, excluding short-term trade accounts receivable or receivables measured at fair value or lower of cost or fair value. For public entities including those traded over-the-counter, the disclosures required by this update as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. For nonpublic entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011. The amendments in this update encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. As this ASU is disclosure-related only, the Bank's adoption of this ASU in 2010 did not impact the Bank's financial condition or results of operations.

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of new accounting standards – (continued)

In April 2010, the FASB issued ASU No. 2010-18, Receivables (Topic 310): Effect of a Loan Modification When the Loan is Part of a Pool That Is Accounted for as a Single Asset. This update clarifies that modifications of loans that are accounted for within a pool under Subtopic 310-30, which provides guidance on accounting for acquired loans that have evidence of credit deterioration upon acquisition, do not result in the removal of those loans from the pool even if the modification would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The amendments do not affect the accounting for loans under the scope of Subtopic 310-30 that are not accounted for within pools. Loans accounted for individually under Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within Subtopic 310-40. The amendments in this update affect any entity that acquires loans subject to Subtopic 310-30, that account for some or all of those loans within pools, and that subsequently modify one or more of those loans after acquisition. The amendments in this update are effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. Upon initial adoption of the guidance in this update, an entity may make a onetime election to terminate accounting for loans as a pool under Subtopic 310-30. This election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. The Bank's adoption of this ASU in 2010 did not have an impact on the Bank's financial statements.

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This update requires: (1) disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurement categories and the reasons for the transfers; and (2) separate presentation of purchases, sales, issuances, and settlements in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). In addition, this update clarifies the requirements of the following existing disclosures set forth in the Codification Subtopic 820-10: (1) For purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and (2) a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements. This update is effective for interim and annual reporting periods beginning January 1, 2010, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning January 1, 2011, and for interim periods within those fiscal years. As this ASU is disclosure-related only, the Bank's adoption of this ASU in 2010 did not impact the Bank's financial condition or results of operations.

NOTE 2 – INVESTMENT SECURITIES

The amortized cost and estimated fair values of securities available-for-sale are as follows:

	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:				
U.S. government and agency securities	$ 29,755,275	$ 564,513	$ (52,096)	$ 30,267,692
Mortgage-backed securities	7,959,512	323,520	(72,346)	8,210,686
Corporate debt securities	2,446,735	32,669	(7,663)	2,471,741
	$ 40,161,522	$ 920,702	$ (132,105)	$ 40,950,119

	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:				
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 agencies	495,438	12,591	-	508,029
	$ 37,031,871	$ 760,397	$ (92,228)	$ 37,700,040

NOTE 2 – INVESTMENT SECURITIES (CONTINUED)

The amortized cost and estimated fair value of all investment securities as of December 31, 2010 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.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 260,111	$ 261,336
Due after one year to five years	1,618,583	1,682,868
Due from five to ten years	17,963,641	18,226,313
Due after ten years	20,319,187	20,779,602
	$ 40,161,522	$ 40,950,119

Management periodically evaluates each available-for-sale investment security in an unrealized loss position to determine if the impairment is other than temporary. Management has determined that no investment security is other than temporarily impaired. The unrealized losses are due solely to interest rate changes and the Bank does not intend to sell the securities and it is unlikely that the Bank will be required to sell the securities before recovery of the their amortized cost.

NOTE 2 – 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 are as follows:

	2010					
	Less than 12 months		Over Twelve Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government and agency securities	$ 4,997,410	$ (50,644)	$ 626,371	$ (1,452)	$ 5,623,781	$ (52,096)
Mortgage-backed securities	1,165,201	(72,346)	-	-	1,165,201	(72,346)
Corporate debt securities	447,750	(7,663)	-	-	447,750	(7,663)
	$ 6,610,361	$ (130,653)	$ 626,371	$ (1,452)	$ 7,236,732	$ (132,105)

	2009					
	Less than 12 months		Over Twelve Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government and agency securities	$ 12,889,537	$ (91,122)	$ 456,313	$ (1,106)	$ 13,345,850	$ (92,228)
	$ 12,889,537	$ (91,122)	$ 456,313	$ (1,106)	$ 13,345,850	$ (92,228)

Certain investment securities shown in the previous table currently have fair values less than amortized cost and therefore contain unrealized losses. The Bank considers a number of factors including, but not limited to: (a) the length of time and the extent to which the fair value has been less than the amortized cost, (b) the financial condition and near-term prospects of the issuer, (c) the intent and ability of the Bank to retain its investment for a period of time sufficient to allow for an anticipated recovery in value, (d) whether the debtor is current on interest and principal payments, and (e) general market conditions and the industry- or sector-specific outlook. Management has evaluated all securities at December 31, 2010, and has determined that no securities are other than temporarily impaired.

NOTE 2 – INVESTMENT SECURITIES (CONTINUED)

The Bank does not have the intent to sell the investments that are impaired, and it is more likely than not that the Bank will not have to sell those investments before recovery of the amortized cost basis. The Bank has evaluated these securities and has determined that the decline in value is temporary and is related to the change in market interest rates since purchase. The decline in value is not related to any issuer- or industry-specific event. These temporary unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. At December 31, 2010, there were ten investment securities with unrealized losses. The Bank anticipates full recovery of amortized cost with respect to these securities at maturity or sooner in the event of a more favorable market interest rate environment.

During 2010, the Bank did not sell investment securities. 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.

Investment securities carried at approximately $4,586,000 and $3,545,000 at December 31, 2010 and 2009, respectively, were pledged to secure public deposits or other purposes as permitted or required by law.

NOTE 3 – LOANS

Major classifications of loans are as follows:

	DECEMBER 31,	
	2010	2009
Commercial and industrial	$ 25,584,922	$ 27,212,926
Commercial real estate	36,525,936	21,035,874
Land and construction	7,087,852	11,201,388
Residential real estate	13,606,512	10,502,016
Agriculture	6,442,728	5,750,021
Consumer	833,683	1,616,604
	90,081,633	77,318,829
Allowance for loan losses	(2,379,121)	(1,445,788)
Deferred loan fees and costs, net	(114,519)	(45,788)
	$ 87,587,993	$ 75,827,253

NOTE 3 – LOANS (CONTINUED)

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.

As of December 31, 2010, all of the impaired loans have a related allowance for loss as follows:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded					
Commercial and industrial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	2,556,102	2,556,102	96,905	639,025	46,547
Land and construction	627,076	627,076	1,411	444,455	11,916
Residential real estate	1,168,940	1,183,810	80,038	1,093,785	70,955
Agriculture	476,719	476,719	19,501	477,702	24,232
Consumer	-	-	-	-	-
	$ 4,828,837	$ 4,843,707	$ 197,855	$ 2,654,967	$ 153,650

At December 31, 2009, the Bank's recorded investment in loans evaluated for impairment totaled approximately $1,635,000 with a related allowance of approximately $36,000. The average recorded investment in impaired loans was approximately $1,192,000 for the year ended December 31, 2009. For the year ended December 31, 2009, the Bank recognized approximately $9,000 in interest income on impaired loans using the cash-basis method of accounting.

Loans on which the accrual of interest has been discontinued or reduced were approximately $195,000 and $378,000 as of December 31, 2010 and 2009, respectively. There were no loans past due over 90 days and still accruing interest at December 31, 2010 and 2009.

The Bank has established a loan risk rating system to measure and monitor the quality of the loan portfolio. All loans are assigned a risk rating from the inception of the loan until the loan is paid off. The primary loan grades are as follows:

NOTE 3 – LOANS (CONTINUED)

Loans rated Pass – These are loans to borrowers with satisfactory financial support, repayment capacity and credit strength. Borrowers in this category demonstrate fundamentally sound financial positions, repayment capacity, credit history and management expertise. Loans in this category must have an identifiable and stable source of repayment and meet the Bank's policy regarding debt service coverage ratios. These borrowers are capable of sustaining normal economic, market or operational setbacks without significant financial impacts. Financial ratios and trends are acceptable. Negative external industry factors are generally not present. The loan may be secured, unsecured or supported by non-real estate collateral for which the value is more difficult to determine and/or marketability is more uncertain. These loans carry a normal degree of risk. The borrowers have the capacity to perform according to terms; any deviation from historic performance is limited and temporary.

Loans rated Special Mention – These are loans that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. Special Mention assets are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification. These loans exhibit a more weakened condition than Pass loans but not to the degree where they would be considered substandard. These loans show definite signs of deterioration or weakness, and the likelihood of correction is somewhat questionable. Weaknesses might include significant earnings decline, collection of accounts receivable is slowing, delayed accounts payable, greater dependency on-line usage, covenants not being met, and/or waived for short periods.

Loans rated Substandard – These are loans that are inadequately protected by the current sound worth and paying capacity of the borrower or by the collateral pledged, if any. These loans have a well-defined weakness, or weaknesses that jeopardize the liquidation of the loan. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Loans rated Doubtful – These are loans have all the weaknesses inherent in a loan classified as substandard with the added characteristic that the weaknesses makes the collection or liquidation in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable. These loans have a high probability of loss due to significant deterioration in financial condition of the borrower and collateral value pledged, if any. The borrower is unable to demonstrate the ability to strengthen their financial condition within a reasonable time; therefore, close supervision is required and the loan is placed on non-accrual. The risk of loss is measured by an impairment analysis; any loss exposure determined through this analysis is to be charged-off.

NOTE 3 – LOANS (CONTINUED)

The following table summarizes the loan portfolio by credit quality and product and/or collateral type as of December 31, 2010:

	Pass	Special Mention	Substandard	Doubtful	Total
Grade:					
Commercial and industrial	$20,767,041	$ 2,847,807	$ 1,970,074	$ -	$ 25,584,922
Commercial real estate	32,137,144	-	4,388,792	-	36,525,936
Land and construction	4,421,908	1,996,418	669,526	-	7,087,852
Residential real estate	12,085,034	-	1,521,478	-	13,606,512
Agriculture	5,966,009	-	476,719	-	6,442,728
Consumer	833,683	-	-	-	833,683
	$76,210,819	$ 4,844,225	$ 9,026,589	$ -	$ 90,081,633

The following table is an aging analysis of loans, segregated by class of loans, as of December 31, 2010:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial and industrial	$ -	$ -	$ -	$ -	$ 25,584,922	$ 25,584,922	$ -
Commercial real estate	-	-	-	-	36,525,936	36,525,936	-
Land and construction	-	-	-	-	7,087,852	7,087,852	-
Residential real estate	-	-	-	-	13,606,512	13,606,512	-
Agriculture	-	-	-	-	6,442,728	6,442,728	-
Consumer	-	-	-	-	833,683	833,683	-
Total	$ -	$ -	$ -	$ -	$ 90,081,633	$ 90,081,633	$ -

Changes in the allowance for loan losses are as follows:

	YEAR ENDED DECEMBER 31, 2010	2009
Balance, beginning of year	$ 1,445,788	$ 1,426,013
Provision for loan losses	1,283,000	709,917
Loans charged off	(420,076)	(690,142)
Recoveries of loans previously charged off	70,409	-
Balance, end of year	$ 2,379,121	$ 1,445,788

NOTE 3 – LOANS (CONTINUED)

The following table summarizes the Bank's allowance for loan losses for the year ended December 31, 2010 by loan product and collateral type:

	Commercial and Industrial	Commercial Real Estate	Land and Construction	Residential Real Estate	Agriculture	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 525,636	$ 191,089	$ 431,057	$ 182,085	$ 84,136	$ 25,138	$ 6,647	$ 1,445,788
Charge-offs	(413,576)	-	(6,500)	-	-	-	-	(420,076)
Recoveries	32,121	-	38,288	-	-	-	-	70,409
Provision	470,824	639,257	(166,234)	99,196	(24,153)	(11,745)	275,855	1,283,000
Ending balance	$ 615,005	$ 830,346	$ 296,611	$ 281,281	$ 59,983	$ 13,393	$ 282,502	$ 2,379,121
Period-end amount allocated to:								
Loans individually evaluated for impairment	$ -	$ 96,905	$ 1,411	$ 80,038	$ 19,501	$ -	$ -	$ 197,855
Loans collectively evaluated for impairment	615,005	733,441	295,200	201,243	40,482	13,393	282,502	2,181,266
Ending balance	$ 615,005	$ 830,346	$ 296,611	$ 281,281	$ 59,983	$ 13,393	$ 282,502	$ 2,379,121
Loans:								
Individually evaluated for impairment	$ -	$ 2,556,102	$ 627,076	$ 1,168,940	$ 476,719	$ -		$ 4,828,837
Collectively evaluated for impairment	25,584,922	33,969,834	6,460,776	12,437,572	5,966,009	833,683		85,252,796
Ending balance	$ 25,584,922	$ 36,525,936	$ 7,087,852	$ 13,606,512	$ 6,442,728	$ 833,683		$ 90,081,633

NOTE 4 – PREMISES AND EQUIPMENT

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

	DECEMBER 31,	
	2010	2009
Leasehold improvements	$ 1,123,897	$ 1,123,897
Furniture, fixtures, and equipment	467,489	463,660
Computer equipment	463,501	439,923
	2,054,887	2,027,480
Less accumulated depreciation and amortization	(1,366,265)	(1,185,583)
	$ 688,622	$ 841,897

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, 2010, the future lease rental payable under noncancellable operating lease commitments for the Banks' main office and administrative offices were as follows:

2011	$ 302,940
2012	312,028
2013	321,388
2014	331,030
2015	340,961
Thereafter	28,483
	$ 1,636,830

The minimum rental payments shown above are given for the existing lease obligations and are not a forecast of future rental expense. Total rental expense was approximately $310,000 and $295,000 for the years ended December 31, 2010 and 2009, respectively.

NOTE 5 – DEPOSITS

Customer deposits were as follows:

	DECEMBER 31, 2010	DECEMBER 31, 2009
Non-interest-bearing demand	$ 31,597,639	$ 26,071,166
Savings, NOW and money market accounts	48,892,925	40,061,179
Time deposits under $100,000	18,394,407	23,898,745
Time deposits $100,000 and over	27,221,593	17,058,929
	$ 126,106,564	$ 107,090,019

At December 31, 2010, the scheduled maturities of time deposits are as follows:

2011	$ 40,286,889
2012	2,419,449
2013	800,673
2014	717,754
2015 and beyond	1,391,235
	$ 45,616,000

NOTE 6 – BORROWING ARRANGEMENTS

The Bank may borrow up to $10,000,000 overnight on an unsecured basis from three correspondent banks. The Bank may also borrow up to approximately $21,460,000 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 $4,586,000 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 2010 and 2009, no amounts were outstanding under these arrangements.

NOTE 7 – 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 ESOP documents. 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 years ended December 31, 2010 and 2009, contributions to the ESOP were $99,996 and $54,400, respectively.

The Bank sponsors a 401(k) 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. The Bank made no contributions for the years ended December 31, 2010 and 2009.

NOTE 8 – INCOME TAXES

The provision (benefit) for income taxes consists of the following:

	2010	2009
Current		
Federal	$ -	$ -
State	112,000	924
	112,000	924
Deferred		
Federal	(411,000)	(321,000)
State	(256,000)	-
	(667,000)	(321,000)
	$ (555,000)	$ (320,076)

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:

NOTE 8 – INCOME TAXES (CONTINUED)

		2010		2009
Deferred tax assets:				
Pre-operating expenses	$	171,000	$	189,000
Depreciation differences		159,000		135,000
Allowance for loan losses due to tax limitations		820,000		505,000
Stock-based compensation		286,000		319,000
Operating loss carryforwards		748,000		1,360,000
Other		142,000		36,000
		2,326,000		2,544,000
Deferred tax liabilities:				
Accrual to cash		(155,000)		(108,000)
Unrealized gains on available-for-sale securities		(268,000)		(227,000)
Other		(147,000)		(57,000)
		(570,000)		(392,000)
Valuation allowance		(995,000)		(2,058,000)
Net deferred income tax asset	$	761,000	$	94,000

As of December 31, 2010 and 2009, a valuation allowance equal to the amount of realizable deferred tax assets was recorded based on the determination that the Bank is more likely than not unable to utilize the deferred tax assets. The Bank reduced the valuation allowance by approximately $1,063,000 and $449,000 in 2010 and 2009, respectively. The Bank has net operating loss carryforwards of approximately $1,095,000 for federal income and $5,357,000 for California franchise tax purposes. Federal and California net operating loss carryforwards, to the extent not used, will expire in 2028 and 2025, 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, 2010, 2009, and 2008 are open to audit by the federal authorities and income tax returns for the years ended December 31, 2010, 2009, 2008, 2007, and 2006 are open to audit by state authorities. Unrecognized tax benefits are not expected to significantly increase or decrease within the next twelve months.

NOTE 9 – 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 $1,356,000 and $226,000 at December 31, 2010 and 2009, respectively.

Deposits from certain directors, officers and their related interests with which they are associated held by the Bank at December 31, 2010 and 2009 amounted to approximately $1,999,000 and $3,605,000, respectively.

NOTE 10 – EARNINGS PER SHARE (EPS)

Earnings per share for the years ended December 31, were computed as follows:

	2010	2009
Basic earnings per share:		
Net income	$ 1,520,399	$ 629,342
Accretion of preferred stock	(32,666)	(29,945)
Dividends paid on preferred stock	(107,220)	(53,610)
Net income available to common shareholders	$ 1,380,513	$ 545,787
Weighted average common shares outstanding	1,676,341	1,674,497
Basic earnings per share	$ 0.82	$ 0.33
Diluted earnings per share:		
Net income	$ 1,520,399	$ 629,342
Accretion of preferred stock	(32,666)	(29,945)
Dividends paid on preferred stock	(107,220)	(53,610)
Net income available to common shareholders	$ 1,380,513	$ 545,787
Weighted average common shares outstanding	1,676,341	1,674,497
Effect of dilutive options	1,005	-
Adjusted weighted average common shares outstanding	1,677,346	1,674,497
Diluted earnings per share	$ 0.82	$ 0.33

At December 31, 2010 and 2009, there were 439,957 and 400,832 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 11– 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, 2010 and 2009, the Bank had the following outstanding financial commitments whose contractual amount represents credit risk:

	2010	2009
Commitments to extend credit	$ 18,491,000	$ 18,712,000
Letters of credit	-	400,000
	$ 18,491,000	$ 19,112,000

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 12– 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 awards 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 $95,313 and $156,246 in 2010 and 2009, respectively. The Bank recognized tax expense related to stock based compensation of $32,789 in 2010 and tax benefits related to stock based compensation of $17,128 in 2009.

NOTE 12– STOCK OPTION PLAN (CONTINUED)

The following table shows weighted average assumptions used in valuing stock options granted for the years ended December 31:

	2010	2009
Expected volatility	25.00%	25.00%
Expected term	5.2 years	6.5 years
Expected dividends	None	None
Risk free rate	1.65%	2.62%
Grant date fair value	$ 2.50	$ 3.16

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, 2010 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	400,832	$ 10.72		
Granted	75,850	$ 9.64		
Exercised	(4,166)	$ 7.50		
Forfeited or expired	(31,554)	$ 10.20		
Outstanding at end of year	440,962	$ 10.86	6.5 years	None
Options exercisable	350,809	$ 11.58	6.0 years	None

As of December 31, 2010, there was approximately $199,000 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted average period of 2.5 years.

NOTE 13 – REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet these 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 classifications 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 I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2010, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2010, 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):

	Actual		For capital adequacy purposes		To be well-capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2010:						
Total Capital (to Risk-Weighted Assets)	$ 17,011	19.6%	$ 6,959	≥ 8.0%	$ 8,699	≥ 10.0%
Tier I Capital (to Risk-Weighted Assets)	$ 15,903	18.3%	$ 3,480	≥ 4.0%	$ 5,220	≥ 6.0%
Tier I Capital (to Average Assets)	$ 15,903	11.1%	$ 5,750	≥ 4.0%	$ 7,187	≥ 5.0%
December 31, 2009:						
Total Capital (to Risk-Weighted Assets)	$ 15,345	19.5%	$ 6,311	≥ 8.0%	$ 7,888	≥ 10.0%
Tier I Capital (to Risk-Weighted Assets)	$ 14,353	18.2%	$ 3,155	≥ 4.0%	$ 4,733	≥ 6.0%
Tier I Capital (to Average Assets)	$ 14,353	11.5%	$ 5,015	≥ 4.0%	$ 6,269	≥ 5.0%

NOTE 13 – REGULATORY MATTERS (CONTINUED)

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 any distributions made to shareholders during the same period without the approval in advance of the Commissioner of the California Department of Financial Institutions. Pursuant to the terms of the Bank's participation in the Troubled Assets Relief Program (TARP) Capital Purchase Program (see Note 16), the Bank's ability to declare or pay dividends on any of their shares is limited by the U.S. Treasury. See Note 10 for payment of dividends on the preferred stock related to the Bank's participation in the TARP Capital Purchase Program.

NOTE 14 – 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 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 appraisal 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 – Non-recurring 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.

The following tables summarize the Bank's assets that were measured at fair value on a recurring and non-recurring basis at December 31, 2010:

Description of Assets	December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale (recurring)				
U.S. government and agency securities	$ 30,267,692	$ 1,419,296	$ 28,848,396	$ -
Mortgage-backed securities	8,210,686	-	8,210,686	-
Corporate debt securities	2,471,741	447,750	2,023,991	-
Impaired loans (non-recurring)	332,128	-	-	332,128
Total	$ 41,282,247	$ 1,867,046	$ 39,083,073	$ 332,128

NOTE 14 – FAIR VALUE MEASUREMENT (CONTINUED)

The following tables summarize the Bank's assets that were measured at fair value on a recurring and non-recurring basis at December 31, 2009:

Description of Assets	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale (recurring)	$ 37,700,040	$ -	$ 37,700,040	$ -
Other real estate owned (non-recurring)	170,633	-	170,633	-
Total	$ 37,870,673	$ -	$ 37,870,673	$ -

NOTE 15 – 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.

NOTE 15 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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 and interest receivable approximates its carrying value.

Financial liabilities – The carrying amounts of deposit liabilities payable on demands, 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 interest payable approximates its carrying amount.

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, taking into account the remaining terms of the agreements and the credit standing of the counterparties.

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

	2010		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 11,054	$ 11,054	$ 5,480	$ 5,480
Securities available-for-sale	40,950	40,950	37,700	37,700
Loans, net	87,588	90,599	75,827	77,947
Other non-interest earning asset	-	-		
Federal Home Loan Bank stock	636	636	441	441
Interest receivable	589	589	640	640
Financial liabilities:				
Deposits	126,107	126,726	107,090	107,292
Interest payable	39	39	71	71
Off-balance-sheet liabilities:				
Commitments to extend credit and letters of credit	-	185	-	191

NOTE 16 – 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 qualify as Tier 1 Capital. Series A Preferred Stock 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 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.

NOTE 17 – SUBSEQUENT EVENTS

The Bank has evaluated the effects of subsequent events that have occurred after the period ending December 31, 2010 and through April 11, 2011, which is the date the financial statements were issued.

FRESNO FIRST BANK

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