



INDEPENDENT AUDITORS' 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, 2007 and 2006 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, 2007 and 2006 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
February 11, 2008

FRESNO FIRST BANK
STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006

ASSETS

	2007	2006
Cash and Due from Banks	\$ 2,634,156	\$ 1,922,627
Interest-Bearing Deposits in Financial Institutions	3,000,000	-
Federal Funds Sold	7,510,000	7,100,000
TOTAL CASH AND CASH EQUIVALENTS	13,144,156	9,022,627
Investment Securities Available for Sale	14,904,058	5,691,979
Loans:		
Construction and Land Development	8,400,088	5,859,963
Real Estate - Other	13,811,230	19,380,249
Commercial	11,320,613	7,387,856
Consumer	929,148	690,558
TOTAL LOANS	34,461,079	33,318,626
Deferred Loan Fees, Net of Costs	(79,901)	(117,843)
Allowance for Loan Losses	(739,000)	(526,000)
NET LOANS	33,642,178	32,674,783
Federal Home Loan Bank Stock, at Cost	163,700	107,100
Premises and Equipment	1,366,440	1,616,031
Accrued Interest and Other Assets	449,627	493,507
	\$ 63,670,159	\$ 49,606,027

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

FRESNO FIRST BANK
STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006

LIABILITIES AND SHAREHOLDERS' EQUITY

	2007	2006
Deposits:		
Noninterest-Bearing Demand	\$ 18,312,387	\$ 15,593,158
Savings, NOW and Money Market Accounts	16,843,436	12,330,681
Time Deposits Under \$100,000	2,899,667	1,420,594
Time Deposits \$100,000 and Over	11,887,130	6,038,970
TOTAL DEPOSITS	49,942,620	35,383,403
Accrued Interest and Other Liabilities	234,629	168,298
TOTAL LIABILITIES	50,177,249	35,551,701
Commitments and Contingencies - Notes D and J	-	-
Shareholders' Equity:		
Preferred Stock - 5,000,000 Shares Authorized, No Par Value		
None Outstanding	-	-
Common Stock - 5,000,000 Shares Authorized, No Par Value;		
Issued and Outstanding 1,674,497 in 2007 and 1,650,332 in 2006	16,819,686	16,504,250
Additional Paid-in Capital	765,440	417,192
Accumulated Deficit	(4,139,840)	(2,857,869)
Accumulated Other Comprehensive Income - Unrealized Gain		
(Loss) on Available-for-Sale Securities	47,624	(9,247)
TOTAL SHAREHOLDERS' EQUITY	13,492,910	14,054,326
	\$ 63,670,159	\$ 49,606,027

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

FRESNO FIRST BANK
STATEMENTS OF OPERATIONS
December 31, 2007 and 2006

	2007	2006
INTEREST INCOME		
Interest and Fees on Loans	\$ 3,223,136	\$ 1,341,925
Interest on Investment Securities	614,643	231,575
Interest on Federal Funds Sold and Other	773,620	363,941
TOTAL INTEREST INCOME	4,611,399	1,937,441
INTEREST EXPENSE		
Interest on Savings Deposits, NOW and Money Market Accounts	637,298	316,558
Interest on Time Deposits	924,075	144,658
Interest on Other Borrowings	6,042	9,023
TOTAL INTEREST EXPENSE	1,567,415	470,239
NET INTEREST INCOME	3,043,984	1,467,202
Provision for Loan Losses	213,000	526,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,830,984	941,202
NONINTEREST INCOME		
Service Charges, Fees and Other	63,159	9,519
NONINTEREST EXPENSE		
Salaries and Employee Benefits	2,050,744	1,524,928
Occupancy and Equipment Expenses	781,701	568,731
Other Expenses	1,342,869	1,132,121
LOSS BEFORE INCOME TAXES	(1,281,171)	(2,275,059)
Income Taxes	800	800
NET LOSS	\$(1,281,971)	\$(2,275,859)
NET LOSS PER SHARE - BASIC	\$(0.77)	\$(1.38)

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

FRESNO FIRST BANK

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
December 31, 2007 and 2006**

	Shares Outstanding	Common Stock	Additional Paid-in Capital	Comprehensive Income	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2006	1,650,000	\$ 16,500,000	\$ -		\$(582,010)	\$ -	\$ 15,917,990
Stock-Based Compensation			418,122				418,122
Exercise of Stock Options	332	4,250	(930)				3,320
Comprehensive Income:							
Net Loss				\$(2,275,859)	(2,275,859)		(2,275,859)
Unrealized Loss on Available-for-Sale Securities				(9,247)		(9,247)	(9,247)
Total Comprehensive Income				<u>\$(2,285,106)</u>			
Balance at December 31, 2006	1,650,332	16,504,250	417,192		(2,857,869)	(9,247)	14,054,326
Stock-Based Compensation			422,034				422,034
Exercise of Stock Options	24,165	315,436	(73,786)				241,650
Comprehensive Income:							
Net Loss				\$(1,281,971)	(1,281,971)		(1,281,971)
Unrealized Gain on Available-for-Sale Securities				56,871		56,871	56,871
Total Comprehensive Income				<u>\$(1,225,100)</u>			
Balance at December 31, 2007	<u>1,674,497</u>	<u>\$ 16,819,686</u>	<u>\$ 765,440</u>		<u>(\$ 4,139,840)</u>	<u>\$ 47,624</u>	<u>\$ 13,492,910</u>

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

FRESNO FIRST BANK
STATEMENTS OF CASH FLOWS
December 31, 2007 and 2006

	2007	2006
OPERATING ACTIVITIES		
Net Loss	\$(1,281,971)	\$(2,275,859)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities:		
Depreciation and Amortization	352,546	256,904
Provision for Loan Losses	213,000	526,000
Stock-Based Compensation	422,034	418,122
Other Items	67,175	(250,431)
NET CASH USED BY OPERATING ACTIVITIES	(227,216)	(1,325,264)
INVESTING ACTIVITIES		
Purchase of Available-for-Sale Securities	(21,458,568)	(7,686,793)
Proceeds from Maturities of Available-for-Sale Securities	12,339,896	1,500,000
Proceeds from Sale of Available-for-Sale Securities	-	502,500
Net Increase in Loans	(1,180,395)	(33,200,783)
Purchase of Federal Home Loan Bank Stock	(50,100)	(107,100)
Purchases of Premises and Equipment	(102,955)	(1,565,990)
NET CASH USED BY INVESTING ACTIVITIES	(10,452,122)	(40,558,166)
FINANCING ACTIVITIES		
Net Increase in Demand Deposits and Savings Accounts	7,231,984	27,501,582
Net Increase in Time Deposits	7,327,233	7,449,564
Repayment of Organizational Loan	-	(600,000)
Repayment of Organizers Advances	-	(275,000)
Proceeds from Exercise of Stock Options	241,650	3,320
NET CASH PROVIDED BY FINANCING ACTIVITIES	14,800,867	34,079,466
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,121,529	(7,803,964)
Cash and Cash Equivalents at Beginning of Period	9,022,627	16,826,591
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 13,144,156	\$ 9,022,627
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	\$ 1,554,535	\$ 447,897
Taxes Paid	\$ 800	\$ 800

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

FRESNO FIRST BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

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.

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 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. New banks are exempt from this requirement for the first year of operation.

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 is 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.

FRESNO FIRST BANK

NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

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.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other-than-temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers; the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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.

FRESNO FIRST BANK

NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Loans - Continued

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.

Allowance for Loan Losses

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.

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 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.

Advertising Costs

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

FRESNO FIRST BANK

NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 Financial Accounting Standards Interpretation No. 48 ("Fin 48"), *Accounting for Uncertainty in Income Taxes*. Fin 48 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. Management believes that all tax positions taken to date are highly certain and, accordingly, no accounting adjustment has been made to the financial statements. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

Comprehensive Income

Statement of Financial Accounting Standard ("SFAS") No. 130, *Reporting Comprehensive Income*, requires the disclosure of comprehensive income and its components. Changes in unrealized gain and loss on available-for-sale securities are the only components of accumulated other comprehensive income for the bank.

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 J. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Disclosure about Fair Value of Financial Instruments

Other than the Bank's investment securities, no active market exists for the Bank's financial instruments. The fair market value of investment securities are discussed in Note B. Management believes the fair market value of its other financial instruments, primarily loans and deposits, approximates the amounts reported in the financial statements and notes.

FRESNO FIRST BANK

NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. The Bank had no dilutive securities as of December 31, 2007 and 2006 as well as an operating loss and therefore only reports basic EPS. Weighted average shares outstanding used in the computation of basic earnings per share were 1,661,158 and 1,650,015 in 2007 and 2006, respectively.

Stock-Based Compensation

The Bank has adopted SFAS No. 123(R) “*Shared-Based Payment*”. This Statement generally requires entities to recognize 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.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, *Fair Value Measurements*”, effective for the Bank January 1, 2008. This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement establishes a fair value hierarchy that distinguishes between valuations obtained from sources independent of the entity and those from the entity’s own observable inputs that are not corroborated by observable market data. SFAS No. 157 expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. The disclosures focus on the inputs used to measure fair value, and for recurring fair value measurements using significant unobservable inputs, the effect of the measurements on earnings or changes in net assets for the period. The Bank is currently assessing the impact of this guidance on its financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. SFAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS 159 are elective; however, the amendment to SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale or trading securities. For financial instruments elected to be accounted for at fair value, an entity will report the unrealized gains and losses in earnings. SFAS 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. The Bank is currently assessing the financial impact this Statement will have on the statement of financial condition or results of operations.

FRESNO FIRST BANK

NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

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:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Available-for-Sale:				
December 31, 2007				
U.S. Government and Agency Securities	\$ 8,851,671	\$ 32,951	\$(247)	\$ 8,884,375
Mortgage-Backed Securities	5,523,048	18,092	(7,932)	5,533,208
State and Municipal Securities	<u>481,715</u>	<u>4,760</u>	<u>-</u>	<u>486,475</u>
	<u>\$14,856,434</u>	<u>\$ 55,803</u>	<u>\$(8,179)</u>	<u>\$14,904,058</u>
Available-for-Sale:				
December 31, 2006				
U.S. Government and Agency Securities	\$ 5,226,484	\$ 2,885	\$(11,010)	\$ 5,218,359
State and Municipal Securities	<u>474,742</u>	<u>-</u>	<u>(1,122)</u>	<u>473,620</u>
	<u>\$ 5,701,226</u>	<u>\$ 2,885</u>	<u>\$(12,132)</u>	<u>\$ 5,691,979</u>

FRESNO FIRST BANK

NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE B - INVESTMENT SECURITIES - Continued

The amortized cost and estimated fair value of all investment securities as of December 31, 2007 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.

	<u>Available-for-Sale</u>	
	<u>Amortized</u>	<u>Fair</u>
	<u>Cost</u>	<u>Value</u>
Due in One Year or Less	\$ 1,560,534	\$ 1,561,937
Due from One Year to Five Years	5,452,232	5,466,526
Due from Five to Ten Years	4,933,560	4,951,089
Due after Ten Years	<u>2,910,108</u>	<u>2,924,506</u>
	<u>\$ 14,856,434</u>	<u>\$ 14,904,058</u>

During 2006 the Bank had proceeds from the sale of investment securities in the amount of \$502,500 and realized a loss of \$80, there were no sales in 2007.

Investment securities carried at \$501,250 at December 31, 2007 were pledged to secure public deposits and other purposes as permitted or require by law. There were no pledged investments securities as of December 31, 2006.

FRESNO FIRST BANK

**NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006**

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, 2007 and 2006 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, 2007:						
U.S. Government and Agencies	\$(247)	\$ 1,006,875	\$ -	\$ -	\$(247)	\$ 1,006,875
Mortgage-Backed Securities	<u>(7,939)</u>	<u>2,277,178</u>	<u>-</u>	<u>-</u>	<u>(7,939)</u>	<u>2,277,178</u>
	<u><u>\$(8,186)</u></u>	<u><u>\$ 3,284,053</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$(8,186)</u></u>	<u><u>\$ 3,284,053</u></u>
December 31, 2006:						
U.S. Government and Agencies	\$(11,010)	\$ 3,977,657	\$ -	\$ -	\$(11,010)	\$ 3,977,657
States and Municipal Securities	<u>(1,122)</u>	<u>473,620</u>	<u>-</u>	<u>-</u>	<u>(1,122)</u>	<u>473,620</u>
	<u><u>\$(12,132)</u></u>	<u><u>\$ 4,451,277</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$(12,132)</u></u>	<u><u>\$ 4,451,277</u></u>

As of December 31, 2007, the Bank had four investment securities where estimated fair value had declined 0.25% from the Bank's amortized cost. Management evaluates investment securities for other-than-temporary impairment taking into consideration the extent and length of time the fair value has been less than cost, the financial condition of the issuer and whether the Bank has the intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value, which may be at maturity. As of December 31, 2007, no declines in value are deemed to be other-than-temporary.

FRESNO FIRST BANK

NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

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:

	<u>2007</u>	<u>2006</u>
Beginning Balance	\$ 526,000	\$ -
Additions to the Allowance Charged to Expense	213,000	526,000
Recoveries on Loans Charged Off	-	-
	<u>739,000</u>	<u>526,000</u>
Less Loans Charged Off	<u>-</u>	<u>-</u>
Ending Balance	<u>\$ 739,000</u>	<u>\$ 526,000</u>

The Bank had no significant non-performing or impaired loans outstanding during the years ended December 31, 2007 and 2006.

NOTE D - PREMISES AND EQUIPMENT

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

	<u>2007</u>	<u>2006</u>
Leasehold Improvements	\$ 1,101,775	\$ 1,090,882
Furniture, Fixtures, and Equipment	461,401	460,020
Computer Equipment	412,713	322,033
	<u>1,975,889</u>	<u>1,872,935</u>
Less Accumulated Depreciation and Amortization	<u>(609,449)</u>	<u>(256,904)</u>
	<u>\$ 1,366,440</u>	<u>\$ 1,616,031</u>

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.

FRESNO FIRST BANK

NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE D - PREMISES AND EQUIPMENT - Continued

At December 31, 2007, the future lease rental payable under noncancellable operating lease commitments for the Bank's main banking office and administrative offices were as follows:

2008	\$ 277,232
2009	285,549
2010	294,118
2011	302,940
2012	312,028
Thereafter	<u>1,021,862</u>
	<u>\$ 2,493,729</u>

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 \$353,000 and \$266,000 for the years ended December 31, 2007 and 2006, respectively.

NOTE E - DEPOSITS

At December 31, 2007, the scheduled maturities of time deposits are as follows:

2008	\$ 13,486,289
2009 to 2010	<u>1,300,508</u>
	<u>\$ 14,786,797</u>

As of December 31, 2007 the Bank had eight deposit relationships that exceed 2% of total deposits and aggregated approximately \$13,477,000.

NOTE F - BORROWING ARRANGEMENTS

The Bank may borrow up to \$2,000,000 overnight on an unsecured basis from Pacific Coast Bankers' Bank, a correspondent bank. The Bank may also borrow up to approximately \$9,550,000 from the Federal Home Loan Bank of San Francisco, collateralized by a blanket lien on the Bank's loan portfolio and subject to fulfilling other conditions of the credit facility. As of December 31, 2007, no amounts were outstanding under these arrangements.

FRESNO FIRST BANK

NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE G - INCOME TAXES

The tax expense for the years ended December 31, 2007 and 2006 was the minimum franchise tax for the State of California. The tax benefits related to the operating losses incurred during the years ended December 31, 2007 and 2006 were not recognized, as realization of the benefits is dependent upon future income.

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:

	2007	2006
Deferred Tax Assets:		
Pre-Opening Expenses	\$ 222,000	\$ 239,000
Depreciation Differences	62,000	27,000
Allowance for Loan Losses Due to Tax Limitations	260,000	172,000
Stock-Based Compensation	200,000	98,000
Operating Loss Carryforwards	884,000	695,000
Other	22,000	15,000
	1,650,000	1,246,000
 Valuation Allowance	 (1,569,000)	 (1,101,000)
Deferred Tax Liabilities:		
Accrual to Cash	(64,000)	(129,000)
Other	(17,000)	(16,000)
	(81,000)	(145,000)
 Net Deferred Tax Assets	 \$ <u> -</u>	 \$ <u> -</u>

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 \$2,148,000 for federal income and \$2,146,000 for California franchise tax purposes. Federal net operating loss carryforwards, to the extent not used will expire in 2027. California net operating loss carryforwards, to the extent not used will expire in 2017.

The Bank is subject to federal income tax and franchise tax of the state of California. Federal income tax returns and California franchise tax returns for the years ended December 31, 2006 and 2005 are open to audit by the federal and California authorities.

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NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE H - OTHER EXPENSES

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

	<u>2007</u>	<u>2006</u>
Data Processing	\$ 307,564	\$ 167,450
Marketing and Business Promotion	103,052	235,571
Professional Fees	204,132	183,478
Office Expenses	89,772	101,065
Insurance	27,144	20,885
Director Stock-Based Compensation	269,775	235,222
Reserve for Unfunded Commitments	12,000	28,000
Regulatory Assessments	68,232	963
Other Expenses	261,198	159,487
	<u>\$ 1,342,869</u>	<u>\$ 1,132,121</u>

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. In the Bank's opinion, all loans and loan commitments to such parties are made on substantially the same terms including interest rates, and collateral, as those prevailing at the time for comparable transactions with other persons. The balance of these loans outstanding was approximately \$1,514,000 and \$989,000 at December 31, 2007 and 2006, respectively.

Deposits from certain directors, officers and their related interests with which they are associated held by the Bank at December 31, 2007 and 2006 amounted to approximately \$4,357,000 and \$2,255,000, respectively.

NOTE J - 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.

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NOTES TO FINANCIAL STATEMENTS
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NOTE J - COMMITMENTS - Continued

As of December 31, 2007 and 2006, the Bank had the following outstanding financial commitments whose contractual amount represents credit risk:

	2007	2006
Commitments to Extend Credit	\$ 13,603,000	\$ 10,953,000
Letters of Credit	250,000	875,000
	\$ 13,853,000	\$ 11,828,000

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 L - 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 award. 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 \$422,034 and \$418,122 in 2007 and 2006, respectively.

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:

	2007	2006
Expected Volatility	17.50%	17.50%
Expected Term	6.5 Years	6.5 Years
Expected Dividends	None	None
Risk Free Rate	5.03%	4.39%
Weighted-Average Grant Date Fair Value	\$ 3.51	\$ 3.29

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NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE L - STOCK OPTION PLAN - Continued

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 zero coupon 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, 2007 and changes during the year ending thereon is presented below:

	<u>Shares</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at Beginning of Year	448,168	\$ 10.82		
Granted	76,000	\$ 10.80		
Exercised	(24,165)	\$ 10.00		
Forfeited or Expired	<u>(85,335)</u>	<u>\$ 10.00</u>		
Outstanding at End of Year	<u>414,668</u>	<u>\$ 11.03</u>	<u>8.4 Years</u>	<u>None</u>
Options Exercisable	<u>199,990</u>	<u>\$ 10.61</u>	<u>8.0 Years</u>	<u>None</u>

The total intrinsic value of options exercised during the years ended December 31, 2007 and 2006 was \$45,164 and \$1,577, respectively. As of December 31, 2007, there was approximately \$702,000 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted average period of 1.4 years.

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NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE M - 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, 2007, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2007, 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, 2007:						
Total Capital (to Risk-Weighted Assets)	\$13,969	31.3%	\$ 3,586	8.0%	\$4,482	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	\$13,445	30.0%	\$ 1,793	4.0%	\$2,689	6.0%
Tier 1 Capital (to Average Assets)	\$13,445	19.4%	\$ 2,777	4.0%	\$3,471	5.0%
As of December 31, 2006:						
Total Capital (to Risk-Weighted Assets)	\$14,535	38.6%	\$ 3,012	8.0%	\$3,765	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	\$14,064	37.3%	\$ 1,506	4.0%	\$2,259	6.0%
Tier 1 Capital (to Average Assets)	\$14,064	32.3%	\$ 1,792	4.0%	\$2,240	5.0%

In addition to these capital requirements, the FDIC requires the Bank to maintain its Tier 1 Capital to average assets at 8% during its first three years of operations.

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.

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