FORM 10-K

UNITED SECURITY BANCSHARES - UBFO

Filed: March 15, 2006 (period: December 31, 2005)

Annual report which provides a comprehensive overview of the company for the past year

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005.**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM_____ TO _____.**

Commission file number: 000-32987

UNITED SECURITY BANCSHARES

(Exact name of registrant as specified in its charter)

CALIFORNIA	**91-2112732**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
1525 East Shaw Ave., Fresno, California	**93710**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code (559) 248-4943

Securities registered pursuant to Section 12(b) of the Act:	NONE
Securities registered pursuant to Section 12(g) of the Act:	Common Stock, no par value
	(Title of Class)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing for the past 90 days.
Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrants knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes ☐ No ☒

Aggregate market value of the Common Stock held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter - June 30, 2005: $107,239,815

Shares outstanding as of February 28, 2006: 5,686,517

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Definitive Proxy Statement for the 2006 Meeting of Shareholders is incorporated by reference into Part III.	Part III, Items 10, 11, 12, 13 and 14

UNITED SECURITY BANCSHARES

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PART 1

Certain matters discussed or incorporated by reference in this Annual Report of Form 10-K including, but not limited to, those described in "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations", are forward-looking statements as defined under the Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Such risks and uncertainties include, among others, (1) competitive pressure in the banking industry increases significantly; (2) changes in the interest rate environment which reduces margins; (3) general economic conditions, either nationally or regionally, are less favorable than expected, resulting in, among other things, a deterioration in credit quality; (4) changes in the regulatory environment; (5) changes in business conditions and inflation; (6) changes in securities markets; (7) asset/liability matching risks and liquidity risks; (8) loss of key personnel; and (8) operational interruptions including data processing systems failure and fraud. Therefore, the information set forth therein should be carefully considered when evaluating the business prospects of the Company.

Item 1 Business

General

United Security Bancshares (the "Company") is a California corporation incorporated during March of 2001and is registered with the Board of Governors of the Federal Reserve System as a bank holding company under the Bank Holding Company Act of 1956, as amended. The Company's stock is listed on NASDAQ under the symbol "UBFO". United Security Bank (the "Bank") is a wholly-owned bank subsidiary of the Company and was formed in 1987. United Security Bancshares Capital Trust I (the "Trust") is also a wholly-owned subsidiary of the Company and was formed during June of 2001 as a Delaware business trust for the sole purpose of issuing Trust Preferred securities. At present, the Company does not engage in any material business activities other than ownership of the Bank. References to the Company are references to United Security Bancshares, Inc. (including the Bank), except for periods prior to June 12, 2001, in which case, references to the Company are references to the Bank.

United Security Bank

On June 12, 2001, the Bank became the wholly owned subsidiary of United Security Bancshares, through a tax-free holding company reorganization, accounted for on a basis similar to the pooling of interest method. In the transaction, each share of Bank stock was exchanged for a share of Company stock on a one-to-one basis.

The Bank is a California state-chartered bank headquartered in Fresno, California. It is also a member of the Federal Reserve System ("Fed member"). The Bank originally commenced business on December 21, 1987 as a national bank and, during the fourth quarter of 1998, filed an application with the California Department of Financial Institutions and other regulatory authorities to become a state-chartered bank. The shareholders approved the conversion in January of 1999, and the Bank was granted approval to operate as a state-chartered bank on February 3, 1999. The Bank's operations are currently subject to federal and state laws applicable to state-chartered, Fed member banks and its deposits are insured up to the applicable limits by the Federal Deposit Insurance Corporation (the "FDIC"). The Bank is also subject to the Federal Deposit Insurance Act and regulatory reporting requirements of the FDIC. As a state-chartered bank and a member of the Federal Reserve System, the Bank is subject to supervision and regular examinations by the Board of Governors of the Federal Reserve System (the "FRB") and the California Department of Financial Institutions (the "DFI"). In addition, the Bank is required to file reports with the FRB and provide such additional information as the FRB may require.

Effective August 25, 1995, the Bank consummated a merger with Golden Oak Bank, a two branch California state chartered bank located in Oakhurst, California, with assets of approximately $45 million at the date of merger. The merger was accounted for as a pooling of interests.

During February of 1997, the Bank completed the purchase of the deposits and certain assets of two branches of Wells Fargo Bank located in Caruthers and San Joaquin, both located in Fresno County. This brought the total branches operated at that time by the Bank to six and the total assets to approximately $190 million. The Bank paid a premium of approximately $1.2 million to purchase deposit accounts totaling approximately $33.4 million. The Bank also purchased cash balances as well as certain fixed assets of the branch operations.

During October of 1997, the Bank completed the purchase from Bank of America of two of its branches located in Firebaugh and Coalinga, both located in Fresno County. The acquisition brought the total branches operated by the Bank to eight at that time and the total assets to approximately $238 million. The premium paid by the Bank totaled approximately $3.0 million and the amount of deposits totaled approximately $44.4 million. The transaction included the receipt of cash balances of approximately $1.0 million and the purchase of premises and equipment totaling approximately $600,000.

USB Investment Trust Inc. was incorporated effective December 31, 2001 as a special purpose real estate investment trust ("REIT") under Maryland law. The REIT is a subsidiary of the Bank and was funded with $133.0 million in real estate-secured loans contributed by the Bank. USB Investment Trust was originally formed to give the Bank flexibility in raising capital, and reduce the expenses associated with holding the assets contributed to USB Investment Trust. For further discussion of the REIT, refer to the overview section of Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations.

Effective April 23, 2004, the Company completed a merger with Taft National Bank headquartered in Taft, California. Taft National Bank ("Taft") was merged into United Security Bank and Taft's two branches operate as branches of United Security Bank. The total consideration paid to Taft shareholders was 241,447 shares of the Company's Common Stock valued at just over $6 million. In the merger, the Company acquired $15.4 million in cash and short-term investments, $23.3 million in loans, and $48.2 million in deposits. This transaction was accounted for using the purchase method of accounting, and resulted in the purchase price being allocated to the assets acquired and liabilities assumed from Taft based on the fair value of those assets and liabilities. The consolidated statement of income for the year ended December 31, 2004 includes the operations of Taft from the date of the acquisition to December 31, 2004.

At December 31, 2005, the Company operated ten full-service bank branches and one construction lending office; with seven branches in Fresno County, two branches in Kern County, and one branch in Madera County. The Bank operates three branches (including its main office) and one construction lending office in Fresno and one branch each, in Oakhurst, Caruthers, San Joaquin, Firebaugh, Coalinga, Bakersfield, and Taft. In addition, the Company and Bank have administrative headquarters at 1525 East Shaw Avenue, Fresno, California, 93710.

At December 31, 2005, the consolidated Company had approximately $628.9 million in total assets, $409.4 million in net loans, $546.5 million in deposits, and $59.0 million in shareholders' equity.

The following discussion of the Company's services should be read in conjunction with "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS."

Bank Services

As a state-chartered commercial bank, United Security Bank offers a full range of commercial banking services primarily to the business and professional community and individuals located in Fresno, Madera, and Kern Counties.

The Bank offers a wide range of deposit instruments including personal and business checking accounts and savings accounts, interest-bearing negotiable order of withdrawal ("NOW") accounts, money market accounts and time certificates of deposit. Most of the Bank's deposits are attracted from individuals and from small and medium-sized business-related sources.

The Bank also engages in a full complement of lending activities, including real estate mortgage, commercial and industrial, real estate construction, as well as agricultural, lease financing, and consumer loans, with particular emphasis on short and medium-term obligations. The Bank's loan portfolio is not concentrated in any one industry, although approximately 74% of the Bank's loans are secured by real estate. A loan may be secured (in whole or in part) by real estate even though the purpose of the loan is not to facilitate the purchase or development of real estate. At December 31, 2005, the Bank had loans (net of unearned fees) outstanding of $417.2 million, which represented approximately 76 % of the Bank's total deposits and approximately 66 % of its total assets.

Real estate mortgage loans are secured by deeds of trust primarily on commercial property. Repayment of real estate mortgage loans is generally from the cash flow of the borrower. Commercial and industrial loans have a high degree of industry diversification. Loans may be originated in the Company's market area, or participated with other financial institutions outside the Company's market area. A substantial portion of commercial and industrial loans are secured by accounts receivable, inventory, leases or other collateral. The remainder are unsecured; however extensions of credit are predicated on the financial capacity of the borrower to repay the extension of credit. Repayment of commercial loans is generally from the cash flow of the borrower. Real estate construction loans consist of loans to residential contractors, which are secured by single-family residential properties. All real estate loans have established equity requirements. Repayment of real estate construction loans is generally from long-term mortgages with other lending institutions. Agricultural loans are generally secured by land, equipment, inventory and receivables. Repayment of agricultural loans is from the expected cash flow of the borrower.

In the normal course of business, the Bank makes various loan commitments and incurs certain contingent liabilities. At December 31, 2005 and 2004, loan commitments and letters of credit of the Bank aggregated $197.8 million and $183.0 million, respectively. Of the $197.8 million in loan commitments outstanding at December 31, 2005, $172.1 million or 89 % were for loans with maturities of one year or less. Due to the nature of the business of the Bank's customers, there are no seasonal patterns or absolute predictability to the utilization of unused loan commitments; therefore the Bank is unable to forecast the extent to which these commitments will be exercised within the current year. The Bank does not believe that any such utilization will constitute a material liquidity demand.

In addition to the loan and deposit services discussed above, the Bank also offers a wide range of specialized services designed to attract and service the needs of commercial customers and account holders. These services include online banking, safe deposit boxes, ATM services, payroll direct deposit, cashier's checks, traveler's checks, money orders, and foreign drafts. The Bank does not operate a trust department; however, it makes arrangements with its correspondent bank to offer trust services to its customers on request. Most of the Bank's business originates within Fresno, Madera, and Kern Counties. Neither the Bank's business or liquidity is seasonal, and there has been no material effect upon the Bank's capital expenditures, earnings or competitive position as a result of federal, state or local environmental regulation.

Competition and Market Share

The banking business in California generally, and in the market area served by the Company specifically, is highly competitive with respect to both loans and deposits. The Company competes for loans and deposits with other commercial banks, savings and loan associations, finance companies, money market funds, credit unions and other financial institutions, including a number that are substantially larger than the Company. Deregulation of the banking industry, increased competition from non-bank entities for the cash balances of individuals and businesses, and continuing developments in the computer and communications industries have had, and most likely will continue to have, a significant impact on the Company's competitive position. With the enactment of interstate banking legislation in California, bank holding companies headquartered outside of California have and will continue to enter the California market and provide further competition for the Company. Additionally, with the Gramm-Leach-Bliley Act of 1999, traditional competitive barriers between insurance companies, securities underwriters, and commercial banks have been eased, allowing a greater number of financial intermediaries to offer a wider assortment of financial services. Many of the major commercial banks operating in the Company's market areas offer certain services such as trust and international banking services, which the Company does not offer directly. In addition, banks with larger capitalization have larger lending limits and are thereby able to serve larger customers.

The Company's primary market area is located in Fresno, Madera, and Kern Counties, in which approximately 32 FDIC-insured financial institutions compete for business. The following table sets forth information regarding deposit market share and ranking by county as of June 30, 2005, which is the most current information available.

	Rank	Share
Fresno County	7th	5.32%
Madera County	8th	4.46%
Kern County	15th	1.07%
Total of Fresno, Madera, Kern Counties	7th	3.92%

Supervision and Regulation

The Company

The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the "BHC Act"), and is registered as such with the FRB. A bank holding company is required to file with the FRB annual reports and other information regarding its business operations and those of its subsidiaries and is also subject to examination by the FRB.

The BHC Act requires, among other things, prior approval before acquiring, directly or indirectly, ownership or control of any voting shares of any bank, if after such acquisition it would directly or indirectly own or control more than 5% of the voting stock of that bank, unless it already owns a majority of the voting stock of that bank. The BHC Act also provides that the FRB shall not approve any acquisition that would result in or further the creation of a monopoly, or the effect of which may be substantially to lessen competition, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the probable effect in meeting the convenience and needs of the community served.

Furthermore, under the BHC Act, a bank holding company is, with limited exceptions, prohibited from (i) acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or (ii) engaging in any activity other than managing or controlling banks. With the prior approval of the FRB, however, a bank holding company may own shares of a company engaged in activities which the FRB has determined to be so closely related to banking or managing or controlling banks as to be proper incident thereto.

The BHC Act requires a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. It is the FRB's policy that a bank holding company should stand ready to use available resources to provide adequate capital funds to subsidiary banks during periods of financial stress and should maintain the financial flexibility and capital raising capacity to obtain additional resources for assisting a subsidiary bank. Under certain conditions, the FRB may conclude that certain actions of a bank holding company, such as payment of cash dividends, would constitute unsafe and unsound banking practices because they violate the FRB's "source of strength" doctrine.

A bank holding company and its subsidiaries are prohibited from certain tie-in arrangements in connection with any extension of credit, sale or lease of property or furnishing of services. For example, with certain exceptions, a bank may not condition an extension of credit on a promise by its customer to obtain other services by it, its holding company or other subsidiaries, or on a promise by its customer not to obtain services from a competitor. In addition, federal law imposes certain restrictions between the Company and its subsidiaries, including the Bank. As an affiliate of the Bank, the Company is subject, with certain exceptions, to provisions of federal law imposing limitations on, and requiring collateral for, extensions of credit by the Bank to its affiliates.

In 1999 the Gramm-Leach-Bliley Act (the "GLBA") was enacted. The GLBA became effective in March of 2000 and is a financial services modernization law that, among other things, facilitates broad new affiliations among securities firms, insurance companies and bank holding companies by repealing the 66-year old provisions of the Glass-Steagall Act. The GLBA allows the formation of financial holding companies ("FHC's"), which are bank holding companies with substantially expanded powers. A bank holding company must acquire the approval of the FRB to become a FHC. Under these expanded powers, affiliations may occur between bank holding companies, securities firms and insurance companies, subject to a blend of umbrella supervision and regulation of the newly formed consolidated entity by the Federal Reserve, oversight of the FHC's bank and thrift subsidiaries by their primary federal and state banking regulators and financial regulation of the FHC's nonbank subsidiaries by their respective specialized regulators. The Company has not applied to become a FHC.

As a public company, United Security Bancshares is subject to the Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act amends the Securities and Exchange Act of 1934, and is intended to protect investors by, among other things, improving the reliability of financial reporting, increasing management accountability, and increasing the independence of Directors and the company's external accountants (see *Recent Legislation and Other Changes*).

The Company is subject to the periodic reporting requirements of the Securities Exchange Act of 1934, as amended, which include but are not limited to the filing of annual, quarterly and other current reports with the SEC.

The Bank

The Bank as a state-chartered bank is subject to regulation, supervision and regular examination by the California Department of Financial Institutions. In addition, The Bank is also a member of the Federal Reserve System and, as such, is subject to applicable provisions of the Federal Reserve Act and regulations issued thereunder and, is subject to regulation, supervision and regular examination by the Federal Reserve Bank. The Bank is subject to California law, insofar as they are not preempted by federal banking law. Deposits of the Bank are insured by the FDIC in an amount up to $100,000 per customer, and, as such, the Bank is subject to the regulations of the FDIC and the Federal Deposit Insurance Act. As a consequence of the extensive regulation of commercial banking activities in California and the United States, the Bank's business is particularly susceptible to changes in California and federal legislation and regulation, which may have the effect of increasing the cost of doing business, limiting permissible activities or increasing competition.

Various other requirements and restrictions under the laws of the United States and the State of California affect the operations of the Bank. Federal and California statutes and regulations relate to many aspects of the Bank's operations, including capital requirements and disclosure requirements to depositors and borrowers, requirements to maintain reserves against deposits, limitations on interest rates payable on deposits, loans, investments, and restrictions on borrowings and on payment of dividends. The DFI regulates the number and location of branch offices of a state-chartered bank, and may permit a bank to maintain branches only to the extent allowable under state law for state banks. California law presently permits a bank to locate a branch in any locality in the state. Additionally, California law exempts banks from California usury laws.

Effect of Governmental Policies and Recent Legislation

Banking has traditionally been a business that depends on rate differentials. In general, the difference between the interest rate paid by the Company on its deposits and other borrowings and the interest rate received on loans extended to its customers and securities held in the Company's portfolio comprise the major portion of the Company's earnings. These rates are highly sensitive to many factors which are beyond the control of the Company. Accordingly, the earnings and growth of the Company are subject to the influence of domestic and foreign economic conditions, including, but not limited to, inflation, recession and unemployment.

The earnings and growth of the Company are affected not only by general economic conditions, both domestic and foreign, but also by the monetary and fiscal policies of the United States government and its agencies, particularly the Federal Reserve Board ("FRB"). The FRB implements national monetary policies (with objectives such as to curb inflation and combat recession) by its open market operations in United States Government securities, by adjusting the required level of reserves for financial institutions subject to reserve requirements, and by varying the discount rates applicable to borrowing by banks which are members of the Federal Reserve System. The actions of the FRB in these areas influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. The nature and impact that future changes in fiscal or monetary policies or economic controls may have on the Company's business and earnings cannot be predicted. In addition, adverse economic conditions could make a higher provision for loan losses a prudent course and could cause higher loan charge-offs, thus adversely affecting the Company's net income.

From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks and other financial institutions are frequently made in Congress, in the California legislature and before various bank regulatory agencies. The likelihood of any major change and the impact such change may have on the Company is impossible to predict. Certain of the potentially significant changes which have been enacted recently and other which are currently under consideration by Congress or various regulatory agencies or professional agencies are discussed below.

Recent Legislation and Other Changes

The Federal Reserve Board in November 2005 approved amendments to Regulation CC that define "remotely created checks" and create transfer and presentment warranties that shift liability for an unauthorized remotely created check to the institution where it is first deposited. In place of a signature, a remotely created check generally bears a statement that the customer authorized the check or bears the customer's printed or typed name, such as when a debtor authorizes a credit card company to create a remotely created check by telephone so that the debtor may pay a credit card bill in a timely manner. Since the remotely created checks are vulnerable to fraud Regulation CC creates transfer and presentment warranties under which any bank that transfers or presents a remotely created check would warrant that the check is authorized by the person on whose account the check is drawn. The warranties would apply only to banks and would ultimately shift liability for losses attributable to an unauthorized remotely created check to the depositary bank. These amendments would not affect the rights of checking account customers, as they are not liable for unauthorized checks drawn on their accounts. The amendments to Regulation CC become effective on July 1, 2006

On August 2, 2005, the OCC, FDIC, and the Board of Governors of the Federal Reserve System adopted a final rule to revise their Community Reinvestment Act (CRA) regulations. The effective date of the final rule is September 1, 2005. Major points of the final rule include:

- increasing the asset-size threshold for a "small bank" to $1 billion. Small banks are not subject to certain data collection and reporting requirements and are eligible for evaluation under the small bank lending test.
- creating a new category of "intermediate small banks" for purposes of evaluation under the CRA. Intermediate small banks are those with at least $250 million but less than $1 billion in assets. The overall CRA rating for an intermediate small bank will be based both on the rating from the small bank lending test and the rating from a new community development test..
- Revising the definition of "community development" to increase the number and kinds of rural tracts in which bank activities are eligible for community development consideration.
- Revising the regulation to address the impact on a bank's CRA rating of evidence of discrimination or other illegal credit practices.

In May 2005, the FRB adopted a final rule to amend Regulation DD and the related official staff interpretations, to improve the uniformity and adequacy of information to consumers about certain services provided by banks to their deposit customers. These services are commonly referred to as "bounced-check protection" or "courtesy overdraft protection" services (overdraft services). These amendments become effective on July 1, 2006. These amendments require banks to disclose information about overdraft fees on periodic statements and account-opening disclosures, and to include certain disclosures in advertisements for overdraft services. Regulation DD generally requires that banks disclose the amount of any fee that may be imposed in connection with the account and the conditions under which a fee may be imposed. The final rule amends the official staff interpretations to state that, in satisfying this requirement with respect to fees for overdraft services, a bank must specify the categories of transactions for which an overdraft fee may be imposed.

The Federal Reserve Board issued a final rule on March 1, 2005 that amends Regulation H and Regulation Y to limit restricted core capital elements (including trust preferred securities) which count as Tier 1 capital to 25 percent of all core capital elements, net of goodwill less any associated deferred tax liability. Internationally active bank holding companies, defined as those with consolidated assets greater than $250 billion or on-balance-sheet foreign exposure greater than $10 billion, will be subject to a 15 percent limit, but they may include qualifying mandatory convertible preferred securities up to the generally applicable 25 percent limit. Amounts of restricted core capital elements in excess of these limits generally may be included in Tier 2 capital. The final rule provides a five-year transition period, ending March 31, 2009, for application of the quantitative limits.

During July 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002. The purpose of the Sarbanes-Oxley Act is to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes.

The Sarbanes-Oxley Act amends the Securities Exchange Act of 1934 to prohibit a registered public accounting firm from performing specified nonaudit services contemporaneously with a mandatory audit. The Sarbanes-Oxley Act also vests the audit committee of an issuer with responsibility for the appointment, compensation, and oversight of any registered public accounting firm employed to perform audit services. It requires each committee member to be a member of the board of directors of the issuer, and to be otherwise independent. The Sarbanes-Oxley Act further requires the chief executive officer and chief financial officer of an issuer to make certain certifications as to each annual or quarterly report filed with the SEC.

In addition, the Sarbanes-Oxley Act requires officers to forfeit certain bonuses and profits under certain circumstances. Specifically, if an issuer is required to prepare an accounting restatement due to the material noncompliance of the issuer as a result of misconduct with any financial reporting requirement under the securities laws, the chief executive officer and chief financial officer of the issuer shall be required to reimburse the issuer for (1) any bonus or other incentive-based or equity-based compensation received by that person from the issuer during the 12-month period following the first public issuance or filing with the SEC of the financial document embodying such financial reporting requirement; and (2) any profits realized from the sale of securities of the issuer during that 12-month period.

The Sarbanes-Oxley Act also instructs the SEC to require by rule:

- disclosure of all material off-balance sheet transactions and relationships that may have a material effect upon the financial status of an issuer; and
- the presentation of pro forma financial information in a manner that is not misleading, and which is reconcilable with the financial condition of the issuer under generally accepted accounting principles.

The Sarbanes-Oxley Act also prohibits insider transactions in the Company's stock during lock out periods of the company's pension plans, and any profits on such insider transactions are to be disgorged. In addition, there is a prohibition of company loans to its executives, except in certain circumstances. The Sarbanes-Oxley Act also provides for mandated internal control report and assessment with the annual report and an attestation and a report on such report by the company's auditor. The SEC is also required to issue a code of ethics for senior financial officers of the company. Further, the Sarbanes-Oxley Act adds a criminal penalty of fines and imprisonment of up to 10 years for securities fraud.

The FRB on October 31, 2002 approved a final Regulation W that comprehensively implements sections 23A and 23B of the Federal Reserve Act. Sections 23A and 23B and Regulation W restrict loans by a depository institution to its affiliates, asset purchases by a depository institution from its affiliates, and other transactions between a depository institution and its affiliates. Regulation W unifies in one public document the Board's interpretations of sections 23A and 23B. Regulation W will have an effective date of April 1, 2003.

In December of 2001 and January of 2002, the Office of the Comptroller of the Currency, FRB and the FDIC adopted final rules governing the regulatory capital treatment of equity investments in nonfinancial companies held by banks, bank holding companies and financial holding companies. The final rules became effective on April 1, 2002. The new capital requirements apply symmetrically to equity investments made by banks and their holding companies in nonfinancial companies under the legal authorities specified in the final rules. Among others, these include the merchant banking authority granted by the Gramm-Leach-Bliley Act and the authority to invest in small business investment companies ("SBICs") granted by the Small Business Investment Act. Covered equity investments will be subject to a series of marginal Tier 1 capital charges, with the size of the charge increasing as the organization's level of concentration in equity investments increases. The highest marginal charge specified in the final rules requires a 25 percent deduction from Tier 1 capital for covered investments that aggregate more than 25 percent of an organization's Tier 1 capital. Equity investments through SBICs will be exempt from the new charges to the extent such investments, in the aggregate, do not exceed 15 percent of the banking organization's Tier 1 capital. The new charges would not apply to individual investments made by banking organizations prior to March 13, 2000. Grandfathered investments made by state banks under section 24(f) of the Federal Deposit Insurance Act also are exempted from coverage.

The terrorist attacks in September 2001, have impacted the financial services industry and led to federal legislation that attempts to address certain issues involving financial institutions. On October 26, 2001, President Bush signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001.

Part of the USA Patriot Act is the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 ("IMLA"). IMLA authorizes the Secretary of the Treasury, in consultation with the heads of other government agencies, to adopt special measures applicable to banks, bank holding companies, and/or other financial institutions. These measures may include enhanced recordkeeping and reporting requirements for certain financial transactions that are of primary money laundering concern, due diligence requirements concerning the beneficial ownership of certain types of accounts, and restrictions or prohibitions on certain types of accounts with foreign financial institutions.

Among its other provisions, IMLA requires each financial institution to: (i) establish an anti-money laundering program; (ii) establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving foreign individuals and certain foreign banks; and (iii) avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of, a foreign bank that does not have a physical presence in any country. In addition, IMLA contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities. IMLA expands the circumstances under which funds in a bank account may be forfeited and requires covered financial institutions to respond under certain circumstances to requests for information from federal banking agencies within 120 hours. IMLA also amends the Bank Holding Company Act and the Bank Merger Act to require the federal banking agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing an application under these acts.

IMLA became effective July 23, 2002. Additional regulations establish minimum standards to verify customer identity, to encourage cooperation among financial institutions, federal banking agencies, and law enforcement authorities regarding possible money laundering or terrorist activities, to prohibit the anonymous use of "concentration accounts," and to require all covered financial institutions to have in place a Bank Secrecy Act compliance program.

The Federal Reserve Board and the Secretary of the Treasury in January 2001 jointly adopted a final rule governing merchant banking investments made by financial holding companies. The rule implements provisions of the Gramm-Leach-Bliley Act discussed below that permit financial holding companies to make investments as part of a bona fide securities underwriting or merchant or investment banking activity. The rule provides that a financial holding company may not, without Federal Reserve Board approval, directly or indirectly acquire any additional shares, assets or ownership interests or make any additional capital contribution to any company the shares, assets or ownership interests of which are held by the financial holding company subject to the rule if the aggregate carrying value of all merchant banking investments held by the financial holding company exceeds:

- 30 percent of the Tier 1 capital of the financial holding company, or
- after excluding interests in private equity funds, 20 percent of the Tier 1 capital of the financial holding company.

A separate final rule will establish the capital charge of merchant banking investments for the financial holding company.

It is impossible to predict what effect the enactment of certain of the above-mentioned legislation will have on the Company. Moreover, it is likely that other bills affecting the business of banks may be introduced in the future by the United States Congress or California legislature.

Employees

At December 31, 2005, the Company employed 131 persons on a full-time equivalent basis. The Company believes its employee relations are excellent.

Available Information

The Company files period reports and other reports under the Securities and Exchange Act of 1934 with the Securities and Exchange Commission (SEC). These reports, as well as the Company's Code of Ethics, are posted and are available at no cost on the Company's website at http://www.unitedsecuritybank.com as soon as reasonably practical after the Company files such reports with the SEC. The Company's periodic and other reports filed with the SEC are also available at the SEC's website (http://www.sec.gov).

Item 1A. Risk Factors

There are risk factors that may affect the Company's business and impact the results of operations, some of which are beyond the control of the Company.

The Company's financial performance is subject to interest rate risk.

The Company's operations are greatly influenced by general economic conditions and by related monetary and fiscal policies of the federal government. Deposit flows and the funding costs are influenced by interest rates of competing investments and general market rates of interest. Lending activities are affected by the demand for loans, which in turn is affected by the interest rates at which such financing may be offered and by other factors affecting the availability of funds.

The Company's operations are substantially dependent on net interest income, which is the difference between the interest income received from interest-earning assets and the interest expense incurred in connection with our interest-bearing liabilities. To reduce the Company's exposure to interest rate fluctuations, management seeks to manage the balances of interest sensitive assets and liabilities, and maintain appropriate maturity and repricing parameters for these assets and liabilities. A mismatch between the amount of rate sensitive assets and rate sensitive liabilities in any time period my expose the Company to interest rate risk. Generally, if rate sensitive assets exceed rate sensitive liabilities, the net interest margin will be positively impacted during a rising rate environment and negatively impacted during a declining rate environment. When rate sensitive liabilities exceed rate sensitive assets, the net interest margin will generally be positively impacted during a declining rate environment and negatively impacted during a rising rate environment.

Increases in the level of interest rates may reduce the overall level of loans originated by the Company, and, thus, the amount of loan and commitment fees earned, as well as the market value of investment securities and other interest-earning assets. Moreover, fluctuations in interest rates may also result in disintermediation, which is the flow of funds away from depository institutions into direct investments, such as corporate securities and other investment vehicles which, because of the absence of federal deposit insurance, generally pay higher rates of return than depository institutions.

The deterioration of local economic conditions in the Company's market area could hurt profitability.

The Company's operations are located primarily in Fresno, Madera, and Kern Counties and are concentrated in Fresno County and surrounding areas. As a result of this geographic concentration, the Company's financial results depend largely upon economic conditions in these areas. The local economy in the Company's market areas rely heavily on agriculture, real estate, professional and business services, manufacturing, trade and tourism. A significant economic downturn such as that experienced after the September 11, 2001 tragedy in any or all of these industries could result in a decline in the local economy in general, which could in turn negatively impact the Company's operations and financial condition. Poor economic conditions could cause the Company to incur losses associated with higher default rates and decreased collateral values in the loan portfolio.

Concentrations in commercial and industrial loans, real estate-secured commercial loans, and real estate construction loans, may expose the Company to increased lending risks, especially in the event of a recession.

The Company has significant concentrations in commercial real estate and real estate construction loans. As of December 31, 2005, 10.4%, and 38.9% of the Company's loan portfolio was concentrated in these two categories, respectively. In addition, the Company has many commercial loans to businesses in the construction and real estate industry. There has been a relatively rapid increase in real estate values in the Company's market area in recent years, and the occurrence of a real estate recession affecting these market areas would likely reduce the security for many of the Company's loans and adversely affect the ability of many of borrowers to repay loan balances due the Company. Therefore, the Company's financial condition may be adversely affected by a decline in the value of the real estate securing the Company's loans.

The Company faces strong competition which may adversely affect its operating results.

In recent years, competition for bank customers, the source of deposits and loans for the Company, has greatly intensified. This competition includes:

- larger regional and national banks in many of the communities the Company serves;
- finance companies, investment banking and brokerage firms, and insurance companies that offer bank-like products;
- credit unions, which can offer highly competitive rates on loans and deposits because they receive tax advantages not available to commercial banks; and
- technology-based financial institutions including large national and super-regional banks offering on-line deposit, bill payment, and mortgage loan application services.

Some of the financial services organizations with which the Company competes are not subject to the same degree of regulation as is imposed on bank holding companies and federally insured financial institutions. As a result, these nonbank competitors have certain advantages over the Company in accessing funding and in providing various banking-related services.

By virtue of their larger capital position, regional and national banks have substantially larger lending limits than the Company, and can provide certain services to their customers which the Company is not able to offer directly, such as trust and international services. Many of these larger banks also operate with greater economies of scale which result in lower operating costs than the Company on a per-unit basis.

Other existing single or multi-branch community banks, or new community bank start-ups, have marketing strategies similar to United Security Bancshares. These other community banks can open new branches in the communities the Company serves and compete directly for customers who want the high level of service community banks offer. Other community banks also compete for the same management personnel and the same potential acquisition and merger candidates. Ultimately, competition can drive down the Company's interest margins and reduce profitability, as well as make it more difficult for the Company to achieve its growth objectives.

The Company's growth and expansion strategy may not prove to be successful and as a result, its market value and profitability may suffer.

The Company plans to grow operations within its market area and expand into new market areas when it makes strategic business sense, however the Company's capacity to manage any such growth will depend primarily on the ability to attract and retain qualified personnel, monitor operations, maintain earnings and control costs. The Company expects to continue to grow its assets and deposits, the products and services which it offers and the scale of its operations. The Company's ability to manage growth successfully will depend on the ability to maintain cost controls and asset quality while attracting additional loans and deposits on favorable terms. If the Company grows too quickly and is not able to control costs and maintain asset quality, this rapid growth could materially adversely affect the financial performance of the Company. The future successful growth of the Company will depend on the ability of its officers and other key employees to continue to implement and improve operational, credit, financial, management and other internal risk controls and processes, reporting systems and procedures, and to manage a growing number of customer relationships. The Company may not successfully implement improvements to management information and control systems, and control procedures and processes, in an efficient or timely manner and may discover deficiencies in existing systems and controls. In particular, the Company's controls and procedures must be able to accommodate an increase in expected loan volume and the infrastructure that comes with growth. Thus, the Company's growth strategy may divert management from existing businesses and may require the Company to incur additional expenditures to expand its administrative and operational infrastructure. If the Company is unable to manage future expansion in its operations, it may experience compliance and operational problems, need to slow the pace of growth, or need to incur additional expenditures beyond current projections to support such growth, any one of which could adversely affect the Company's business.

The loss of any of the Company's executive officers or key personnel could be damaging to the business.

The Company depends upon the skills and reputations of its executive officers and key employees for its future success. The loss of any of these key persons or the inability to attract and retain other key personnel could adversely affect the Company's business operations.

The Company could experience loan losses which exceed the overall allowance for loan losses.

The risk of credit losses on loans and leases varies with, among other things, general economic conditions, the type of loan being made, the creditworthiness of the borrower, and, in the case of collateralized loans, the value and marketability of the collateral. The Company maintains an allowance for loan losses based upon, among other things, historical experience, an evaluation of economic conditions, and regular reviews of delinquencies and loan portfolio quality. Based upon such factors, management makes various assumptions and determinations about the ultimate collectibility of the loan portfolio and provides an allowance for losses based upon a percentage of the outstanding balances and for specific loans where their collectibility is considered to be questionable.

As of December 31, 2005, the Company's allowance for loan losses was approximately $7.7 million representing 1.86% of gross outstanding loans. Although management believes that the allowance is adequate, there can be no assurance that it will be sufficient to cover future loan losses. Although the Company uses the best information available to make determinations with respect to adequacy of the allowance for loan losses, future adjustments may be necessary if economic conditions change substantially from the assumptions used or if negative developments occur with respect to non-performing or performing loans. If management's assumptions or conclusions prove to be incorrect and the allowance for loan losses is not adequate to absorb future losses, or if Company's regulatory agencies require an increase in the allowance for loan losses, the Company's earnings, and potentially its capital, could be significantly and adversely impacted.

The regulatory environment under which the Company operates may have an adverse impact on the banking industry.

The Company is subject to extensive regulatory supervision and oversight from both federal and state authorities. Regulatory oversight of the Company is provided by the Federal Reserve Bank (FRB) and the California Department of Financial Institutions (DFI). Future legislation and government may adversely impact the Company and the commercial banking industry in general. Future regulatory changes may also alter the structure and competitive relationship among financial institutions.

The Company may be exposed to compliance risk resulting from violations or nonconformity with laws, rules, regulations, internal policies and procedures, or ethical standards set forth by regulatory authorities. The Company may also be subject to compliance risk in situations where laws or rules governing certain products or activities of the Company's customers may be uncertain or untested. Compliance risk exposes the Company to fines, civil money penalties, payment of damages, and the potential voiding of contracts. Compliance risk can result in diminished reputation, reduced franchise value, limited business opportunities, and reduced growth potential.

If the Company lost a significant portion of its low-cost core deposits, it would negatively impact profitability.

The Company's profitability depends in part on its success in attracting and retaining a stable base of low-cost deposits. As of December 31, 2005, noninterest-bearing checking accounts comprised 28.0% of the Company's deposit base, and interest-bearing checking and money market accounts comprised an additional 9.2% and 23.0%, respectively. The Company considers these deposits to be core deposits. If the Company lost a significant portion of these low-cost deposits, it would negatively impact its profitability and long-term growth objectives. While Management generally does not believe these deposits are sensitive to interest-rate fluctuations, the competition for these deposits in the Company's market area is strong and if the Company were to loose a significant portion of these low-cost deposits, it would negatively affect business operations.

Item 1B. - Unresolved Staff Comments

The Company had no unresolved staff comments at December 31, 2005.

Item 2 - Properties

The Bank's Main bank branch is located at 2151 West Shaw Avenue, Fresno, California. The Company owns the building and leases the land under a sublease dated December 1, 1986 between Central Bank and USB. The current sublessor under the master ground lease is Bank of the West, which acquired the position through the purchase of Central Bank. The lessor under the ground lease (Master Lease) is Thomas F. Hinds. The lease expires on December 31, 2015 and the Company has options to extend the term for four (4) ten-year periods and one seven (7) year period.

The Company leases the banking premises of approximately 6,450 square feet for its second of three Fresno branches at 7088 N. First Ave, Fresno, California., under a lease which commenced August 2005 for a term of ten years expiring in July 2015. The branch was previously located at 1041 E. Shaw Avenue, Fresno, California, under a lease extension expiring February 28, 2005. The lease was renewed until August 2005. The new location currently provides space for the relocated branch as well as the Real Estate Construction Department and the Indirect Consumer Lending Department.

The Company leases the Oakhurst bank branch located at the Old Mill Village Shopping Center, 40074 Highway 49, and Oakhurst, California, which was completed during April of 1999. The Company had originally maintained two branches in the Oakhurst area, and at this time consolidated its two Oakhurst branches into the new facility. The current facility, which consists of approximately 5,000 square feet, will be leased for a term of 15 years ending April 2014, and there are two five-year options to extend the lease term after that date.

The Company owns the Caruthers bank branch located at 13356 South Henderson, Caruthers, California, which consists of approximately 5,000 square feet of floor space. The branch was purchased during May 2005 for $425,000, at which time the operating lease under which the Company had been occupying the premises was canceled. The branch was originally acquired from Wells Fargo Bank in February 1997 under a lease, which expired January 19, 2006 with extensions to January 19, 2021.

The Company owns the San Joaquin branch facilities located at 21574 Manning Avenue, San Joaquin, California. The new bank branch is approximately 2,500 square feet.

The Company owns the Firebaugh bank branch located at 1067 O Street, Firebaugh, California, which was purchased from Bank of America during October 1997. The premises are comprised of approximately 4,666 square feet of office space situated on land totaling approximately one-third of an acre.

The Company owns the Coalinga bank branch located at 145 East Durian, Coalinga, California, which was also purchased from Bank of America during October 1997. The office building has a total of 6,184 square feet of interior floor space situated on approximately 0.45 acres of land.

The Company leases the Convention Center branch located at 855 "M" Street, Suite 130, Fresno, California. Total space leased is approximately 4,520 square feet, and was occupied during March 2004. The fifteen-year lease expires in March 2019. There are no extension provisions.

The Company owns the Taft branch office premises located at 523 Cascade Place, Taft, California. The branch facilities consist of approximately 9,200 square feet of office space. The Taft premises were previously leased and were purchased during July 2005 at a cost of $1.0 million. The Taft branch facilities were acquired during April 2004 as the result of the merger with Taft National Bank, under a lease agreement expiring in November 2007.

The Company owns the branch facilities located at 3404 Coffee Road, Bakersfield, California, which has approximately 6,130 square feet of office space located on 1.15 acres. The Bakersfield branch facilities were acquired during April 2004 as the result of the merger with Taft National Bank.

The Company owns its administrative headquarters located at 1525 East Shaw Avenue, Fresno, California. The building consists of approximately 10,000 square feet of interior floor space.

The Company owns property at 2126 Inyo Street, Fresno, California, which it is currently developing to be its new administrative headquarters. The facility consists of approximately 21,400 square feet. A portion of the premises will be subleased to a third-party under a lease term of approximately seven years. It is anticipated that the Company will occupy the premises during the second half of 2006.

Item 3 - Legal Proceedings

From time to time, the Company is party to claims and legal proceedings arising in the ordinary course of business. At this time, the management of the Company is not aware of any material pending litigation proceedings to which it is a party or has recently been party to, which will have a material adverse effect on the financial condition or results of operations of the Company.

Item 4 - Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of shareholders during the fourth quarter of 2005.

PART II

Item 5 - Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Trading History

The Company became a NASDAQ National Market listed company on May 31, 2001 and trades under the symbol UBFO. The Company's common stock was previously quoted on the OTCBB (over-the-counter bulletin board), a quotation service for securities not listed or traded on NASDAQ or a national securities exchange. Volumes traded are shown below.

The Company currently has four market makers for its common stock. These include, The Seidler Companies, Hoeffer & Arnett, Sandler O'Neill & Partners, and Hill Thompson, Magid & Company. The Company is aware of two other securities dealers: Smith Barney and Dean Witter Reynolds Inc., which periodically act as brokers in the Company's stock.

The following table sets forth the high and low closing sales prices by quarter for the Company's common stock, for the years ended December 31, 2005 and 2004.

	Closing Prices		Volume
Quarter	High	Low	
4th Quarter 2005	$ 32.70	$ 27.96	124,300
3rd Quarter 2005	$ 28.98	$ 25.60	145,400
2nd Quarter 2005	$ 26.50	$ 22.99	200,800
1st Quarter 2005	$ 25.49	$ 23.03	158,600
4th Quarter 2004	$ 25.75	$ 21.89	260,200
3rd Quarter 2004	$ 23.44	$ 20.25	225,400
2nd Quarter 2004	$ 26.05	$ 20.69	634,900
1st Quarter 2004	$ 28.50	$ 23.61	257,700

At January 31, 2006, there were approximately 710 record holders of common stock of the Company. This does not reflect the number of persons or entities who hold their stock in nominee or street name through various brokerage firms.

Dividends

The Company's shareholders are entitled to cash dividends when and as declared by the Company's Board of Directors out of funds legally available therefore. Dividends paid to shareholders by the Company are subject to restrictions set forth in California General Corporation Law, which provides that a corporation may make a distribution to its shareholders if retained earnings immediately prior to the dividend payout are at least equal the amount of the proposed distribution. As a bank holding company without significant assets other than its equity position in the Bank, the Company's ability to pay dividends to its shareholders depends primarily upon dividends it receives from the Bank. Such dividends paid by the Bank to the Company are subject to certain limitations. See "Management's Discussion and Analysis of Financial and Results of Operations – Regulatory Matters".

The Company paid cash dividends to shareholders of $0.16 per share on January 19, 2005, and $0.18 per share on April 20, 2005, July 20, 2005 and October 19, 2005. During the previous year, the Company paid cash dividends to shareholders of $0.145 per share on January 21, 2004, and $0.16 per share on April 21, 2004, July 21, 2004 and October 20, 2004.

The amount and payment of dividends by the Company to shareholders are set by the Company's Board of Directors with numerous factors involved including the Company's earnings, financial condition and the need for capital for expanded growth and general economic conditions. No assurance can be given that cash or stock dividends will be paid in the future.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth securities authorized for issuance under equity compensation plans as for December 31, 2005.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (column a)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	121,000	$ 18.31	215,000
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	121,000	$ 18.31	215,000

A complete description of the above plans is included in Note 10 of the Company's Financial Statements in Item 8 of this Annual Report on Form 10K, and is hereby incorporated by reference.

Purchases of Equity Securities by Affiliates and Associated Purchasers

Period	Total Number of Shares Purchased	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
10/01/05 to 10/31/05	0	N/A	0	182,236
11/01/05 to 11/30/05	0	N/A	0	182,236
12/22/05	7,037	$ 32.32	7,037	175,199
Total fourth quarter 2005	7,037	$ 32.32	7,037	

On August 30, 2001 the Company announced that its Board of Directors approved a plan to repurchase, as conditions warrant, up to 280,000 shares of the Company's common stock on the open market or in privately negotiated transactions. The duration of the program was open-ended and the timing of purchases was dependent on market conditions. A total of 215,423 shares had been repurchased under that plan as of December 31, 2003, at a total cost of $3.7 million.

Then, on February 25, 2004 the Company announced another stock repurchase plan under which the Board of Directors approved a plan to repurchase, as conditions warrant, up to 276,500 shares of the Company's common stock on the open market or in privately negotiated transactions. As with the first plan, the duration of the new program is open-ended and the timing of purchases will depend on market conditions.

Concurrent with the approval of the new repurchase plan, the Board terminated the 2001 repurchase plan and canceled the remaining 64,577 shares yet to be purchased under the earlier plan.

Item 6 - Selected Financial Data

The following table sets forth certain selected financial data for the Bank for each of the years in the five-year periods ended December 31, 2005 and should be read in conjunction with the more detailed information and financial statements contained elsewhere herein (in thousands except per share data and ratios).

	December 31,				
(in thousands except per share data and ratios)	**2005**	**2004**	**2003**	**2002**	**2001**
Summary of Year-to-Date Earnings :					
Interest income and loan fees	$ 38,898	$ 30,874	$ 27,050	$ 28,716	$ 30,063
Interest expense	9,658	6,433	7,260	11,516	13,411
Net interest income	29,240	24,441	19,790	17,200	16,652
Provision for credit losses	1,140	1,145	1,713	1,963	1,733
Net interest income after Provision for credit losses	28,100	23,296	18,077	15,237	14,919
Noninterest income	6,280	4,742	6,148	5,368	4,277
Noninterest expense	16,982	14,667	11,855	10,860	9,818
Income before taxes on income	17,398	13,371	12,370	9,745	9,378
Taxes on income	6,390	4,966	4,664	2,912	3,185
Net Income	$ 11,008	$ 8,405	$ 7,706	$ 6,833	$ 6,193
Per Share Data:					
Net Income – Basic	$ 1.94	$ 1.49	$ 1.41	$ 1.27	$ 1.14
Net Income – Diluted	$ 1.92	$ 1.48	$ 1.40	$ 1.25	$ 1.11
Average shares outstanding – Basic	5,684,924	5,630,256	5,459,926	5,400,751	5,443,734
Average shares outstanding - Diluted	5,726,576	5,667,243	5,511,670	5,487,038	5,563,855
Cash dividends paid	$ 0.70	$ 0.63	$ 0.57	$ 0.51	$ 0.45
Financial Position at Period-end :					
Total assets	$ 628,859	$ 611,696	$ 506,588	$ 519,316	$ 450,928
Total net loans and leases	409,409	390,334	338,716	343,042	331,163
Total deposits	546,460	536,672	440,444	423,987	368,651
Total shareholders' equity	59,014	53,236	45,036	40,561	36,059
Book value per share	$ 10.39	$ 9.37	$ 8.17	$ 7.50	$ 6.68
Selected Financial Ratios :					
Return on average assets	1.76%	1.52%	1.51%	1.37%	1.55%
Return on average shareholders' equity	19.46%	16.81%	17.80%	17.64%	17.25%
Average shareholders' equity to average assets	9.02%	9.01%	8.48%	7.76%	9.00%
Allowance for credit losses as a percentage of total nonperforming loans	55.62%	42.51%	32.58%	36.00%	34.23%
Net charge-offs to average loans	0.15%	0.12%	0.34%	0.25%	0.35%
Allowance for credit losses as a percentage of period-end loans	1.86%	1.82%	1.76%	1.59%	1.33%
Dividend payout ratio	38.50%	43.16%	40.07%	40.94%	40.09%

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Certain matters discussed or incorporated by reference in this Annual Report on Form 10-K are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Such risks and uncertainties include, but are not limited to, those described in Management's Discussion and Analysis of Financial Condition and Results of Operations. Such risks and uncertainties include, but are not limited to, the following factors: i) competitive pressures in the banking industry and changes in the regulatory environment; ii) exposure to changes in the interest rate environment and the resulting impact on the Company's interest rate sensitive assets and liabilities; iii) decline in the health of the economy nationally or regionally which could reduce the demand for loans or reduce the value of real estate collateral securing most of the Company's loans; iv) credit quality deterioration that could cause an increase in the provision for loan losses; v) Asset/Liability matching risks and liquidity risks; volatility and devaluation in the securities markets; and vi) expected cost savings from recent acquisitions are not realized. Therefore, the information set forth therein should be carefully considered when evaluating the business prospects of the Company.

The Company

On June 12, 2001, the United Security Bank (the "Bank") became the wholly owned subsidiary of United Security Bancshares (the "Company") through a tax free holding company reorganization, accounted for on a basis similar to the pooling of interest method. In the transaction, each share of Bank stock was exchanged for a share of Company stock on a one-to-one basis. No additional equity was issued as part of this transaction. In the following discussion, references to the Bank are references to United Security Bank. References to the Company are references to United Security Bancshares (including the Bank), except for periods prior to June 12, 2001, in which case, references to the Company are references to the Bank.

On June 28, 2001, United Security Bancshares Capital Trust I (the "Trust") was formed as a Delaware business trust for the sole purpose of issuing Trust Preferred securities. On July 16, 2001, the Trust completed the issuance of $15 million in Trust Preferred securities, and concurrently, the Trust used the proceeds from that offering to purchase Junior Subordinated Debentures of the Company. The Company contributed $13.7 million of the $14.5 million in net proceeds received from the Trust to the Bank to increase its regulatory capital and used the rest for the Company's business.

Effective December 31, 2001, United Security Bank formed a subsidiary Real Estate Investment Trust ("REIT") through which preferred stock was offered to private investors, to raise capital for the bank in accordance with the laws and regulations in effect at the time. The principal business purpose of the REIT was to provide an efficient and economical means to raise capital. The REIT also provided state tax benefits beginning in 2002. On December 31, 2003 the California Franchise Tax Board (FTB) announced certain tax transactions related to real estate investment trusts (REITs) and regulated investment companies (RICs) will be disallowed pursuant to Senate Bill 614 and Assembly Bill 1601, which were signed into law in the 4th quarter of 2003 (*For further discussion see Income Taxes section of Results of Operations contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations*).

Effective April 23, 2004, the Company announced the completion of a merger with Taft National Bank headquartered in Taft, California. Taft National Bank ("Taft") was merged into United Security Bank and Taft's two branches will operate as branches of United Security Bank. The total consideration paid to Taft shareholders was 241,447 shares of the Company's Common Stock valued at just over approximately $6 million. As a result of the merger, the Company acquired $15.4 million in cash and short-term investments, $23.3 million in loans, and $48.2 million in deposits. This transaction was accounted for using the purchase accounting method, and resulted in the purchase price being allocated to the assets acquired and liabilities assumed from Taft based on the fair value of those assets and liabilities. The consolidated statement of income includes the operations of Taft from the date of the acquisition to December 31, 2004.

During August 2005, the Bank formed a new subsidiary named United Security Emerging Capital Fund (the Fund) for the purpose of providing investment capital for Low-Income Communities (LIC's). The new subsidiary was formed as a Community Development Entity (CDE) and as such, must be certified by the Community Development Financial Institutions Fund of the United States Department of the Treasury in order to apply for New Market Tax Credits (NMTC). The Fund submitted an application to the Department of the Treasury to become certified as a CDE in August 2005. Subsequent to that application, the Fund submitted an application to apply for an allocation of New Market Tax Credits in September 2005. The Fund expects a response to its NMTC application during the second quarter of 2006. If the Fund's NMTC application is approved, and the Fund is certified as a CDE, the Fund can attract investments and make loans and investments in LIC's and thereby qualify its investors to receive Federal Income Tax Credits. The maximum that can be applied for under the New Markets Tax Credit program by any one CDE is $150 million, and the Bank is subject to an investment limitation of 10% of its Risk-based capital. Federal new market tax credits would be applied over a seven-year period, 5% for the first three years, and 6% for the next four years for a total of 39%.

The Company currently has ten banking branches and one construction lending office, which provide financial services in Fresno, Madera, and Kern counties. As a community-oriented bank, the Company continues to seek ways to better meet its customers' needs for financial services, and to expand its business opportunities in today's ever-changing financial services environment. The Company's strategy is to be a better low-cost provider of services to its customer base while enlarging its market area and corresponding customer base to further its ability to provide those services.

Trends Affecting Results of Operations and Financial Position

The Company's overall operations are impacted by a number of factors, including not only interest rates and margin spreads, which impact results of operations, but also the composition of the Company's balance sheet. One of the primary strategic goals of the Company is to maintain a mix of assets that will generate a reasonable rate of return without undue risk, and to finance those assets with a low-cost and stable source of funds. Liquidity and capital resources must also be considered in the planning process to mitigate risk and allow for growth.

The following table summarizes the year-to-date averages of the components of interest-bearing assets as a percentage of total interest bearing assets, and the components of interest-bearing liabilities as a percentage of total interest-bearing liabilities:

	YTD Average 12/31/05	YTD Average 12/31/04	YTD Average 12/31/03
Loans	72.50%	75.12%	75.39%
Investment securities	19.81%	18.58%	19.88%
Interest-bearing deposits in other banks	1.36%	1.57%	1.81%
Federal funds sold	6.33%	4.73%	2.92%
Total earning assets	100.00%	100.00%	100.00%
NOW accounts	12.14%	11.54%	8.25%
Money market accounts	28.63%	23.85%	20.08%
Savings accounts	8.45%	7.65%	6.34%
Time deposits	46.78%	52.77%	57.79%
Other borrowings	0.32%	0.22%	3.53%
Trust Preferred Securities	3.68%	3.97%	4.01%
Total interest-bearing liabilities	100.00%	100.00%	100.00%

The Company has modified its business plan over the past several years to better position itself for strategic growth in the future, while reducing potential risk levels. This is in response to the relative size and complexity of the Company, as well as economic and other market factors that may affect future operations and anticipated growth.

The Company has continued its business development efforts throughout its market area, and as a result, realized increases in both average loans and average deposits during 2005. On average, the Company experienced increases of $28.1 million in loans, and $63.7 million in deposits. Loan growth continues to be strong in real estate construction, while deposit growth was experienced in all categories except time deposits, which actually declined on average between 2004 and 2005.

With continued increases in market rates of interest experienced since July 2004, the Company has realized substantial increases in net interest margins throughout 2005, and anticipates continued increases through at least the first part of 2006. The Company's net interest margin was 5.26% for the year ended December 31, 2005, as compared to 4.90% and 4.22% for the years ended December 31, 2004 and 2003, respectively. With approximately 58% of the loan portfolio in floating rate instruments, benefits of rising rates were realized almost immediately on loan yields during the later part of 2004 and throughout 2005. Deposit rates lagged during the third quarter of 2004, but deposit-pricing pressures increased during the fourth quarter of 2004 and continued through the first half of 2005, although deposit rates have stabilized to some degree since the third quarter of 2005. With additional rate increases expected during the first half of 2006, the Company anticipates strong net interest margins during most of 2006.

Noninterest income was enhanced during 2005 as the result of $325,000 in gains on OREO sales, sales which also helped reduce the Company's level of nonperforming assets. Shared appreciation income totaled $393,000 for the year ended December 31, 2005 as compared to $8,000 for the previous year, and increased earnings on the cash surrender value of the Company's key-man and officer supplemental life insurance policies boosted noninterest income by more than $126,000 during 2005. Gains on investment securities added an additional $163,000 to noninterest income, as the Company restructured the investment portfolio to improve the risk profile of the Company.

The Company has maintained a strong yet conservative balance sheet, with sound loan and deposit growth and minimal dependence on borrowings. While total assets have grown nearly $17.2 million between December 31, 2004 and December 31, 2005, the average loan portfolio has comprised a consistent 72% to 75% of overall earning assets. On average, core deposits, including NOW accounts, money market accounts, and savings accounts, continue to increase and comprise a greater percentage of total interest-bearing liabilities for the year ended December 31, 2005 as compared to the averages for the years ended December 31, 2004 and 2003. Time deposits continue to decline as a percentage of total average interest-bearing liabilities, and represent 46.8% of interest-bearing liabilities for the year ended December 31, 2005 as compared to 52.8% and 57.8% of interest-bearing liabilities for the years ended December 31, 2004 and 2003, respectively.

The Company continues to emphasize relationship banking and core deposit growth, and has focused greater attention on its market area of Fresno, Madera, and Kern Counties. The San Joaquin Valley and other California markets continue to benefit from construction lending and commercial loan demand from small and medium size businesses. On average, loans have increased nearly $28.1 million between the year ended December 31, 2004 and the year ended December 31, 2005, and total loans at period-end have increased $19.2 million between December 31, 2004 and December 31, 2005. Growth continues in construction, agricultural, and installment loans with increases of $25.4 million, $1.5 million, and $1.7 million in those three categories, respectively, between December 31, 2004 and December 31, 2005. In the future, the Company will maintain an emphasis on its core lending strengths of commercial real estate and construction lending, as well as small business financing, while expanding opportunities in agricultural, installment, and other loan categories when possible.

The Company continually evaluates its strategic business plan as economic and market factors change in its market area. Growth and increasing market share will be of primary importance during 2006 and beyond. The Company will continue to develop new business in its Convention Center Branch opened in Downtown Fresno during April 2004, as well in the two Kern County branches acquired during April 2004 as the result of the merger with Taft National Bank. During the third quarter of 2005, the Company relocated its East Shaw branch, as well as the Construction and Consumer Loans Departments, located in Fresno, to a new location in north Fresno, which will enhance its business presence in that rapidly growing area. During August 2005, the Company hired a Chief Banking Officer who will be responsible for business development efforts within the Company's market area. Market rates of interest will also be an important factor in the Company's ongoing strategic planning process, as interest rates are expected to continue to rise into the foreseeable future.

The Company experienced an additional $702,000 in noninterest expense during 2005 as the result of a write-down on the Company's investment in a title company, Diversified Holding Corporation (DHC). DHC experienced operating losses during 2004, but pursuant to an impairment analysis performed during January 2005 management concluded that there was no impairment of the Company's equity investment in DHC as of December 31, 2004. Then, during the second quarter of 2005 additional information was obtained on the status of DHC's operations. DHC continued to experience operating losses, and efforts to restructure, recapitalize, or sell the business had not been successful. The Company's management assessed the anticipated cash-flows of DHC and the ultimate ability to collect the Company's equity investment in DHC. At that time, management believed that it was reasonably possible that a loss would ultimately be incurred. Based upon management's estimate of the most likely amount of the potential loss at that time, the Company recorded a write-down of its equity investment in DHC of approximately $662,000 during the second quarter of 2005, and an additional $40,000 during the fourth quarter of 2005. During December 2005, the Company sold approximately 65% of its investment in Diversified Holdings Corp (1,183,593 of 1,825,443 total shares) leaving a net carrying value of $271,000 at December 31, 2005. Based upon review of the investment at December 31, 2005, management believes the remaining carrying amount of the investment in DHC is fairly valued. (*for additional information, see Note 19 to the Company's consolidated financial statements included in this Annual Report on Form 10-K for December 31, 2005*).

The Company will continue to evaluate its business plan as economic and market factors change in its market area. Growth and increased market share will be of primary importance during 2006 as the Company seeks additional opportunities within its market areas, particularly as a result of the recently acquired operations in Kern County.

Application of Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with generally accepted accounting principles and follow general practices within the industry in which it operates. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal cash flow modeling techniques.

The most significant accounting policies followed by the Company are presented in Note 1 to the Company's consolidated financial statements included herein. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for loan losses to be the accounting area that requires the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

Allowance for Credit Losses

The allowance for loan losses represents management's estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on the consolidated balance sheet. Note 1 to the consolidated financial statements describes the methodology used to determine the allowance for loan losses and a discussion of the factors driving changes in the amount of the allowance for loan losses is included in the Asset Quality and Allowance for Credit Losses section of this financial review.

If the loan portfolio were to increase by 10% proportionally throughout all loan classifications, the additional estimated provision to the allowance that would be required, based on the percentage allocations utilized at December 31, 2005, would be approximately $324,000 pretax ($191,000 net of tax). This includes an additional $27,000 ($16,000 net of tax) for criticized loans (those classified as special mention or worse and excluding those considered impaired under SFAS No. 114), and an additional $297,000 ($175,000 net of tax) for the remainder of the loan portfolio that is performing.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Depreciation expense is computed principally on the straight-line method over the estimated useful lives of the assets. The expected useful lives of certain assets including technological related hardware and software could be subject to change due to technological advances or new standards among computer, or other related equipment. Such equipment generally has a short depreciable life, and therefore changes in the useful lives of such equipment would not have a material impact on the net income of the Company.

Other Real Estate Owned

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at the lower of the book value of the loan, or fair value of the property, less estimated costs to sell. The excess, if any, of the loan amount over the fair value is charged to the allowance for credit losses. Subsequent declines in the fair value of other real estate owned, along with related revenue and expenses from operations, are charged to noninterest expense. The valuation of such properties is subject to change as circumstances in the Company's market area, or general economic trends, change.

Goodwill

Business combinations involving the Company's acquisition of the equity interests or net assets of another enterprise or the assumption of net liabilities in an acquisition of branches constituting a business may give rise to goodwill. The acquisition of Taft National Bank during April 2004 gave rise to goodwill totaling approximately $750,000. Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed in transactions accounted for under the purchase method of accounting. The value of goodwill is ultimately derived from the Company's ability to generate net earnings after the acquisition. A decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed for impairment at a reporting unit level at least annually. While the Company believes all assumptions utilized in its assessment of goodwill for impairment are reasonable and appropriate, changes in earnings, the effective tax rate, historical earnings multiples and the cost of capital could all cause different results for the calculation of the present value of future cash flows.

Income Taxes

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Deferred taxes are measured using current tax rates applied to such taxable income in the years in which those temporary differences are expected to be recovered. If the Company's future income is not sufficient to apply the deferred tax assets within the tax years to which they may be applied, the deferred tax asset may not be realized and the Company's income will be reduced.

On December 31, 2003 the California Franchise Tax Board (FTB) announced certain tax transactions related to real estate investment trusts (REITs) and regulated investment companies (RICs) will be disallowed pursuant to Senate Bill 614 and Assembly Bill 1601, which were signed into law in the 4th quarter of 2003. As a result, the Company reversed related net state tax benefits recorded in the first three quarters of 2003 and took no such benefit in the 4th quarter. The Company continues to review the information available from the FTB and its financial advisors and believes that the Company's position has merit. The Company will pursue its tax claims and defend its use of these entities and transactions. At this time, the Company cannot predict the ultimate outcome. If the FTB were to prevail against the Company in its defense of tax benefits taken during 2002, the negative effect to net income would be approximately $755,000, excluding any possible penalties and interest.

During the first quarter of 2005, the FTB notified the Company of its intent to audit the REIT for the tax years ended December 2001 and 2002. The Company has retained legal counsel to represent it in the tax audit. The FTB concluded its audit during January 2006. At that time the FTB submitted a closing letter to the Company, which included proposed assessments related to the tax benefits taken for the REIT during 2002 (*see further discussion see Note 9, Taxes on Income contained in Item 8 of this Form 10-K*). The Company cannot reasonably determine at this time what the ultimate outcome of the audit will be. The outcome of the audit will not end the administrative processing of the REIT issue because the Company will continue to assert its administrative protest and appeal rights pending the outcome of litigation by another taxpayer presently in process on the REIT issue.

Stock-Based Compensation

For all years presented in the Consolidated Financial Statements, the Company accounted for stock options under the provisions APB No. 25. Accordingly, no compensation expense related to the issuance of stock options is reflected in the income statements. Pro forma disclosures of the impact of compensation expense (and related tax benefit) associated with stock options are included in Note 1 in the Notes to the Consolidated Financial Statements. The pro forma amounts are calculated on the estimated fair value of the options at the date of the grant, based on assumptions made during the year of the grant. Those assumptions are outlined in Note 10. "Stock Options" in the Company's Notes to Financial Statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004) ("SFAS 123(R)"), "Share-Based Payment", which is a revision of SFAS No. 123, "*Accounting for Stock-Based Compensation*." SFAS No. 123(R) eliminates the ability to account for share-based compensation transactions using Accounting Principles Board Opinion No. 25 and requires that such transactions be accounted for using a fair value-based method. The Company will adopt the requirements of SFAS No. 123R using the modified-prospective method during the first quarter of 2006. SFAS No. 123R will require the Company to recognize as compensation expense, the fair value of stock options granted to employees and Directors of the Company beginning with the effective date (a) based on the requirements of Statement 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of Statement 123(R) that remain unvested on the effective date. The estimated additional pretax compensation expense to be recognized during 2006 is approximately $103,000.

Revenue recognition

The Company's primary sources of revenue are interest income from loans and investment securities. Interest income is generally recorded on an accrual basis, unless the collection of such income is not reasonably assured or cannot be reasonably estimated. Pursuant to SFAS No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases", nonrefundable fees and costs associated with originating or acquiring loans are recognized as a yield adjustment to the related loans by amortizing them into income over the term of the loan using a method which approximates the interest method. Other credit-related fees, such as standby letter of credit fees, loan placement fees and annual credit card fees are recognized as noninterest income during the period the related service is performed.

For loans placed on nonaccrual status, the accrued and unpaid interest receivable may be reversed at management's discretion based upon management's assessment of collectibility, and interest is thereafter credited to principal to the extent necessary to eliminate doubt as to the collectibility of the net carrying amount of the loan.

Results of Operations

For the year ended December 31, 2005, the Company reported net income of $11.0 million or $1.94 per share ($1.92 diluted) as compared to $8.4 million or $1.49 per share ($1.48 diluted) for the year ended December 31, 2004, and $7.7 million or $1.41 per share ($1.40 diluted) for the year ended December 31, 2003. Net income for 2005 increased $2.6 million from the previous year as the result of increased volume in earning assets combined with an increase in market rates of interest throughout much of 2005.

The Company's return on average assets was 1.76 % for the year ended December 31, 2005 as compared to 1.52 % and 1.51 % for the same twelve-month periods of 2004 and 2003, respectively. The Company's return on average equity was 19.46% for the year ended December 31, 2005 as compared to 16.81 % and 17.80 % for the same twelve-month periods of 2004 and 2003, respectively.

Net Interest Income

Net interest income, the most significant component of earnings, is the difference between the interest and fees received on earning assets and the interest paid on interest-bearing liabilities. Earning assets consist primarily of loans, and to a lesser extent, investments in securities issued by federal, state and local authorities, and corporations, as well as interest-bearing deposits and overnight funds with other financial institutions. These earning assets are funded by a combination of interest-bearing and noninterest-bearing liabilities, primarily customer deposits and short-term and long-term borrowings.

Net interest income before provision for credit losses totaled $29.2 million for the year ended December 31, 2005 as compared to $24.4 million for the year ended December 31, 2004, and $19.8 million for the year ended December 31, 2003. This represents an increase of $4.8 million or 19.6 % between the years ended December 31, 2004 and 2005, as compared to an increase of $4.7 million or 23.5% between 2003 and 2004. As with net income, the increase in net interest income between 2004 and 2005 is the result of increased volume in earning assets combined with a substantial increase in market rates of interest throughout much of 2005. The increase in net interest income between 2003 and 2004 is primarily the result of substantial growth in net average earning assets, combined with a decline in the cost of average interest-bearing liabilities, which was enhanced by an increase in average market rates of interest between those two twelve-month periods.

Table 1. – Distribution of Average Assets, Liabilities and Shareholders' Equity:

Interest rates and interest differentials
Years Ended December 31, 2005, 2004, and 2003

(Dollars in thousands)	2005 Average Balance	2005 Interest	2005 Yield/ Rate	2004 Average Balance	2004 Interest	2004 Yield/ Rate	2003 Average Balance	2003 Interest	2003 Yield/ Rate
Assets:									
Interest-earning assets:									
Loans (1)	$ 402,820	$ 33,078	8.21%	$ 374,748	$ 26,684	7.12%	$ 353,562	$ 23,257	6.58%
Investment Securities – taxable	107,761	4,163	3.86%	90,473	3,433	3.79%	90,608	3,169	3.50%
Investment Securities – nontaxable (2)	2,261	112	4.95%	2,242	123	5.49%	2,613	132	5.05%
Interest on deposits in other banks	7,539	308	4.09%	7,845	310	3.95%	8,496	345	4.06%
Federal funds sold and reverse repos	35,139	1,237	3.52%	23,616	324	1.37%	13,714	147	1.07%
Total interest-earning assets	555,520	$ 38,898	7.00%	498,924	$ 30,874	6.19%	468,993	$ 27,050	5.77%
Allowance for possible loan losses	(7,608)			(7,013)			(5,375)		
Noninterest-bearing assets:									
Cash and due from banks	29,940			24,141			18,449		
Premises and equipment, net	9,551			6,608			3,960		
Accrued interest receivable	2,661			2,141			2,226		
Other real estate owned	1,639			2,417			4,348		
Other assets	35,496			27,507			17,690		
Total average assets	$ 627,199			$ 554,725			$ 510,291		
Liabilities and Shareholders' Equity:									
Interest-bearing liabilities:									
NOW accounts	$ 51,043	$ 244	0.48%	$ 44,585	$ 171	0.38%	$ 30,840	$ 146	0.47%
Money market accounts	120,318	2,332	1.94%	92,159	1,298	1.41%	75,111	1,103	1.47%
Savings accounts	35,500	175	0.49%	29,548	136	0.46%	23,705	124	0.52%
Time deposits	196,642	5,772	2.94%	203,839	3,983	1.95%	216,127	4,563	2.11%
Other borrowings	1,335	44	3.30%	858	23	2.68%	13,206	540	4.09%
Trust Preferred securities	15,464	1,091	7.06%	15,349	822	5.36%	15,000	784	5.23%
Total interest-bearing liabilities	420,302	$ 9,658	2.30%	386,338	$ 6,433	1.67%	373,989	$ 7,260	1.94%
Noninterest-bearing liabilities:									
Noninterest-bearing checking	144,146			113,836			89,713		
Accrued interest payable	1,421			773			756		
Other liabilities	4,773			3,791			2,539		
Total average liabilities	570,642			504,738			466,997		
Total average shareholders' equity	56,557			49,987			43,294		
Total average liabilities and Shareholders' equity	$ 627,199			$ 554,725			$ 510,291		
Interest income as a percentage of average earning assets			7.00%			6.19%			5.77%
Interest expense as a percentage of average earning assets			1.74%			1.29%			1.55%
Net interest margin			5.26%			4.90%			4.22%

(1) Loan amounts include nonaccrual loans, but the related interest income has been included only if collected for the period prior to the loan being placed on a nonaccrual basis. Loan interest income includes loan fees of approximately $3,480,000, $3,216,000, and $1,889,000 for the years ended December 31, 2005, 2004, and 2003, respectively.

(2) Applicable nontaxable securities yields have not been calculated on a tax-equivalent basis because they are not material to the Company's results of operations.

As summarized in Table 2, the increase in net interest income between the two twelve-month periods ended December 31, 2005 and 2004 is comprised of an increase in total interest income of approximately $8.0 million, which was only partially offset by an increase in total interest expense of approximately $3.2 million. The Bank's net interest margin, as shown in Table 1, increased to 5.26% at December 31, 2005 from 4.90% at December 31, 2004, an increase of 36 basis points (100 basis points = 1%) between the two periods. The net margin of 4.90% reported during 2004 represents an increase of 68 basis points from the 4.22% net margin realized by the Company during 2003. While assets have grown over the past three years and the balance sheet mix has changed, interest rate movements over those three years have played a significant role in net interest income trends. Market rates of interest decreased a modest 25 basis points during 2003. Then during the second half of 2004, rates began to rise significantly, with the prime rate rising 125 basis points between June 30, 2004 and December 31, 2004, and rising another 200 basis points during 2005. As a result, the prime rate averaged 6.19% for the year ended December 31, 2005 as compared to 4.34% and 4.12% for the years ended December 31, 2004 and 2003, respectively.

Both the Company's net interest income and net interest margin are affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as "volume change." Both are also affected by changes in yields on interest-earning assets and rates paid on interest-bearing liabilities, referred to as "rate change". The following table sets forth the changes in interest income and interest expense for each major category of interest-earning asset and interest-bearing liability, and the amount of change attributable to volume and rate changes for the years indicated. Changes in interest income and expense, which are not attributable specifically to either rate or volume, are allocated proportionately between the two variances based on the absolute dollar amounts of the change in each.

Table 2. Rate and Volume Analysis

(In thousands)	2005 compared to 2004 Total	Rate	Volume	2004 compared to 2003 Total	Rate	Volume
Increase (decrease) in interest income:						
Loans	$ 6,394	$ 4,295	$ 2,099	$ 3,427	$ 1,985	$ 1,442
Investment securities	719	47	672	255	273	(18)
Interest-bearing deposits in other banks	(2)	11	(13)	(35)	(9)	(26)
Federal funds sold and securities purchased under agreements to resell	913	696	217	177	49	128
Total interest income	8,024	5,049	2,975	3,824	2,298	1,526
Decrease in interest expense:						
Interest-bearing demand accounts	1,107	678	429	220	(119)	339
Savings accounts	39	10	29	12	(16)	28
Time deposits	1,789	1,934	(145)	(580)	(331)	(249)
Other borrowings	21	6	15	(517)	(139)	(378)
Trust Preferred securities	269	263	6	38	19	19
Total interest expense	3,225	2,891	334	(827)	(586)	(241)
Increase in net interest income	$ 4,799	$ 2,158	$ 2,641	$ 4,651	$ 2,884	$ 1,767

Total interest income increased approximately $8.0 million or 26.0% between the years ended December 31, 2004 and 2005, and is attributable to both an increase in earning asset volume, as well as the yields on those earning assets. As with the previous year, earning asset growth was mainly in loans, with minor growth in investments and federal funds sold. On average, loans grew by approximately $28.2 million between 2004 and 2005. The Company continues to maintain a high percentage of loans in its earning asset mix with loans averaging 72.5% of total earning assets for the year ended December 31, 2005, as compared to 75.1% and 75.4% for the years ended December 31, 2004 and 2003, respectively.

Total interest expense increased approximately $3.2 million between the years ended December 31, 2004 and 2005, primarily as a result of increased rates paid on deposit accounts as market rates of interest continued to rise throughout 2005. Rates paid on interest-bearing liabilities increase in all categories, with the greatest increases experienced in time deposits and money market deposit accounts. The Company's deposit mix continues to change with continued declines in time deposit volume, which was more than offset by increases in the average volume of interest-bearing demand and savings accounts. On average, time deposits decreased $7.2 million, while interest-bearing demand and savings accounts increased on average by $34.6 million and $6.0 million, respectively, between the years ended December 31, 2004 and December 31, 2005.

Total interest income increased approximately $3.8 million or 14.2% for the year ended December 31, 2004 as compared to the previous year. The change is attributable primarily to an increase in the overall yield on earning assets, which was also enhanced by increased volumes of earning assets. Earning asset growth was mainly in loans, which are traditionally the Company's highest earning asset and, to a smaller degree, in investment securities and interest-bearing deposits. On average, loan growth totaled nearly $21.2 million or 6.0% during 2004.

Total interest expense decreased approximately $827,000 or 11.4% for the year ended December 31, 2004 as compared to the year ended December 31, 2003. The decrease between these two periods is primarily the result of a substantial decrease in the average rates paid on all interest-bearing categories, which was combined with a decrease in average balances of time deposits and other borrowings during the year. Average time deposit balances decreased $12.3 million and average balances on other borrowings decreased $12.3 million during 2004, and the average rate paid on time deposits and other borrowings declined 16 and 141 basis points, respectively, when compared to the year ended December 31, 2003.

Provision for Credit Losses

Provisions for credit losses and the amount added to the allowance for credit losses is determined on the basis of management's continuous credit review of the loan portfolio, consideration of past loan loss experience, current and future economic conditions, and other pertinent factors. Such factors consider the allowance for credit losses to be adequate when it covers estimated losses inherent in the loan portfolio. Based on the condition of the loan portfolio, management believes the allowance is sufficient to cover risk elements in the loan portfolio. For the year ended December 31, 2005 the provision to the allowance for credit losses amounted to $1.1 million as compared to $1.1 and $1.7 million for the years ended December 31, 2004 and 2003, respectively. As with 2004, the provisions made during 2005 were relatively stable throughout the year, and actually declined during the fourth quarter as the result of a reduction in problem loans.

The provision made during the fourth quarter of 2003 totaled $841,000, or approximately 49.1% of the total provision made during 2003. The additional provision made during the fourth quarter of 2003 was in response to a nonperforming lease portfolio totaling approximately $5.5 million. For further discussion, see "Asset quality and allowance for credit losses" included in the financial condition section of this Management's Discussion and Analysis of Financial Condition and Results of Operations. The amount provided to the allowance for credit losses during 2005 brought the allowance to 1.86% of net outstanding loan balances at December 31, 2005, as compared to 1.82% of net outstanding loan balances at December 31, 2004, and 1.76% at December 31, 2003.

Noninterest Income

The following table summarizes significant components of noninterest income for the years indicated and the net changes between those years:

	Years Ended December 31,			Increase (decrease) during Year	
(In thousands)	**2005**	**2004**	**2003**	**2005**	**2004**
Customer service fees	$ 4,399	$ 4,311	$ 3,663	$ 88	$ 648
Gain (loss) on sale of securities	163	35	(58)	128	93
Gain on sale of loans	0	0	21	0	(21)
Gain (loss) on sale of OREO	325	(98)	80	423	(178)
Gain on sale of interest-bearing deposits in other banks	0	0	186	0	(186)
Shared appreciation income	393	8	1,813	385	(1,805)
Other	1,000	486	443	514	43
Total	$ 6,280	$ 4,742	$ 6,148	$ 1,538	$ (1,406)

Noninterest income consists primarily of fees and commissions earned on services that are provided to the Company's banking customers and, to a lesser extent, gains on sales of Company assets and other miscellaneous income. Noninterest income for the year ended December 31, 2005 increased $1.5 million when compared to the previous year, and increased $132,000 when compared to the year ended December 31, 2004. Customer service fees continue to provide the majority of noninterest income over the three years presented, with a modest increase of $88,000 between 2004 and 2005. Increases in customer service fees realized during 2005 and 2004 were comprised of increases in ATM and overdraft charges, as well as additional fee revenue generated by the two Kern County branches acquired during April 2004. Shared appreciation income has fluctuated over the three years presented, and increased $385 between 2004 and 2005, but the amount realized during 2005 was still was below the $1.8 million realized in 2003. Shared appreciation income results from agreements between the Company and the borrower on certain construction loans where the Company agrees to receive interest on the loan at maturity rather than monthly and the borrower agrees to share in the profits of the project. The profit is determined by the appraised value of the completed project and subsequent refinancing or sale of the project. Due to the difficulty in calculating future values, shared appreciation income is recognized when received. The Company does not participate in a significant number of shared appreciation projects, and as a result, does not anticipate large amounts of shared appreciation income on an ongoing basis. Gains on sales of investment securities increased $128,000 between 2004 and 2005 and are the result of securities sold during the fourth quarter of 2005 as the Company restructured the investment portfolio to reduce the risk profile of the Company.

Noninterest income for the year ended December 31, 2004 decreased $1.4 million when compared to the year ended December 31, 2003. Increases in customer service fees totaled $649,000 between 2003 and 2004, and were comprised of increases in ATM and overdraft charges, as well as additional fee revenue generated by the two Kern County branches acquired during April 2004. Shared appreciation income declined $1.8 million between 2003 and 2004, as 2003 levels were not again realized during 2004.

Noninterest Expense

The following table sets forth the components of total noninterest expense in dollars and as a percentage of average earning assets for the years ended December 31, 2005, 2004 and 2003:

	2005		2004		2003	
(Dollars in thousands)	**Amount**	**% of Average Earning Assets**	**Amount**	**% of Average Earning Assets**	**Amount**	**% of Average Earning Assets**
Salaries and employee benefits	$ 8,046	1.45%	$ 6,663	1.34%	$ 5,089	1.09%
Occupancy expense	2,327	0.42%	2,197	0.44%	1,658	0.35%
Data processing	624	0.11%	659	0.13%	515	0.11%
Professional fees	1,234	0.22%	1,236	0.25%	991	0.21%
Directors fees	210	0.04%	192	0.04%	184	0.04%
Amortization of intangibles	537	0.10%	470	0.09%	353	0.08%
Correspondent bank service charges	359	0.06%	318	0.06%	281	0.06%
Writedown on investment	702	0.13%	0	0.00%	0	0.00%
Writedowns on OREO	0	0.00%	35	0.01%	403	0.09%
Loss on CA Tax Credit Partnership	458	0.08%	395	0.08%	276	0.06%
Other	2,485	0.45%	2,502	0.50%	2,105	0.45%
Total	$ 16,982	3.06%	$ 14,667	2.94%	$ 11,855	2.53%

Noninterest expense, excluding provision for credit losses and income tax expense, totaled $17.0 million for the year ended December 31, 2005 as compared to $14.7 million and $11.9 million for the years ended December 31, 2004 and 2003, respectively. These figures represent an increase of $2.3 million or 15.8% between the years ended December 31, 2004 and 2005 and an increase of $2.8 million or 23.7% between the years ended December 31, 2003 and 2004. Noninterest expense increases between the three years presented are associated primarily with normal, anticipated growth of the Company, as well as additional costs associated with the two new Kern County branches acquired in the Taft merger, and the new downtown Convention Center branch, all three of which were added during the second quarter of 2004. Noninterest expense incurred during 2005 included a write-down of $702,000 on the Company's investment in a title company, Diversified Holding Corporation *(see Trends Affecting Results of Operations and Financial Position in this Management's Discussion and Analysis of Financial Condition and Results of Operations)*. As a percentage of average earning assets, total noninterest expense has experienced moderate increases over the past three years as the Company has controlled overhead expenses while experiencing profitable growth. Noninterest expense amounted to 3.06% of average earning assets for the year ended December 31, 2005 as compared to 2.94% at December 31, 2004 and 2.53% at December 31, 2003.

With the addition of the Taft and Bakersfield branches acquired as part of the Taft National Bank merger in April 2004, as well as business development infrastructure initiated during 2005, increases have been experienced in salaries, occupancy, data processing, intangible amortization, and other related expenses. Professional fees increased over the three years presented as the result of additional legal expenses associated with impaired loans, as well as increased audit fees. While legal fees associated with impaired loans declined between 2003 and 2004, the Company incurred an additional $463,000 in audit fees associated with Sarbanes-Oxley compliance during 2004. The Company became an accelerated filer during 2004 (as defined by the SEC), and as a result became subject to the Section 404 internal control reporting requirements of the Sarbanes-Oxley Act effective December 31, 2004. Increases in other noninterest expense over the three years presented are associated with normal business growth and, include a number of items such as telephone, postage, insurance, and armored car expenses.

Income Taxes

On December 31, 2003 the California Franchise Tax Board (FTB) announced certain tax transactions related to real estate investment trusts (REITs) and regulated investment companies (RICs) will be disallowed pursuant to Senate Bill 614 and Assembly Bill 1601, which were signed into law in the 4th quarter of 2003. As a result, the Company reversed related net state tax benefits recorded in the first three quarters of 2003 and has taken no related tax benefits since that time. The Company continues to review the information available from the FTB and its financial advisors and believes that the Company's position has merit. The Company will pursue its tax claims and defend its use of these entities and transactions. At this time, the Company cannot predict the ultimate outcome.

During the first quarter of 2005, the FTB notified the Company of its intent to audit the REIT for the tax years ended December 2001 and 2002. The Company has retained legal counsel to represent it in the tax audit, and counsel has provided the FTB with documentation supporting the Company's position. The FTB concluded its audit during January 2006. At that time the FTB submitted a closing letter to the Company, which included proposed assessments related to the tax benefits taken for the REIT during 2002. The Company still believes the case has merit based upon the fact that the FTB is ignoring certain facts of law in the case. If the FTB were to prevail against the Company in its defense of tax benefits taken during 2002, the negative effect to net income resulting from the reversal of tax benefits taken during 2002 would be approximately $755,000, excluding any possible penalties and interest. The Company cannot reasonably determine at this time what the ultimate outcome of the audit will be, although the FTB appears reluctant to accept the Company's position. The outcome of the audit will not end the administrative processing of the REIT issue because the Company will continue to assert its administrative protest and appeal rights pending the outcome of litigation by another taxpayer presently in process on the REIT issue in the Los Angeles Superior Court (City National v. Franchise Tax Board). It is Management's understanding that the FTB is unwilling to resolve or concede any issues in the audit pending the final outcome of the City National case which contains all of the issues related to the Company's audit with the FTB. The case is ongoing and may take several years to complete.

Financial Condition

Total assets increased by $17.2 million or 2.8% during the year to $628.9 million at December 31, 2005, and increased $123.3 million or 24.1% from the balance of $506.6 million at December 31, 2003. During 2005, increases were experienced primarily in loans and federal funds sold, while investment securities declined as investments matured or were sold during the year. During the year ended December 31, 2005, net loans increased $19.1 million, federal funds sold increased $9.1 million, while investment securities declined $17.0 million between the two period-ends. The increase in assets experienced during 2004 was partially the result of the purchase of Taft National Bank during April 2004, which added approximately $50.0 million in assets.

Total deposits of $546.5 million at December 31, 2005 increased $9.8 million or 1.8% from the balance reported at December 31, 2004, and increased $106.0 million or 24.1% from the balance of $440.4 million reported at December 31, 2003. During 2005, growth was experienced in all deposit categories except time deposits, which continue to decline primarily as the result of brokered deposit run-off.

Earning assets averaged approximately $555.5 million during the year ended December 31, 2005, as compared to $498.9 million and $469.0 million for the years ended December 31 2004 and 2003, respectively. Average interest-bearing liabilities increased to $420.3 million for the year ended December 31, 2005, as compared to $386.3 million for the year ended December 31, 2004, and increased from the balance of $374.0 million for the year ended December 31, 2003.

Loans

The Company's primary business is that of acquiring deposits and making loans, with the loan portfolio representing the largest and most important component of its earning assets. Loans totaled $417.9 million at December 31, 2005, representing an increase of $19.2 million or 4.8% when compared to the balance of $398.7 million at December 31, 2004, and an increase of $72.2 million or 20.9% when compared to the balance of $345.7 million reported at December 31, 2003. Average loans totaled $402.8 million, $374.7 million, and $353.6 million for the years ended December 31, 2005, 2004 and 2003, respectively. During 2005 average loans increased 7.5% when compared to the year ended December 31, 2004 and increased 13.9% compared to the year ended December 31, 2003.

The following table sets forth the amounts of loans outstanding by category and the category percentages as of the year-end dates indicated:

	2005		2004		2003		2002		2001	
(In thousands)	Dollar Amount	% of Loans	Dollar Amount	% of Loans	Dollar Amount	% of Loans	Dollar Amount	% of Loans	Dollar Amount	% of Loans
Commercial and industrial	$ 113,263	27.1%	$ 123,720	31.0%	$ 116,991	33.9%	$ 117,293	33.6%	$ 102,280	30.4%
Real estate – mortgage	89,503	21.4	88,187	22.1	96,381	27.9	100,417	28.9	111,425	33.1
Real estate – construction	162,873	38.9	137,523	34.5	97,930	28.3	95,024	27.2	92,764	27.6
Agricultural	24,935	6.0	23,416	5.9	15,162	4.4	16,877	4.8	12,987	3.9
Installment/other	15,002	3.6	13,257	3.3	6,617	1.9	7,811	2.2	6,647	2.0
Lease financing	12,334	3.0	12,581	3.2	12,581	3.6	11,632	3.3	10,184	3.0
Total Loans	$ 417,910	100.0%	$ 398,684	100.0%	$ 345,662	100.0%	$ 349,054	100.0%	$ 336,287	100.0%

Loans increased $19.2 million during the year ended December 31, 2005 with a majority of that increase experienced in real estate construction loans. Real estate construction lending continues to be a substantial business line for the Company, as housing demand and business development remain strong throughout the Central San Joaquin Valley. Modest increases were experienced in real estate mortgage, agricultural, and installment consumer loans, while commercial and industrial loans declined by nearly $10.5 million as several large commercial relationships matured during the later part of 2005.

Loans increased more than $53.0 million during 2004 due in part to the merger with Taft National Bank, and in part to internal loan growth. The Taft merger brought with it approximately $23.3 million in loans, and the additional increase of $30.2 million experienced during 2004 included increases of $35.0 million in construction loans, $7.2 million in agricultural loans, and $5.3 million in consumer installment loans. Exclusive of the Taft merger, commercial and industrial loans declined by $9.0 million, and real estate mortgage loans declined by $8.4 million. The Company experienced substantial increases in construction lending during 2004, as the residential housing and commercial real estate markets remained strong within the San Joaquin Valley. Between the time of the merger during April 2004 and December 31, 2004, the two branches acquired from Taft National in Kern County experienced increases in loans of almost $11.4 million.

Loan volume continues to be greatest in what has historically been the Bank's primary lending emphasis: commercial, real estate mortgage, and construction lending. During 2005, loan growth occurred in all categories except commercial and industrial loans, and lease financing, with total loans growing by $19.2 million or 4.8% between December 31, 2004 and December 31, 2005. During 2004, loan growth occurred in all categories except real estate mortgage loans, with total loans growing by $53.0 million or 15.3% between December 31, 2003 and December 31, 2004. At December 31, 2005, approximately 75% of commercial and industrial loans have floating rates and, although some may be secured by real estate, many are secured by accounts receivable, inventory, and other business assets. Construction loans continue to be a significant focus for the Company and increased $25.4 million or 18.4 % during 2005, increased $39.6 million or 40.0% during 2004, and increased $3.0 million or 3.1% during 2003. Construction loans are generally short-term, floating-rate obligations, which consist of both residential and commercial projects. Agricultural loans consisting of mostly short-term, floating rate loans for crop financing, increased $1.5 million or 6.5% between December 31, 2004 and December 31, 2005, while installment loans increased $1.7 million or 13.2% during that same period.

The real estate mortgage loan portfolio totaling $89.5 million at December 31, 2005 consists of commercial real estate, residential mortgages, and home equity loans. Commercial real estate is the core of this segment of the portfolio, with balances of $43.6 million, $62.5 million, and $86.1 million at December 31, 2005, 2004, and 2003, respectively. Commercial real estate loans are generally a mix of short to medium-term, fixed and floating rate instruments and, are mainly tied to commercial income and multi-family residential properties. The Company does not currently offer traditional residential mortgage loans, but may purchase mortgage portfolios. As a result of real estate mortgage purchases over the past several years, that portion of the portfolio has grown with balances of $43.3 million, $21.6 million, and $5.2 million at December 31, 2005, 2004 and 2003, respectively. The Company purchased a portfolio of 15-year fixed-rate jumbo mortgages during the fourth quarter of 2004, which accounted for $14.0 million of the outstanding mortgage loans at December 31, 2004. The Company purchased an additional mortgage portfolio, similar to the one purchased during 2004, totaling $15.7 million during October 2005, bring the total purchased mortgage loans to $28.4 million, or 65% of the $43 3 held in residential mortgages held by the Company at December 31, 2005. The Company does offer mortgage loans provided by a third-party service provider through the Company's website. The Company also offers short to medium-term, fixed-rate, home equity loans, which totaled $2.6 million at December 31, 2005, $4.1 million at December 31, 2004, and $5.0 million at December 31, 2003.

The following table sets forth the maturities of the Bank's loan portfolio at December 31, 2005. Amounts presented are shown by maturity dates rather than repricing periods:

(In thousands)	**Due in one year or less**	**Due after one Year through Five years**	**Due after Five years**	**Total**
Commercial and agricultural	$ 90,687	$ 38,940	$ 8,571	$ 138,198
Real estate – construction	148,170	14,703	0	162,873
	238,857	53,643	8,571	301,071
Real estate – mortgage	7,849	53,873	27,781	89,503
All other loans	7,725	16,547	3,064	27,336
Total Loans	$ 254,431	$ 124,063	$ 39,416	$ 417,910

The average yield on loans was 8.21% for the year ended December 31, 2005, representing an increase of 109 basis points when compared to the year ended December 31, 2004 and was a result of a significant increase in average market rates of interest throughout 2005. For the year ended December 31, 2004, the overall average yield on the loan portfolio was 7.12%, representing an increase of 54 basis points when compared to 6.58% for the same twelve-month period of 2003 and was a result of an increase in average market rates of interest during the second half of 2004. The Bank's loan portfolio is generally comprised of short-term or floating rate loans and is therefore susceptible to fluctuations in market rates of interest. At December 31, 2005, 2004 and 2003, approximately 58.1%, 67.4% and 66.5% of the Bank's loan portfolio consisted of floating rate instruments, with the majority of those tied to the prime rate.

The following table sets forth the contractual maturities of the Bank's fixed and floating rate loans at December 31, 2005. Amounts presented are shown by maturity dates rather than repricing periods, and do not consider renewals or prepayments of loans:

(In thousands)	Due in one year or less	Due after one Year through Five years	Due after Five years	Total
Accruing loans:				
Fixed rate loans	$ 69,640	$ 55,066	$ 33,440	$ 158,146
Floating rate loans	182,502	57,478	5,854	245,834
Total accruing loans	252,142	112,544	39,294	403,980
Nonaccrual loans:				
Fixed rate loans	100	10,760	122	10,982
Floating rate loans	2,189	759	0	2,948
Total nonaccrual loans	2,289	11,519	122	13,930
Total Loans	$ 254,431	$ 124,063	$ 39,416	$ 417,910

Securities

Following is a comparison of the amortized cost and approximate fair value of available-for-sale and held-to-maturity securities for the three years indicated:

	December 31, 2005				December 31, 2004			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Amount)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Amount)
Available-for-sale:								
U.S. Treasuries	$ 0	$ 0	$ 0	$ 0	$ 399	$ 0	$ (2)	$ 397
U.S. Government agencies	82,215	110	(2,002)	80,323	89,329	312	(764)	88,877
U.S. Government agency collateralized mortgage obligations	22	0	(1)	21	31	0	0	31
Obligations of state and political subdivisions	2,226	94	0	2,320	2,242	155	0	2,397
Other investment securities	13,000	0	(428)	12,572	20,703	70	(225)	20,548
Total available-for-sale	$ 97,463	$ 204	$ (2,431)	$ 95,236	$ 112,704	$ 537	$ (991)	$ 112,250

	December 31, 2003			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government agencies	$ 58,666	$ 613	$ (354)	$ 58,925
U.S. Government agency collateralized mortgage obligations	54	0	0	54
Obligations of state and political subdivisions	2,613	201	0	2,814
Other investment securities	21,646	421	(125)	21,942
Total available-for-sale	$ 82,979	$ 1,235	$ (479)	$ 83,735

Included in other investment securities at December 31, 2005, is a short-term government securities mutual fund totaling $7.7 million, and a CRA-qualified mortgage fund totaling $4.9 million. Included in other investment securities at December 31, 2004, is a short-term government securities mutual fund totaling $7.8 million, a commercial asset-backed trust totaling $4.6 million, a CRA-qualified mortgage fund totaling $5.0 million, and Trust Preferred securities pools totaling $3.2 million. Included in other debt securities at December 31, 2003 is a short-term government securities mutual fund totaling $7.9 million, a commercial asset-backed trust totaling $5.6 million, and Trust Preferred securities pools totaling $8.4 million. The commercial asset-backed trust consists of fixed and floating rate commercial and multifamily mortgage loans. The short-term government securities mutual fund invests in debt securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, with a maximum duration equal to that of a 3-year U.S. Treasury Note.

Realized gains on securities available-for-sale totaled $163,000 during 2005, $152,000 during 2004, and $11,000 during 2003. There were no realized losses on securities available-for-sale during 2005. Realized losses on securities available-for-sale totaled $117,000 during 2004, and $69,000 during 2003.

Investment securities decreased $17.0 million between December 2004 and December 2005 with decreases experienced in both U.S. government agencies as well as other investment securities. Decreases experienced during 2005 were due in part to sales of approximately $6.8 million in other investment securities during the fourth quarter of 2005 as the Company restructured the investment portfolio to improve the risk profile of the Company. Investment sales during the fourth quarter included Trust Preferred Securities pools totaling $3.3 million, and a commercial asset-backed trust totaling $3.5 million. Investment securities increased $28.5 million between December 31, 2003 and December 31, 2004, as deposit growth during 2004 outpaced loan growth. The Taft merger during April 2004 contributed an additional $9.2 million in investment securities, and $10.0 million in federal funds sold to the balance sheet during 2004.

Securities that have been temporarily impaired less than 12 months at December 31, 2005 are comprised of seven U.S. government agency securities, and one municipal bond with a total weighted average life of 1.2 years. As of December 31, 2005, there were seventeen U.S. government agency securities, two other investment securities, and one collateralized mortgage obligation with a total weighted average life of 3.14 years that have been temporarily impaired for twelve months or more. Because the decline in market value is attributable to changes in market rates of interest rather than credit quality, and because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2005.

The following summarizes temporarily impaired investment securities at December 31, 2005:

	Less than 12 Months		12 Months or More		Total	
(In thousands)	**Fair Value (Carrying Amount)**	**Unrealized Losses**	**Fair Value (Carrying Amount)**	**Unrealized Losses**	**Fair Value (Carrying Amount)**	**Unrealized Losses**
Securities available for sale:						
U.S. Government agencies	$ 18,071	$ (306)	$ 58,074	$ (1,779)	$ 76,145	$ (2,085)
U.S. Government agency collateralized mortgage Obligations	0	0	16	(1)	16	(1)
Obligations of state and political subdivisions	35	(1)	0	0	35	(1)
Other investment securities	0	0	12,572	(344)	12,572	(344)
Total impaired securities	$ 18,106	$ (307)	$ 70,662	$ (2,124)	$ 88,768	$ (2,431)

The contractual maturities of investment securities as well as yields based on amortized cost of those securities at December 31, 2005 are shown below. Actual maturities may differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties.

	One year or less		After one year to five years		After five years to ten years		After ten years		Total	
(Dollars in thousands)	**Amount**	**Yield (1)**	**Amount**	**Yield (1)**	**Amount**	**Yield (1)**	**Amount**	**Yield (1)**	**Amount**	**Yield (1)**
Available-for-sale:										
U.S. Government agencies	$ 6,947	3.30%	$ 54,299	3.45%	—	— %	$ 19,077	3.27%	$ 80,323	3.30%
U.S. Government agency collateralized mortgage obligations	—	—	—	—	—	—	21	5.15%	21	5.15%
Obligations of state and political subdivisions	—	—	35	4.85%	1,431	4.98%	854	5.12%	2,320	5.24%
Other investment securities	12,572	2.90%	—	—	—	—	—	—	12,572	2.81%
Total estimated fair value	$ 19,519	2.99%	$ 54,334	3.45%	$ 1,431	4.98%	$ 19,952	3.35%	$ 95,236	3.27%

(1) *Weighted average yields are not computed on a tax equivalent basis*

At December 31, 2005 and 2004, available-for-sale securities with an amortized cost of approximately $69.3 million and $70.7 million, respectively (fair value of $67.8 million and $70.4 million, respectively) were pledged as collateral for public funds, FHLB borrowings, and treasury tax and loan balances.

Deposits

The Bank attracts commercial deposits primarily from local businesses and professionals, as well as retail checking accounts, savings accounts and time deposits. Total deposits increased $9.8 million or 1.8% during the year to a balance of $546.5 million at December 31, 2005 and increased $96.2 million or 21.9% between December 31, 2003 and December 31, 2004. Deposit growth during 2004 is largely attributable to deposits acquired through the merger with Taft National Bank, which amounted to $48.2 million at the date of merger. Core deposits, consisting of all deposits other than time deposits of $100,000 or more and brokered deposits, continue to provide the foundation for the Bank's principal sources of funding and liquidity. These core deposits amounted to 75.7%, 73.4% and 70.1% of the total deposit portfolio at December 31, 2005, 2004 and 2003, respectively.

The following table sets forth the year-end amounts of deposits by category for the years indicated, and the dollar change in each category during the year:

	December 31,			Change during Year	
(In thousands)	**2005**	**2004**	**2003**	**2005**	**2004**
Noninterest-bearing deposits	$ 153,113	$ 129,970	$ 94,597	$ 23,143	$ 35,373
Interest-bearing deposits:					
NOW and money market accounts	175,852	173,943	120,375	1,909	53,568
Savings accounts	33,590	32,775	23,691	815	9,084
Time deposits:					
Under $100,000	53,254	61,626	75,640	(8,372)	(14,014)
$100,000 and over	130,651	138,358	126,141	(7,707)	12,217
Total interest-bearing deposits	393,347	406,702	345,847	(13,355)	60,855
Total deposits	$ 546,460	$ 536,672	$ 440,444	$ 9,788	$ 96,228

During the years ended December 31, 2005 and December 31, 2004, increases were experienced in all deposit categories, except in time deposits, which continue to decline as the Company reduces its dependency on brokered and other out-of-market time deposits. The Company continues to emphasize core deposits as part of its relationship banking strategy. As a result, deposits continue to grow in the Company's deposit categories of NOW and money market accounts, and savings accounts, as well as noninterest-bearing checking accounts. With the Taft merger completed during mid-2004, substantial increases were experienced in these deposit categories between 2003 and 2004 as the result of both an increase in the total number of accounts as well as an increase in the average balance per account, particularly in money market accounts.

The overall level of time deposits has declined over the past several years, as the Company has been able to control the level of these deposits to some degree with pricing strategies. Time deposits, including brokered and other out-of-market deposits have been allowed to run-off as they matured as the need for such deposits diminished. The Company has utilized brokered deposits over the past several years to enhance its funding needs, with brokered deposits totaling $32.8 million, $37.8 million, and $32.4 million at December 31, 2005, 2004 and 2003, respectively. In addition, the Company has been able to obtain time deposits from the State of California, which totaled $40.0 million at December 31, 2005, 2004 and 2003. The time deposits of the State of California are collateralized by pledged securities in the Company's investment portfolio. The Company will continue to use pricing strategies to control the overall level of time deposits as part of its growth and liquidity planning process.

The Company's deposit base consists of two major components represented by noninterest-bearing (demand) deposits and interest-bearing deposits. Interest-bearing deposits consist of time certificates, NOW and money market accounts and savings deposits. Total interest-bearing deposits decreased $13.4 million or 3.3% between December 31, 2004 and December 31, 2005, while noninterest-bearing deposits increased $23.1 million or 17.8% between the same two periods presented. Between December 31, 2003 and December 31, 2004, total interest-bearing deposits increased $60.9 million or 17.6%, while noninterest-bearing deposits increased $35.4 million or 37.4%.

On a year-to-date average, the Company experienced an increase of $63.7 million or 13.2 % in total deposits between the years ended December 31, 2004 and December 31, 2005. Between these two periods, average interest-bearing deposits increased $33.4 million or 9.0%, while total noninterest-bearing checking increased $30.3 million or 26.6% on a year-to-date average basis. On average, the Company experienced increases in all deposit categories between the years ended December 31, 2004 and December 31, 2005, except time deposits, which decreased $7.2 million on average during 2005. On a year-to-date average basis, total deposits increased $48.5 million or 11.1% between the years ended December 31, 2003 and December 31, 2004. Of that total, interest-bearing deposits increased by $24.3 million or 7.0%, while noninterest-bearing deposits increased $24.1 million or 26.9% during 2004.

The following table sets forth the average deposits and average rates paid on those deposits for the years ended December 31, 2005, 2004 and 2003:

	2005		2004		2003	
(Dollars in thousands)	**Average Balance**	**Rate %**	**Average Balance**	**Rate %**	**Average Balance**	**Rate %**
Interest-bearing deposits:						
Checking accounts	$ 171,361	1.50%	$ 136,744	1.07%	$ 105,951	1.18%
Savings	35,500	0.49%	29,548	0.46%	23,705	0.52%
Time deposits (1)	196,642	2.94%	203,839	1.95%	216,127	2.11%
Noninterest-bearing deposits	144,146		113,836		89,713	

(1) Included at December 31, 2005, are $130.7 million in time certificates of deposit of $100,000 or more, of which $33.0 million matures in three months or less, $73.0 million matures in 3 to 6 months, $16.2 million matures in 6 to 12 months, and $8.5 million matures in more than 12 months.

Short-term Borrowings

The Company has the ability to obtain borrowed funds consisting of federal funds purchased, securities sold under agreements to repurchase (“repurchase agreements”) and Federal Home Loan Bank (“FHLB”) advances as alternatives to retail deposit funds. The Company has established collateralized and uncollateralized lines of credit with several correspondent banks, as well as a securities dealer, for the purpose of obtaining borrowed funds as needed. The Company may continue to borrow funds in the future as part of its asset/liability strategy, and may use these funds to acquire certain other assets as deemed appropriate by management for investment purposes and to better utilize the capital resources of the Bank. Federal funds purchased represent temporary overnight borrowings from correspondent banks and are generally unsecured. Repurchase agreements are collateralized by mortgage backed securities and securities of U.S. Government agencies, and generally have maturities of one to six months, but may have longer maturities if deemed appropriate as part of the Company’s asset/liability management strategy. FHLB advances are collateralized by the Company’s investment in FHLB stock, securities, and certain qualifying mortgage loans. In addition, the Company has the ability to obtain borrowings from the Federal Reserve Bank of San Francisco, which would be collateralized by certain pledged loans in the Company’s loan portfolio. The lines of credit are subject to periodic review of the Company’s financial statements by the grantors of the credit lines. Lines of credit may be modified or revoked at any time if the grantors feel there are adverse trends in the Company’s financial position.

The Company had collateralized and uncollateralized lines of credit aggregating $248.7 million and $169.1 million, as well as FHLB lines of credit totaling $10.7 million and $26.7 million at December 31, 2005 and 2004, respectively. These lines of credit generally have interest rates tied to the Federal Funds rate or are indexed to short-term U.S. Treasury rates or LIBOR.

The table below provides further detail of the Company's federal funds purchased, repurchase agreements and FHLB advances for the years ended December 31, 2005, 2004 and 2003:

	December 31,		
(Dollars in thousands)	**2005**	**2004**	**2003**
At period end:			
Federal funds purchased	$ 0	$ 0	$ 0
Repurchase agreements	0	0	0
FHLB advances	0	0	0
Total at period end	$ 0	$ 0	$ 0
Average ending interest rate – total	0.00%	0.00%	0.00%
Average for the year:			
Federal funds purchased	$ 1,331	$ 658	$ 745
Repurchase agreements	0	0	0
FHLB advances	0	0	11,973
Total average for the year	$ 1,331	$ 658	$ 12,718
Average interest rate – total	3.32%	1.92%	4.04%
Maximum total borrowings outstanding at any month-end during the year: Federal funds purchased	$ 8,255	$ 6,480	$ 0
Repurchase agreements/FHLB advances	0	0	35,400
Total	$ 8,255	$ 6,480	$ 35,400

Asset Quality and Allowance for Credit Losses

Lending money is the Company's principal business activity, and ensuring appropriate evaluation, diversification, and control of credit risks is a primary management responsibility. Implicit in lending activities is the fact that losses will be experienced and that the amount of such losses will vary from time to time, depending on the risk characteristics of the loan portfolio as affected by local economic conditions and the financial experience of borrowers.

The allowance for credit losses is maintained at a level deemed appropriate by management to provide for known and inherent risks in existing loans and commitments to extend credit. The adequacy of the allowance for credit losses is based upon management's continuing assessment of various factors affecting the collectibility of loans and commitments to extend credit; including current economic conditions, past credit experience, collateral, and concentrations of credit. There is no precise method of predicting specific losses or amounts which may ultimately be charged off on particular segments of the loan portfolio. The collectibility of a loan is subjective to some degree, but must relate to the borrower's financial condition, cash flow, quality of the borrower's management expertise, collateral and guarantees, and the state of the local economy. When determining the adequacy of the allowance for credit losses, the Company follows, in accordance with GAAP, the guidelines set forth in the Interagency Policy Statement on the Allowance for Loan and Lease Losses ("Statement") issued jointly by banking regulators during July 2001. The Statement outlines characteristics that should be used in segmentation of the loan portfolio for purposes of the analysis including risk classification, past due status, type of loan, industry or collateral. It also outlines factors to consider when adjusting the loss factors for various segments of the loan portfolio. Securities and Exchange Commission Staff Accounting Bulletin No. 102 was also released at this time which represents the SEC staff's view relating to methodologies and supporting documentation for the Allowance for Loan and Lease Losses that should be observed by all public companies in complying with the federal securities laws and the Commission's interpretations. It is also generally consistent with the guidance published by the banking regulators.

The Company segments the loan and lease portfolio into eleven (11) segments, primarily by loan class and type, that have homogeneity and commonality of purpose and terms for analysis under SFAS No. 5. Those loans which are determined to be impaired under SFAS No. 114 are not subject to the general reserve analysis under SFAS No. 5, and evaluated individually for specific impairment. The eleven segments of the Company's loan portfolio are as follows (subtotals are provided as needed to allow the reader to reconcile the amounts to the Company's loan classification reported elsewhere in these financial statements):

	Loan Balance at December 31,				
Loan Segments for Loan Loss Reserve Analysis (dollars in 000's)	**2005**	**2004**	**2003**	**2002**	**2001**
1 Commercial and Business Loans	$ 109,783	$ 115,831	$ 107,068	$ 105,513	$ 88,864
2 Government Program Loans	3,480	7,889	9,923	11,780	13,416
Total Commercial and Industrial	113,263	123,720	116,991	117,293	102,280
3 Commercial Real Estate Term Loans	43,644	62,501	86,142	82,600	83,328
4 Single Family Residential Loans	43,308	21,567	5,240	7,827	13,363
5 Home Improvement/Home Equity Loans	2,551	4,119	4,999	9,990	14,734
Total Real Estate Mortgage	89,503	88,187	96,381	100,417	111,425
6 Total Real Estate Construction Loans	162,873	137,523	97,930	95,024	92,764
7 Total Agricultural Loans	24,935	23,416	15,162	16,877	12,987
8 Consumer Loans	14,345	12,440	6,134	7,423	6,131
9 Overdraft protection Lines	527	664	341	221	341
10 Overdrafts	130	153	142	167	175
Total Installment/other	15,002	13,257	6,617	7,811	6,647
11 Total Lease Financing	12,334	12,581	12,581	11,632	10,184

Total Loans	$	417,910	$	398,684	$	345,662	$	349,054	$	336,287

The Company's methodology for assessing the adequacy of the allowance for credit losses consists of several key elements, which include:

- the formula allowance,
- specific allowances for problem graded loans ("classified loans")
- and the unallocated allowance

In addition, the allowance analysis also incorporates the results of measuring impaired loans as provided in:

- Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan" and
- SFAS 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures."

The formula allowance is calculated by applying loss factors to outstanding loans and certain unfunded loan commitments. Loss factors are based on the Company's historical loss experience and on the internal risk grade of those loans and, may be adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. Factors that may affect collectibility of the loan portfolio include:

- Levels of, and trends in delinquencies and nonaccrual loans;
- Trends in volumes and term of loans;
- Effects of any changes in lending policies and procedures including those for underwriting, collection, charge-off, and recovery;
- Experience, ability, and depth of lending management and staff;
- National and local economic trends and conditions and;
- Concentrations of credit that might affect loss experience across one or more components of the portfolio, including high-balance loan concentrations and participations.

Management determines the loss factors for problem-graded loans (substandard, doubtful, and loss), special mention loans, and pass graded loans, based on a loss migration model. The migration analysis incorporates loan losses over the past twelve quarters (three years) and loss factors are adjusted to recognize and quantify the loss exposure from changes in market conditions and trends in the Company's loan portfolio. For purposes of this analysis, loans are grouped by internal risk classifications, which are "pass", "special mention", "substandard", "doubtful", and "loss". Certain loans are homogenous in nature and are therefore pooled by risk grade. These homogenous loans include consumer installment and home equity loans. Special mention loans are currently performing but are potentially weak, as the borrower has begun to exhibit deteriorating trends, which if not corrected, could jeopardize repayment of the loan and result in further downgrade. Substandard loans have well-defined weaknesses which, if not corrected, could jeopardize the full satisfaction of the debt. A loan classified as "doubtful" has critical weaknesses that make full collection of the obligation improbable. Classified loans, as defined by the Company, include loans categorized as substandard, doubtful, and loss.

Loan participations are reviewed for allowance adequacy under the same guidelines as other loans in the Company's portfolio, with an additional participation factor added, if required, for specific risks associated with participations. In general, participations are subject to certain thresholds set by the Company, and are reviewed for geographic location as well as the well-being of the underlying agent bank.

The formula allowance includes reserves for certain off-balance sheet risks including letters of credit, unfunded loan commitments, and lines of credit. Reserves for undisbursed commitments are generally formula allocations based on the Company's historical loss experience and other loss factors, rather than specific loss contingencies. During 2005 and 2004, the Company reclassified reserves for off-balance sheet commitments totaling $542,000 and $507,000, respectively, as other liabilities pursuant to current accounting guidance. Prior to 2004, the reserves for these off-balance sheet commitments are included in the Company's allowance for credit losses, rather than a separate liability on the balance sheet because the reserve amounts are considered to be immaterial in relation to total liabilities. At December 31, 2005, 2004 and 2003 the formula reserve allocated to undisbursed commitments totaled $542,000, $507,000 and $399,000, respectively.

Specific allowances are established based on management's periodic evaluation of loss exposure inherent in classified loans, impaired loans, and other loans in which management believes there is a probability that a loss has been incurred in excess of the amount determined by the application of the formula allowance. Specific allowance amounts include those calculated under SFAS No. 114. Under SFAS No. 114, specific allowances are determined based on the collateralized value of the underlying properties, the net present value of the anticipated cash flows, or the market value of the underlying assets. Under SFAS No. 5, specific allowances, where required, are determined on the basis of additional risks involved with individual loans that may be in excess of risk factors associated with the loan portfolio as a whole. The specific allowance is different from the formula allowance in that the specific allowance is determined on a loan-by-loan basis based on risk factors directly related to a particular loan, as opposed to the formula allowance which is determined for a pool of loans with similar characteristics, based on past historical trends and other risk factors which may be relevant on an ongoing basis.

The unallocated portion of the allowance is the result of both expected and unanticipated changes in various conditions that are not directly measured in the determination of the formula and specific allowances. The conditions may include, but are not limited to, general economic and business conditions affecting the key lending areas of the Company, credit quality trends, collateral values, loan volumes and concentrations, and other business conditions.

The Company's methodology includes features that are intended to reduce the difference between estimated and actual losses. The specific allowance portion of the analysis is designed to be self-correcting by taking into account the current loan loss experience based on that portion of the portfolio. By analyzing the probable estimated losses inherent in the loan portfolio on a quarterly basis, management is able to adjust specific and inherent loss estimates using the most recent information available. In performing the periodic migration analysis, management believes that historical loss factors used in the computation of the formula allowance need to be adjusted to reflect current changes in market conditions and trends in the Company's loan portfolio. There are a number of other factors, which are reviewed when determining adjustments in the historical loss factors. They include 1) trends in delinquent and nonaccrual loans, 2) trends in loan volume and terms, 3) effects of changes in lending policies, 4) concentrations of credit, 5) competition, 6) national and local economic trends and conditions, 7) experience of lending staff, 8) loan review and Board of Directors oversight, 9) high balance loan concentration, and 10) other business conditions. There were no changes in estimation methods or assumptions during 2005 that affected the methodology for assessing the overall adequacy of the allowance for credit losses.

Management and the Company's lending officers evaluate the loss exposure of classified and impaired loans on a weekly/monthly basis and through discussions and officer meetings as conditions change. The Company's Loan Committee meets weekly and serves as a forum to discuss specific problem assets that pose significant concerns to the Company, and to keep the Board of Directors informed through committee minutes. All special mention and classified loans are reported quarterly on Criticized Asset Reports, which are reviewed by senior management. With this information, the migration analysis and the impaired loan analysis are performed on a quarterly basis and adjustments are made to the allowance as deemed necessary.

The Company considers a loan to be impaired when, based upon current information and events, it believes it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans include nonaccrual loans, restructured debt, and currently performing loans in which full payment of principal or interest is not expected. Management bases the measurement of these impaired loans on the fair value of the loan's collateral or the expected cash flows on the loans discounted at the loan's stated interest rates. Cash receipts on impaired loans not performing to contractual terms and that are on nonaccrual status are used to reduce principal balances. Impairment losses are included in the allowance for credit losses through a charge to the provision, if applicable. Impaired loans are measured based on the present value of the 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 amount of impaired loans is not directly comparable to the amount of nonperforming loans disclosed later in this section. The primary differences between impaired loans and nonperforming loans are: i) all loan categories are considered in determining nonperforming loans while impaired loan recognition is limited to commercial and industrial loans, commercial and residential real estate loans, construction loans, and agricultural loans, and ii) impaired loan recognition considers not only loans 90 days or more past due, restructured loans and nonaccrual loans but also may include problem loans other than delinquent loans.

At December 31, 2005 and 2004, the Company's recorded investment in loans for which impairment has been recognized totaled $12.9 million and $17.7 million, respectively. Included in total impaired loans at December 31, 2005, are $10.6 million of impaired loans for which the related specific allowance is $4.1 million, as well as $2.3 million of impaired loans that as a result of write-downs or the fair value of the collateral, did not have a specific allowance. Total impaired loans at December 31, 2004 included $12.0 million of impaired loans for which the related specific allowance is $3.2 million, as well as $5.7 million of impaired loans that as a result of write-downs or the fair value of the collateral, did not have a specific allowance. The average recorded investment in impaired loans was $15.9 million, $16.6 million and $18.1 million during the years ended December 31, 2005, 2004 and 2003, respectively. In most cases, the Company uses the cash basis method of income recognition for impaired loans. In the case of certain troubled debt restructuring for which the loan is performing under the current contractual terms, income is recognized under the accrual method. For the year ended December 31, 2005, the Company recognized income of $34,000 on such loans. For the years ended December 31, 2004 and 2003, the Company recognized no income on such loans.

The Company focuses on competition and other economic conditions within its market area, which may ultimately affect the risk assessment of the portfolio. The Company continues to experience increased competition from major banks, local independents and non-bank institutions creating pressure on loan pricing. With interest rates rising significantly since July 2004, the Federal Reserve perceives economic growth as strong, but indications are that rate increases will slow during the first half of 2006. Both business and consumer spending have improved during the past two years, with GDP currently ranging between 3.5% and 4.0%. It is difficult to determine how long the Federal Reserve will continue to adjust interest rates in an effort to influence the economy, however with the 125 basis point increase in the prime rate during the second half of 2004, and an additional 200 basis point increase during the first nine months of 2005, further increases are may be anticipated during the half of 2006. It is likely that the business environment in California will continue to be influenced by these domestic as well as global events. The local market has improved economically during the past several years while the rest of the state and the nation has experienced slowed economic growth. The local area residential housing markets continue to be very strong, which should bode well for sustained growth in the Company's market areas of Fresno and Madera, and Kern Counties. Local unemployment rates remain high primarily as a result of the areas' agricultural dynamics, however unemployment rates have improved during 2005. It is difficult to predict what impact this will have on the local economy. The Company believes that the Central San Joaquin Valley will continue to grow and diversify as property and housing costs remain reasonable relative to other areas of the state, although this growth may begin to slow as the Federal Reserve raises interest rates to control what it perceives as an accelerating economy. Management recognizes increased risk of loss due to the Company's exposure from local and worldwide economic conditions, as well as potentially volatile real estate markets, and takes these factors into consideration when analyzing the adequacy of the allowance for credit losses.

The following table provides a summary of the Company's allowance for credit losses, provisions made to that allowance, and charge-off and recovery activity affecting the allowance for the years indicated.

	December 31,				
(Dollars in thousands)	**2005**	**2004**	**2003**	**2002**	**2001**
Total loans outstanding at end of period before deducting allowances for credit losses	$ 417,156	$ 397,584	$ 344,797	$ 348,598	$ 335,620
Average net loans outstanding during period	$ 402,820	$ 374,748	$ 353,562	$ 347,192	$ 297,653
Balance of allowance at beginning of period	$ 7,251	$ 6,081	$ 5,556	$ 4,457	$ 3,773
Loans charged off:					
Real estate	0	0	0	0	0
Commercial and industrial	(323)	(14)	(1,080)	(659)	(874)
Lease financing	(364)	(496)	(161)	(238)	(162)
Installment and other	(86)	(80)	(33)	(36)	(40)
Total loans charged off	(773)	(590)	(1,274)	(933)	(1,076)
Recoveries of loans previously charged off:					
Real estate	0	0	0	0	0
Commercial and industrial	108	82	61	37	23
Lease financing	3	29	25	31	4
Installment and other	54	25	0	1	0
Total loan recoveries	165	136	86	69	27
Net loans charged off	(608)	(454)	(1,188)	(864)	(1,049)
Reclassification of off-balance sheet reserve	(35)	(507)	0	0	0
Reserve acquired in business acquisition	0	986	0	0	0
Provision charged to operating expense	1,140	1,145	1,713	1,963	1,733
Balance of allowance for credit losses at end of period	$ 7,748	$ 7,251	$ 6,081	$ 5,556	$ 4,457
Net loan charge-offs to total average loans	0.15%	0.12%	0.34%	0.25%	0.35%
Net loan charge-offs to loans at end of period	0.15%	0.11%	0.34%	0.25%	0.31%
Allowance for credit losses to total loans at end of period	1.86%	1.82%	1.76%	1.59%	1.33%
Net loan charge-offs to allowance for credit losses	7.85%	6.26%	19.54%	15.55%	23.54%
Net loan charge-offs to provision for credit losses	53.33%	39.65%	69.35%	44.01%	60.53%

Management believes that the 1.86% credit loss allowance to total loans at December 31, 2005 is adequate to absorb known and inherent risks in the loan portfolio. No assurance can be given, however, that the economic conditions which may adversely affect the Company's service areas or other circumstances will not be reflected in increased losses in the loan portfolio. Management is not currently aware of any conditions that may adversely affect the levels of losses incurred in the Company's loan portfolio.

Although the Company does not normally allocate the allowance for credit losses to specific loan categories, an allocation to the major categories has been made for the purposes of this report as set forth in the following table. The allocations are estimates based on the same factors as considered by management in determining the amount of additional provisions to the credit loss allowance and the overall adequacy of the allowance for credit losses.

	2005		2004		2003		2002		2001	
(Dollars in thousands)	Allowance for Loan Losses	% of Loans	Allowance for Loan Losses	% of Loans	Allowance for Loan Losses	% of Loans	Allowance for Loan Losses	% of Loans	Allowance for Loan Losses	% of Loans
Commercial and industrial	$ 1,397	27.1%	$ 2,497	31.0%	$ 1,755	33.9%	$ 3,080	33.6%	$ 1,951	30.4%
Real estate – mortgage	330	21.4%	386	22.1%	508	27.9%	803	28.9%	899	33.1%
Real estate – construction	1,598	38.9%	1,753	34.5%	1,067	28.3%	1,046	27.2%	893	27.6%
Agricultural	316	6.0%	197	5.9%	188	4.4%	229	4.8%	123	3.9%
Installment/other	112	3.6%	103	3.3%	97	1.9%	99	2.2%	102	2.0%
Lease financing	3,619	3.0%	2,312	3.2%	2,466	3.6%	298	3.3%	120	3.0%
Not allocated	376	—	3	—	0	—	1	—	369	—
	$ 7,748	100.0%	$ 7,251	100.0%	$ 6,081	100.0%	$ 5,556	100.0%	$ 4,457	100.0%

Reserve allocations increased during 2005 for both leasing financing and agricultural loans. The increase in reserve allocation for lease financing loans is the result of additional reserves allocated to a nonperforming lease portfolio (see discussion following), while increases in reserve allocations for agricultural loans are the result of increases in substandard loans in that category. Reserve allocations decreased for commercial and industrial loans as a result of significant decreases in the level of substandard commercial and industrial loans between December 31, 2004 and December 31 2005.

During 2004, reserve allocations increased for both commercial and industrial loans, as well as real estate construction loans. Increases in reserve allocations for commercial and industrial loans are the result of increases in classified loans in that category, while increases in reserve allocations for real estate construction loans are the result of increases in the overall volume of construction loans.

The increase in reserve allocations for lease financing loans since 2003 is the result of the nonperformance of a purchased lease portfolio. The Company purchased a schedule of payments collateralized by Surety Bonds and lease payments in September 2001 that have a current balance owing of $5.5 million plus interest. The leases have been nonperforming since June of 2002 *(see "Asset Quality and Allowance for Credit Losses" section of Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's 2005 Annual Report on Form 10-K).* The impaired lease portfolio is on non-accrual status and has a specific allowance allocation of $3.5 million and $2.1 million allocated at December 31, 2005 and 2004, respectively, and a net carrying value of $2.0 million at December 31, 2005. The specific allowance was determined based on an estimate of expected future cash flows.

The Company filed suit for recovery in September 2002 and shortly after, the Surety ("guarantor") of the leases entered into court proceedings to discharge their guarantee based on the fact that many of the underlying leases were fraudulent. The Company, based upon advice from its counsel, does not believe it is probable the guarantors' fraud defense will prevail and intends to vigorously pursue the guarantee.

Late in the third quarter of 2005 the Federal Judge issued an order on the Company's Motion for Judgment on the Pleadings. Under standard court procedural restraints for such motions, not all evidence can be considered. The conclusion of the order noted that the Company would prevail if certain evidence, not considered in the motion, can be introduced in a subsequent motion. The Company will submit documentation and evidence with the next motion that its legal counsel believes sufficient to prevail. The Judge ordered mediation and stayed further motions until mediation is completed. On January 5, 2006 the Company attended mediation. Although some progress was made, resolution of this matter was not concluded. The Company has filed a request with the court to submit a further motion and is awaiting a response from the court.

The guarantor is in a run-off program supervised by the Illinois Department of Insurance. Run-off programs allow companies to manage an orderly liquidation of assets and settlement of liabilities. A concern of the Company with the matters now before the court is the timing of the judicial process. At some point the Department of Insurance may take over management of the Surety and the Company believes this would complicate and delay further the collection of amounts awarded by the court.

The Company believes that under generally accepted accounting principles, a total loss of principal is not probable at this time and the specific allowance of $3.5 million calculated for the impaired lease portfolio at December 31, 2005 under SFAS No. 114 is in accordance with GAAP. At this time it is uncertain how much the Company will collect; however, management believes the Company will collect part, if not all, of the amounts due.

During a regulatory examination in the fourth quarter of 2003, the lease portfolio in question was classified as doubtful by the Bank's regulators based upon state regulatory guidelines. California state statute No. 1951 requires that a credit, where interest is past due and unpaid for more than one year and is not well secured and not in the process of collection, be charged off. The regulators requested that the Bank charge-off the principal balance in the first or second quarter of 2004 for regulatory purposes if the judge had not made a ruling on the case by March 31, 2004 or, if a ruling had been made but no principal payments have been received by June 30, 2004. The court did not rule by March 31, 2004, and has not made a final ruling on the case at the time of this 10-K filing. As a result, effective March 31, 2004, the Company charged off the entire $5.5 million principal balance for regulatory purposes. As a result of the regulatory charge-off, the Company carries a difference between its regulatory accounting principles (RAP) books and its generally accepted accounting principles (GAAP) books. The financial entries made for regulatory reporting purposes resulted in a $5.5 million reduction in loan balances with a corresponding reduction in the reserve for credit losses. Additional provisions for credit losses of $3.5 million were also required for regulatory accounting purposes, which resulted in a reduction of $2.1 million in regulatory net income (net tax benefit of $1.3 million) for the year ended December 31, 2004 as compared to the financial statements presented under GAAP in the Company's 2004 Annual Report on Form 10-K.

During 2003, the Company revised its methodology for allocating the total allowance for credit losses between the formula allowance and the specific allowance. Prior to 2003, the entire loan portfolio was reviewed under the guidelines set by SFAS No. 5 "Accounting for Contingencies". In addition, those loans considered to be impaired were also reviewed under standards required by SFAS No. 114, and specific reserves were calculated under those guidelines. For purposes of allocating the formula allowance and the specific allowance, loans identified as impaired under SFAS No. 114 were allocated a formula reserve as calculated under SFAS No. 5, and an additional specific allowance if required under SFAS No. 114. As a result, a portion of the allowance for impaired loans might be included in the formula allowance as calculated under SFAS No. 5, and the remainder would be designated a specific allowance, so that the entire allowance for impaired loans would be adequate under SFAS No. 114. Effective June 2003, the Company segregated those loans considered impaired under SFAS No. 114 from the loan portfolio and analyzed the remainder of the loan portfolio under SFAS No. 5. Then loans considered impaired under SFAS No. 114 were reviewed separately for specific allowance allocation. As a result, all allowance reserves allocated to impaired loans are now considered specific reserves for purposes of the Company's evaluation of the adequacy of the allowance for credit losses, rather than a combination of formula allowance and specific allowance.

The following summarizes the Company's allowance for credit losses related to the specific, formula, and unallocated reserves for the year-ends shown (amounts shown prior to 2003 have been adjusted to reflect the revised methodology for allocating the total allowance between the formula allowance and the specific allowance as discussed above):

	December 31,				
(Dollars in 000's)	**2005**	**2004**	**2003**	**2002**	**2001**
Formula allowance	$ 2,976	$ 2,827	$ 3,737	$ 4,216	$ 3,973
Specific allowance	4,396	4,421	2,344	1,339	115
Unallocated allowance	376	3	0	1	369
Total allowance	$ 7,748	$ 7,251	$ 6,081	$ 5,556	$ 4,457

The allowance for credit losses totaled $7.7 million at December 31, 2005, and consisted of $3.0 million in formula allowance, $4.4 million in specific allowance, and $376,000 in unallocated allowance. At December 31, 2005, $3.5 million of the specific allowance was allocated to lease financing loans, and the remaining $669,000, $187,000 and $83,000 were allocated to real estate construction loans, agricultural loans, and commercial and industrial loans, respectively. At December 31, 2004, the Company's allowance for credit losses was $7.3 million, consisting of $2.8 million in formula allowance, $4.4 million in specific allowance, and $3,000 in unallocated allowance. At December 31, 2004, $1.3 million of the specific allowance was allocated to commercial and industrial loans, and the remaining $2.1 million, $955,000 and $55,000 were allocated to lease financing loans, construction loans, and real estate mortgage loans, respectively. At December 31, 2003, the Company's allowance for credit losses was $6.1 million, consisting of $3.7 million in formula allowance, and $2.3 million in specific allowance. At December 31, 2003, the specific allowance consisted of $49,000 allocated to commercial and industrial loans, and $2.3 million to lease financing loans.

The total formula allowance increased approximately $149,000 between 2004 and 2005, with only minor formula allowance allocation changes between loan categories occurring between December 31, 2004 and December 31, 2005. Although "pass" loans increased approximately $28.4 million between December 31, 2004 and December 31, 2005, the overall formula allocation percentage dropped slightly as the result of adjustments to historical loss factors. Between December 31, 2004 and December 31, 2005, substandard loans and special mention loans decreased $8.3 million and $5.8 million, respectively.

The total formula allowance decreased approximately $910,000 between 2003 and 2004, with decreases of $486,000, $269,000, and $177,000 experienced in commercial and industrial loans, construction loans, and real estate mortgage loans, respectively. The decrease in the formula allowance during 2004 was, in part, the result of a decrease of $5.2 million in special mention loans, and a decrease of $1.3 million in substandard loans.

The total formula allowance decreased approximately $479,000 between 2002 and 2003, with decreases of $309,000 and $187,000 experienced in commercial and industrial loans and real estate mortgage loans. During 2003, the Company experienced, a decrease of $5.3 million in substandard loans, an increase of $3.9 million in special mention loans, a decrease of $700,000 in doubtful loans, and a decrease of approximately $2.0 million in "pass" loans.

Although in some instances, the downgrading of a loan resulting from the factors used by the Company in its allowance analysis has been reflected in the formula allowance, management believes that in some instances, the impact of material events and trends has not yet been reflected in the level of nonperforming loans or the internal risk grading process regarding these loans. Accordingly, the Company's evaluation of probable losses related to these factors may be reflected in the unallocated allowance. The evaluation of the inherent losses concerning these factors involve a higher degree of uncertainty because they are not identified with specific problem credits, and therefore the Company does not spread the unallocated allowance among segments of the portfolio. At December 31, 2005 the Company had an unallocated allowance of $376,000, reflecting an increase from the balance of $3,000 and $0 at December 31, 2004 and 2003, respectively Management's estimates of the unallocated allowance are based upon a number of underlying factors including 1) the effect of deteriorating national and local economic trends, 2) the effects of export market conditions on certain agricultural and manufacturing borrowers, 3) the effects of abnormal weather patterns on agricultural borrowers, as well as other borrowers that may be impacted by such conditions, 4) the effect of increased competition in the Company's market area and the resultant potential impact of more relaxed underwriting standards to borrowers with multi-bank relationships, 5) the effect of soft real estate markets, and 6) the effects of having a larger number of borrowing relationships which are close to the Company's lending limit, any one if which were not to perform to contractual terms, would have a material impact on the allowance.

The Company's loan portfolio has concentrations in commercial real estate, commercial, and construction loans, however these portfolio percentages fall within the Company's loan policy guidelines.

It is the Company's policy to discontinue the accrual of interest income on loans for which reasonable doubt exists with respect to the timely collectibility of interest or principal due to the inability of the borrower to comply with the terms of the loan agreement. Such loans are placed on nonaccrual status whenever the payment of principal or interest is 90 days past due or earlier when the conditions warrant, and interest collected is thereafter credited to principal to the extent necessary to eliminate doubt as to the collectibility of the net carrying amount of the loan. Management may grant exceptions to this policy if the loans are well secured and in the process of collection.

The following table sets forth the Company's nonperforming assets as of the dates indicated:

	December 31,				
(Dollars in thousands, except footnote)	**2005**	**2004**	**2003**	**2002**	**2001**
Nonaccrual loans (1)	$ 13,930	$ 16,682	$ 18,656	$ 15,432	$ 13,019
Restructured loans	0	0	9	0	0
Total nonperforming loans	13,930	16,682	18,665	15,432	13,019
Other real estate owned	4,356	1,615	2,718	9,685	5,390
Total nonperforming assets	$ 18,286	$ 18,297	$ 21,383	$ 25,117	$ 18,409
Loans, past due 90 days or more, still accruing	$ 0	$ 375	$ 0	$ 0	$ 0
Nonperforming loans to total gross loans	3.33%	4.18%	5.40%	4.42%	3.87%
Nonperforming assets to total gross loans	4.38%	4.59%	6.19%	7.20%	5.47%

(1) Included in nonaccrual loans at December 31, 2005 are restructured loans totaling $5,114. There are no nonaccrual loans at December 31, 2004 and 2003, which are restructured. The interest income that would have been earned on nonaccrual loans outstanding at December 31, 2005 in accordance with their original terms is approximately $1.6 million.

The overall level of nonperforming assets remained level between December 31, 2004 and December 2005 totaling approximately $18.3 million at both period-ends. While nonaccrual loans decreased $2.8 million between the two periods, other real estate owned (OREO) increased $2.7 million. Nonaccrual loans declined between the two periods as the result of nonperforming loans which were either sold, paid off, or charged off to the allowance for loan losses. A substantial portion of the nonaccrual loans at December 31, 2005 are collateralized by real estate. Although two significant OREO properties were sold during 2005, $4.3 million of a $6.1 million loan relationship which became nonperforming during the 2005, was ultimately transferred to OREO during the third quarter of the year and is included in the $4.4 million balance at December 31, 2005. The remaining $1.8 million of the nonperforming loan consists of equipment and inventory, and was transferred to assets held for sale included in other assets on the Company's consolidated balance sheet.

The overall level of nonperforming assets has remained high since 2001, primarily as the result of a small number of large lending relationships, which have become nonperforming during that period. During 2001, three large relationships totaling approximately $12.0 million were classified as nonaccrual, while approximately $2.9 million in nonaccrual loans were transferred to other real estate owned through foreclosure. During 2002, $5.0 million, representing one of the three large relationships that had become nonaccrual during the previous year, was foreclosed upon and transferred to other real estate owned through foreclosure. In addition during 2002, a nonperforming lease portfolio totaling $5.5 million was taken to nonaccrual status. Nonperforming assets begun to decline during 2004 and have remained stable through 2005 as Management increased efforts to resolve nonperforming assets. Continued high levels of nonperforming assets have the potential to impact the future earnings growth of the Company, however Management believes that with stable nonperforming balances combined with prudent lending policies and adequate loan loss reserves, the Company will not experience any significant impact on earnings.

The overall level of nonaccrual loans increased between December 31, 2002 and December 31, 2003 as commercial and commercial real estate delinquencies increased, but then declined during 2004 as efforts increased to workout nonaccrual loans. Other real estate owned through foreclosure declined significantly during 2003 as the result of both sales, and transfers of properties for other uses. One property totaling more than $5.0 million was sold during the first quarter of 2003, while two additional properties totaling more than $2.7 million were transferred to bank premises during the second quarter of 2003. One of these transferred properties with a carrying value of $923,000 was subsequently sold during the fourth quarter of 2003. The remaining transferred property will be used in the Company's ongoing operations (see Note 4 to the Company's financial statements). Other real estate owned through foreclosure continued to decline during 2004 as four properties were disposed of.

Loans past due more than 30 days are receiving increased management attention and are monitored for increased risk. The Company continues to move past due loans to nonaccrual status in its ongoing effort to recognize loan problems at an earlier point in time when they may be dealt with more effectively. As impaired loans, nonaccrual and restructured loans are reviewed for specific reserve allocations and the allowance for credit losses is adjusted accordingly.

Except for the loans included in the above table, there were no loans at December 31, 2005 where the known credit problems of a borrower caused the Company to have serious doubts as to the ability of such borrower to comply with the present loan repayment terms and which would result in such loan being included as a nonaccrual, past due or restructured loan at some future date.

Liquidity and Asset/Liability Management

The primary function of asset/liability management is to provide adequate liquidity and maintain an appropriate balance between interest-sensitive assets and interest-sensitive liabilities.

Liquidity

Liquidity management may be described as the ability to maintain sufficient cash flows to fulfill both on- and off-balance sheet financial obligations, including loan funding commitments and customer deposit withdrawals, without straining the Company's equity structure. To maintain an adequate liquidity position, the Company relies on, in addition to cash and cash equivalents, cash inflows from deposits and short-term borrowings, repayments of principal on loans and investments, and interest income received. The Company's principal cash outflows are for loan origination, purchases of investment securities, depositor withdrawals and payment of operating expenses. Other sources of liquidity not on the balance sheet at December 31, 2005 include unused collateralized and uncollateralized lines of credit from other banks, the Federal Home Loan Bank, and from the Federal Reserve Bank totaling $259.4 million. The Company has maintained significant positive cash flows from operations over the past three years, which amounted to $14.0 million, $9.6 million, and $12.1 million for the years ended December 31, 2005, 2004, and 2003, respectively.

Liquidity risk arises from the possibility the Company may not be able to satisfy current or future financial commitments, or the Company may become unduly reliant on alternative funding sources. The Company maintains a liquidity risk management policy to address and manage this risk. The policy identifies the primary sources of liquidity, establishes procedures for monitoring and measuring liquidity, and establishes minimum liquidity requirements, which comply with regulatory guidance. The liquidity position is continually monitored and reported on a monthly basis to the Board of Directors.

The policy also includes a contingency funding plan to address liquidity needs in the event of an institution-specific or a systemic financial market crisis. In addition to lines of credit from other banks totaling $259.4 million, the contingency plan includes steps that may be taken in the event the total liquidity ratio falls or is projected to fall below 15% for any extended period of time. The Bank ALCO committee shall take steps to correct this condition using one or more of the following methods as needed:

1) Investments near maturity may be sold to meet temporary funding needs but may need to be replaced to maintain liquidity ratios within acceptable limits.

2) Unsecured Fed Funds lines with correspondents may be used to fund short-term peaks in loan demand or deposit run-off. Other off-balance sheet funding sources such as credit lines at FHLB or the FRB may be used for longer periods.

3) The Bank will not rely on brokered money as a primary source of funds. However, if may be prudent to utilize brokered deposits particularly at times when the interest costs are lower than could be obtained in the local market. However, the sum of all brokered deposits will not exceed 15% of the total deposits of the Bank.

4) The Bank may elect to operate a Telemarketing Money Desk for the purpose of acquiring Certificates of Deposits from both the local market and national market. The Board of Directors and management recognize that deposits acquired through money desk operations may be considered a higher cost and more volatile type of deposit than traditional bank deposits.

5) Selling whole loans or participation in loans or by increasing the amounts sold in existing participation loans are additional means for increasing liquidity.

6) The State of California Treasurer is a reliable source of deposits. The bank can typically accept CD's from this source up to 90% of equity as long as it has sufficient collateral pledged.

7) Marketing for CD's within our marketplace is another means for raising funds or through programs that post our rates on their Website, deposits from these sources should not exceed 15% of the banks total deposits for extended periods beyond 90 days without board approval.

8) Should the Bank become illiquid in spite of these steps, it will curtail its lending activities. The first step in this process will be to curtail credit marketing and tighten pricing guidelines. The second step will be to encourage loan payoffs on a selective basis where circumstances and loan documentation provide this opportunity. Only as a last resort will the Bank totally curtail lending activities to credit worthy customers.

The Company continues to utilize liability management, when needed, as part of its overall asset/liability management strategy. Through the discretionary acquisition of short term borrowings, the Company has been able to provide liquidity to fund asset growth while, at the same time, better utilizing its capital resources, and better controlling interest rate risk. The borrowings are generally short-term and more closely match the repricing characteristics of floating rate loans, which comprise approximately 58.1% of the Company's loan portfolio at December 31, 2005. This does not preclude the Company from selling assets such as investment securities to fund liquidity needs but, with favorable borrowing rates, the Company has maintained a positive yield spread between borrowed liabilities and the assets which those liabilities fund. If, at some time, rate spreads become unfavorable, the Company has the ability to utilize an asset management approach and, either control asset growth or, fund further growth with maturities or sales of investment securities.

The Company's liquid asset base which generally consists of cash and due from banks, federal funds sold, securities purchased under agreements to resell ("reverse repos") and investment securities, is maintained at a level deemed sufficient to provide the cash outlay necessary to fund loan growth as well as any customer deposit runoff that may occur. Within this framework is the objective of maximizing the yield on earning assets. This is generally achieved by maintaining a high percentage of earning assets in loans, which historically have represented the Company's highest yielding asset. At December 31, 2005, the Bank had 65.1% of total assets in the loan portfolio and a loan to deposit ratio of 76.3%. Liquid assets at December 31, 2005 include cash and cash equivalents totaling $63.0 million as compared to $56.4 million at December 31, 2004.

Liabilities used to fund liquidity sources include core and non-core deposits as well as short-term borrowings. Core deposits, which comprise approximately 75.7% of total deposits at December 31, 2005, provide a significant and stable funding source for the Company. At December 31, 2005, unused lines of credit with the Federal Home Loan Bank and the Federal Reserve Bank totaling $216.4 million are collateralized in part by certain qualifying loans in the Company's loan portfolio. The carrying value of loans pledged on these unused borrowing lines totaled $291.7 million at December 31, 2005. For further discussion of the Company's borrowing lines, see "Short Term Borrowings" included in previously in the financial condition section of this financial review.

The liquidity of the parent company, United Security Bancshares, is primarily dependent on the payment of cash dividends by its subsidiary, United Security Bank, subject to limitations imposed by the Financial Code of the State of California. During 2005 and 2004, total dividends paid by the Bank to the parent company totaled $5.0 million and $6.5 million, respectively. As a bank holding company formed under the Bank Holding Act of 1956, United Security Bancshares is to provide a source of financial strength for its subsidiary bank(s). To help provide financial strength, United Security Bancshares' trust subsidiary, United Security Bancshares Capital Trust I completed a $15 million offering in Trust Preferred Securities during 2001, the proceeds of which were used to purchase Junior Subordinated Debentures of the Company. Of the $14.5 million in net proceeds received by the Company, $13.7 million in cash was contributed as capital to United Security Bank enhancing the liquidity and capital positions of the Bank, and the remainder provided liquidity to the holding company.

Contractual Obligations, Commitments, Contingent Liabilities, and Off-Balance Sheet Arrangements

The following table presents, as of December 31, 2005, the Company's significant fixed and determinable contractual obligations by payment date. The payment amounts represent those amounts contractually due to the recipient and do not include any unamortized premiums or discounts, or other similar carrying value adjustments. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

		Payments Due In				
(In thousands)	Note Reference	One Year Or Less	One to Three Years	Three to Five Years	Over Five Years	Total
Deposits without a stated maturity	6	$ 362,555	$ —	$ —	$ —	$ 362,555
Time Deposits	6	167,035	14,811	1,459	600	183,905
Junior Subordinated Debt	8				15,464	15,464
Operating Leases	12	209	418	434	1,535	2,596

A schedule of significant commitments at December 31, 2005 follows:

(In thousands)	
Commitments to extend credit:	
Commercial and industrial	$ 45,872
Real estate – mortgage	18
Real estate – construction	131,230
Agricultural	9,039
Installment	5,065
Revolving home equity and credit card lines	1,045
Standby letters of credit	5,506

Further discussion of these commitments is included in Notes 3 and 12 to the consolidated financial statements.

Regulatory Matters

Capital Adequacy

Capital adequacy for bank holding companies and their subsidiary banks has become increasingly important in recent years. Continued deregulation of the banking industry since the 1980's has resulted in, among other things, a broadening of business activities allowed beyond that of traditional banking products and services. Because of this volatility within the banking and financial services industry, regulatory agencies have increased their focus upon ensuring that banking institutions meet certain capital requirements as a means of protecting depositors and investors against such volatility.

During July 2001, the Company completed an offering of Trust Preferred Securities in an aggregate amount of $15.0 million to enhance its regulatory base, while providing additional liquidity. Subsequent to the completion of the offering, the Company contributed $13.7 million of that offering to the Bank to enhance its capital position. Under applicable regulatory guidelines, the Trust Preferred Securities qualify as Tier 1 capital up to a maximum of 25% of Tier 1 capital. Any additional portion will qualify as Tier 2 capital. As shareholders' equity increases, the amount of Tier 1 capital that can be comprised of Trust Preferred Securities will increase.

The Board of Governors of the Federal Reserve System ("Board of Governors") has adopted regulations requiring insured institutions to maintain a minimum leverage ratio of Tier 1 capital (the sum of common stockholders' equity, noncumulative perpetual preferred stock and minority interests in consolidated subsidiaries, minus intangible assets, identified losses and investments in certain subsidiaries, plus unrealized losses or minus unrealized gains on available for sale securities) to total assets. Institutions which have received the highest composite regulatory rating and which are not experiencing or anticipating significant growth are required to maintain a minimum leverage capital ratio of 3% Tier 1 capital to total assets. To be considered well capitalized, the institution must maintain a leverage capital ratio of 5%. All other institutions are required to maintain a minimum leverage capital ratio of at least 100 to 200 basis points above the minimum requirements.

The Board of Governors has also adopted a statement of policy, supplementing its leverage capital ratio requirements, which provides definitions of qualifying total capital (consisting of Tier 1 capital and Tier 2 supplementary capital, including the allowance for loan losses up to a maximum of 1.25% of risk-weighted assets) and sets forth minimum risk-based capital ratios of capital to risk-weighted assets. The most highly rated insured institutions are required to maintain a minimum ratio of qualifying total capital to risk weighted assets of 8%, at least one-half (4%) of which must be in the form of Tier 1 capital. To be considered well capitalized, institutions must maintain a ratio of qualifying total capital to risk weighted assets of 10%, at least one-half (6%) of which must be in the form of Tier 1 capital.

The following table sets forth the Company's and the Bank's actual capital positions at December 31, 2005 and the regulatory minimums for the Company and the Bank to be well capitalized under the guidelines discussed above:

	Company	**Bank**	
	Actual Capital Ratios	**Actual Capital Ratios**	**Regulatory Minimums- Well Capitalized**
Total risk-based capital ratio	14.07%	13.74%	10.00%
Tier 1 capital to risk-weighted assets	12.90%	12.57%	6.00%
Leverage ratio	10.91%	10.61%	5.00%

Under Federal Reserve guidelines, the Company and the Bank are required to maintain a total risk-based capital ratio of 10%, tier 1 capital to risk-weighted assets of 8%, and a leverage ratio of 7%, to be considered well capitalized. As is indicated by the above table, the Company and the Bank exceeded all applicable regulatory capital guidelines at December 31, 2005. Management believes that, under the current regulations, both will continue to meet their minimum capital requirements in the foreseeable future.

Dividends

Dividends paid to shareholders by the Company are subject to restrictions set forth in the California General Corporation Law. The California General Corporation Law provides that a corporation may make a distribution to its shareholders if retained earnings immediately prior to the dividend payout are at least equal the amount of the proposed distribution. The primary source of funds with which dividends will be paid to shareholders will come from cash dividends received by the Company from the Bank. During the year ended December 31, 2005, the Company received $5.0 million in cash dividends from the Bank, from which the Company declared $4.2 million in dividends to shareholders.

The Bank as a state-chartered bank is subject to dividend restrictions set forth in California state banking law, and administered by the California Commissioner of Financial Institutions (“Commissioner”). Under such restrictions, the Bank may not pay cash dividends in an amount which exceeds the lesser of the retained earnings of the Bank or the Bank’s net income for the last three fiscal years (less the amount of distributions to shareholders during that period of time). If the above test is not met, cash dividends may only be paid with the prior approval of the Commissioner, in an amount not exceeding the Bank’s net income for its last fiscal year or the amount of its net income for the current fiscal year. Such restrictions do not apply to stock dividends, which generally require neither the satisfaction of any tests nor the approval of the Commissioner. Notwithstanding the foregoing, if the Commissioner finds that the shareholders’ equity is not adequate or that the declarations of a dividend would be unsafe or unsound, the Commissioner may order the state bank not to pay any dividend. The FRB may also limit dividends paid by the Bank. This is not the case with the Bank. Year-to-date dividends of $4.0 million and $5.0 million paid to shareholders and the Company, respectively, through December 31, 2005 were well within the maximum allowed under those regulatory guidelines, without approval of the Commissioner.

Stock Repurchase Plan

	For the Quarters Ended				
	March 31,	**June 30,**	**September 30,**	**December 31,**	**YTD**
Shares repurchased - 2005	3,576	2,468	0	7,037	13,081
Average price paid - 2005	$ 24.56	$ 25.56	$ —	$ 32.32	$ 28.92
Shares repurchased - 2004	9,900	54,745	22,993	1,782	89,420
Average price paid - 2004	$ 25.70	$ 22.81	$ 22.57	$ 24.22	$ 23.10
Shares repurchased - 2003	16,613	7,348	11,000	0	34,961
Average price paid - 2003	$ 17.08	$ 21.59	$ 22.63	N/A	$ 19.77
Shares repurchased - 2002	22,776	12,300	2,000	27,600	64,676
Average price paid - 2002	$ 16.74	$ 17.01	$ 17.24	$ 17.51	$ 17.13
Shares repurchased - 2001	N/A	N/A	51,534	64,252	115,786
Average price paid - 2001	N/A	N/A	$ 16.13	$ 16.38	$ 16.27

On August 30, 2001 the Company announced that its Board of Directors approved a plan to repurchase, as conditions warrant, up to 280,000 shares of the Company’s common stock on the open market or in privately negotiated transactions. The duration of the program was open-ended and the timing of purchases was dependent on market conditions. A total of 215,423 shares had been repurchased under that plan as of December 31, 2003, at a total cost of $3.7 million, and an average per share price of $17.10.

Then, on February 25, 2004 the Company announced another stock repurchase plan under which the Board of Directors approved a plan to repurchase, as conditions warrant, up to 276,500 shares of the Company’s common stock on the open market or in privately negotiated transactions. As with the first plan, the duration of the new program is open-ended and the timing of purchases will depend on market conditions.

Concurrent with the approval of the new repurchase plan, the Board terminated the 2001 repurchase plan and canceled the remaining 64,577 shares yet to be purchased under the earlier plan.

Reserve Balances

The Bank is required to maintain average reserve balances with the Federal Reserve Bank. During 2005, the Company implemented a deposit reclassification program, which allows the Company to reclassify a portion of transaction accounts to non-transaction accounts for reserve purposes. The deposit reclassification program was provided by a third-party vendor, and has been approved by the Federal Reserve Bank. At December 31, 2005 the Bank’s qualifying balance with the Federal Reserve was approximately $25,000.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Sensitivity and Market Risk

An interest rate-sensitive asset or liability is one that, within a defined time period, either matures or is subject to interest rate adjustments as market rates of interest change. Interest rate sensitivity is the measure of the volatility of earnings from movements in market rates of interest, which is generally reflected in interest rate spread. As interest rates change in the market place, yields earned on assets do not necessarily move in tandem with interest rates paid on liabilities. Interest rate sensitivity is related to liquidity in that each is affected by maturing assets and sources of funds. Interest rate sensitivity is also affected by assets and liabilities with interest rates that are subject to change prior to maturity.

The object of interest rate sensitivity management is to minimize the impact on earnings from interest rate changes in the marketplace. In recent years, deregulation, causing liabilities to become more interest rate sensitive, combined with interest rate volatility in the capital markets, has placed additional emphasis on this principal. When management decides to maintain repricing imbalances, it usually does so on the basis of a well- conceived strategy designed to ensure that the risk is not excessive and that liquidity is properly maintained. The Company's interest rate risk management is the responsibility of the Asset/Liability Management Committee (ALCO), which reports to the Board of Directors on a periodic basis, pursuant to established operating policies and procedures.

As part of its overall risk management, the Company pursues various asset and liability management strategies, which may include obtaining derivative financial instruments to mitigate the impact of interest fluctuations on the Company's net interest margin. During the second quarter of 2003, the Company entered into an interest rate swap agreement with the purpose of minimizing interest rate fluctuations on its interest rate margin and equity.

Under the interest rate swap agreement, the Company receives a fixed rate and pays a variable rate based on the Prime Rate ("Prime"). The swap qualifies as a cash flow hedge under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, and is designated as a hedge of the variability of cash flows the Company receives from certain variable-rate loans indexed to Prime. In accordance with SFAS No. 133, the swap agreement is measured at fair value and reported as an asset or liability on the consolidated balance sheet. The portion of the change in the fair value of the swap that is deemed effective in hedging the cash flows of the designated assets are recorded in accumulated other comprehensive income and reclassified into interest income when such cash flow occurs in the future. Any ineffectiveness resulting from the hedge is recorded as a gain or loss in the consolidated statement of income as part of noninterest income. The amortizing hedge has a remaining notional value of $17.1 million and duration of slightly less than 18 months. As of December 31, 2005, the maximum length of time over which the Company is hedging its exposure to the variability of future cash flows is approximately 2.8 years. As of December 31, 2005, the loss amounts in accumulated other comprehensive income associated with these cash flows totaled $416,000 (net of tax benefit of $276,000). During the year ended December 31, 2005, $246,000 was reclassified from other accumulated comprehensive income as a reduction to interest income.

Interest rate risk can be measured through various methods including gap, duration and market value analysis as well as income simulation models, which provides a dynamic view of interest rate sensitivity based on the assumptions of the Company's Management. The Company employs each of these methods and refines these processes to make the most accurate measurements possible. The information provided by these calculations is the basis for management decisions in managing interest rate risk.

From the "Gap" report below, the Company is apparently subject to interest rate risk to the extent that its liabilities have the potential to reprice more quickly than its assets within the next year. At December 31, 2005, the Company had a cumulative 12-month Gap of -$23.8 million or -4.4% of total earning assets. Management believes the Gap analysis shown below is not entirely indicative of the Company's actual interest rate sensitivity, because certain interest-sensitive liabilities would not reprice to the same degree as interest-sensitive assets. For example, if the prime rate were to change by 50 basis points, the floating rate loans included in the $230.2 million immediately adjustable category would change by the full 50 basis points. Interest bearing checking and savings accounts which are also included in the immediately adjustable column probably would move only a portion of the 50 basis point rate change and, in fact, might not even move at all. The effects of market value risk have been mitigated to some degree by the makeup of the Bank's balance sheet. Loans are generally short-term or are floating-rate instruments. At December 31, 2005, $315.3 million or 78.1% of the loan portfolio matures or reprices within one year, and only 3.2% of the portfolio matures or reprices in more than 5 years.

Total investment securities including call options and prepayment assumptions, have a combined duration of approximately 1.9 years. Nearly $398.0 million or 97.4% of interest-bearing liabilities mature or can be repriced within the next 12 months, even though the rate elasticity of deposits with no defined maturities may not necessarily be the same as interest-earning assets.

The following table sets forth the Company's gap, or estimated interest rate sensitivity profile based on ending balances as of December 31, 2005, representing the interval of time before earning assets and interest-bearing liabilities may respond to changes in market rates of interest. Assets and liabilities are categorized by remaining interest rate maturities rather than by principal maturities of obligations.

Maturities and Interest Rate Sensitivity

	December 31, 2005					
(In thousands)	**Immediately**	**Next Day But Within Three Months**	**After Three Months Within 12 Months**	**After One Year But Within Five Years**	**After Five Years**	**Total**
Interest Rate Sensitivity Gap:						
Loans (1)	$ 230,226	$ 35,862	$ 49,229	$ 75,632	$ 13,031	$ 403,980
Investment securities		14,899	8,649	59,916	11,772	95,236
Interest bearing deposits in other banks			198	5,599	1,859	7,656
Federal funds sold and reverse repos	35,115					35,115
Total earning assets	$ 265,341	$ 50,761	$ 58,076	$ 141,147	$ 26,662	$ 541,987
Interest-bearing transaction accounts	175,852					175,852
Savings accounts	33,590					33,590
Time deposits (2)	8,011	49,372	115,729	10,193	600	183,905
Federal funds purchased/other borrowings	0					0
Trust Preferred securities		15,464				15,464
Total interest-bearing liabilities	$ 217,453	$ 64,836	$ 115,729	$ 10,193	$ 600	$ 408,811
Interest rate sensitivity gap	$ 47,888	$ (14,075)	$ (57,653)	$ 130,954	$ 26,062	$ 133,176
Cumulative gap	$ 47,888	$ 33,813	$ (23,840)	$ 107,114	$ 133,176	
Cumulative gap percentage toTotal earning assets	8.8%	6.2%	-4.4%	19.8%	24.6%	

(1) Loan balance does not include nonaccrual loans of $13.930 million.

(2) See above for discussion of the impact of floating rate CD's.

The Company utilizes a vendor-purchased simulation model to analyze net interest income sensitivity to movements in interest rates. The simulation model projects net interest income based on a 100, 200, and 300 basis point rise and a 100, 200, and 300 basis point fall in interest rates ramped over a twelve-month period, with net interest impacts projected out as far as twenty-four months. In addition, a "most likely" scenario is projected based upon expected rate changes over the 24-month period. The model is based on the actual maturity and repricing characteristics of the Company's interest-sensitive assets and liabilities. The model incorporates assumptions regarding the impact of changing interest rates on the prepayment of certain assets and liabilities. Projected net interest income is calculated assuming customers will reinvest maturing deposit accounts and the Company will originate new loans. The balance sheet growth assumptions utilized correspond closely to the Company's strategic growth plans and annual budget. Excess cash is invested in overnight funds or other short-term investments such as U.S. Treasuries. Cash shortfalls are covered through additional borrowing of overnight or short-term funds. The Board of Directors has adopted an interest rate risk policy which establishes maximum decreases in net interest income of 12% and 15% in the event of a 100 BP and 200 BP increase or decrease in market interest rates over a twelve month period. Based on the information and assumptions utilized in the simulation model at December 31, 2005, the resultant projected impact on net interest income falls within policy limits set by the Board of Directors for all rate scenarios simulated.

The Company also utilizes the same vendor-purchased simulation model to project the impact of changes in interest rates on the underlying market value of all the Company's assets, liabilities, and off-balance sheet accounts under alternative interest rate scenarios. The resultant net value, as impacted under each projected interest rate scenario, is referred to as the market value of equity ("MV of Equity"). This technique captures the interest rate risk of the Company's business mix across all maturities. The market analysis is performed using an immediate rate shock of 200 basis points up and down (and an additional 300 basis points up) calculating the present value of expected cash flows under each rate environment at applicable discount rates. The market value of loans is calculated by discounting the expected future cash flows over either the term to maturity for fixed rate loans or scheduled repricing for floating rate loans using the current rate at which similar loans would be made to borrowers with similar credit ratings. The market value of investment securities is based on quoted market prices obtained from reliable independent brokers. The market value of time deposits is calculated by discounting the expected cash flows using current rates for similar instruments of comparable maturities. The market value of deposits with no defined maturities, including interest-bearing checking, money market and savings accounts is calculated by discounting the expected cash flows at a rate equal to the difference between the cost of these deposits and the alternate use of the funds, federal funds in this case. Assumed maturities for these deposits are estimated using decay analysis and are generally assumed to have implied maturities of less than five years. For noninterest sensitive assets and liabilities, the market value is equal to their carrying value amounts at the reporting date. The Company's interest rate risk policy establishes maximum decreases in the Company's market value of equity of 12% and 15% in the event of an immediate and sustained 100 BP and 200 BP increase or decrease in market interest rates. As shown in the table below, the percentage changes in the net market value of the Company's equity are within policy limits for both rising and falling rate scenarios.

The following sets forth the analysis of the Company's market value risk inherent in its interest-sensitive financial instruments as they relate to the entire balance sheet at December 31, 2005 and December 31, 2004 ($ in thousands). Fair value estimates are subjective in nature and involve uncertainties and significant judgment and, therefore, cannot be determined with absolute precision. Assumptions have been made as to the appropriate discount rates, prepayment speeds, expected cash flows and other variables. Changes in these assumptions significantly affect the estimates and as such, the obtained fair value may not be indicative of the value negotiated in the actual sale or liquidation of such financial instruments, nor comparable to that reported by other financial institutions. In addition, fair value estimates are based on existing financial instruments without attempting to estimate future business.

	December 31, 2005			December 31, 2004		
Change in Rates	**Estimated MV ofEquity**	**Change in MV of Equity$**	**Change in MV Of Equity %**	**Estimated MV of Equity**	**Change in MV$ of Equity**	**Change in MV Of Equity %**
+ 200 BP	$ 76,643	$ (519)	-0.67%	$ 59,707	$ (1,405)	-2.30%
+ 100 BP	76,202	(960)	-1.24%	60,775	(337)	-0.55%
0 BP	77,162	0	0.00%	61,112	0	0.00%
- 100 BP	72,918	(4,244)	-5.50%	60,216	(896)	-1.47%
- 200 BP	70,587	(6,575)	-8.52%	58,338	(2,774)	-4.54%

Item 8 - Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

To the Board of Directors
United Security Bancshares

We have audited the accompanying consolidated balance sheets of United Security Bancshares and Subsidiaries (Company) as of December 31, 2005 and 2004, and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2005. We also have audited management's assessment included in the accompanying *Management's Report on Internal Control over Financial Reporting* that the Company maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements, an opinion on management's assessment, and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and Directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Security Bancshares and Subsidiaries as of December 31, 2005 and 2004, and the results of their operations and cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, management's assessment that United Security Bancshares and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2005 is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Furthermore, in our opinion, United Security Bancshares and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Moss Adams LLP

Stockton, California
March 15, 2006

United Security Bancshares and Subsidiaries
Consolidated Statements of Condition - Balance Sheets
December 31, 2005 and 2004

(in thousands except shares)	December 31, 2005	December 31, 2004
Assets		
Cash and due from banks	$ 27,915	$ 30,366
Federal funds sold	35,115	26,040
Cash and cash equivalents	63,030	56,406
Interest-bearing deposits in other banks	7,656	7,429
Investment securities available for sale	95,236	112,250
Loans and leases	417,910	398,684
Unearned fees	(753)	(1,099)
Allowance for credit losses	(7,748)	(7,251)
Net loans	409,409	390,334
Accrued interest receivable	3,394	2,523
Premises and equipment - net	11,028	8,102
Other real estate owned	4,356	1,615
Intangible assets	2,801	3,338
Goodwill	750	750
Cash surrender value of life insurance	13,529	12,571
Investment in limited partnership	3,963	4,295
Deferred income taxes	5,194	4,547
Other assets	8,513	7,536
Total assets	$ 628,859	$ 611,696
Liabilities & Shareholders' Equity		
Liabilities		
Deposits		
Noninterest bearing	$ 153,113	$ 129,970
Interest bearing	393,347	406,702
Total deposits	546,460	536,672
Other borrowings	0	75
Accrued interest payable	1,875	1,166
Accounts payable and other liabilities	6,046	5,083
Junior subordinated debt	15,464	15,464
Total liabilities	569,845	558,460
Commitments and Contingent Liabilities		
Shareholders' Equity		
Common stock, no par value 10,000,000 shares authorized, 5,680,559 and 5,683,794 issued and outstanding, in 2005 and 2004, respectively	22,084	22,322
Retained earnings	38,682	31,879
Unearned ESOP shares	0	(67)
Accumulated other comprehensive loss	(1,752)	(898)
Total shareholders' equity	59,014	53,236
Total liabilities and shareholders' equity	$ 628,859	$ 611,696

See notes to consolidated financial statements

United Security Bancshares and Sudsidiaries
Consolidated Statements of Income and Comprehensive Income
Years Ended December 31, 2005, 2004 and 2003

(in thousands except shares and EPS)	2005	2004	2003
Interest Income			
Loans, including fees	$ 33,078	$ 26,684	$ 23,257
Investment securities - AFS – taxable	4,163	3,433	3,169
Investment securities - AFS – nontaxable	112	123	132
Federal funds sold and securities purchased under agreements to resell	1,237	324	147
Interest on deposits in other banks	308	310	345
Total interest income	38,898	30,874	27,050
Interest Expense			
Interest on deposits	8,523	5,588	5,936
Interest on other borrowed funds	1,135	845	1,324
Total interest expense	9,658	6,433	7,260
Net Interest Income Before Provision for Credit Losses	29,240	24,441	19,790
Provision for Credit Losses	1,140	1,145	1,713
Net Interest Income	28,100	23,296	18,077
Noninterest Income			
Customer service fees	4,399	4,311	3,663
Gain (loss) on sale of securities	163	35	(58)
Gain on sale of loans	0	0	21
Gain (loss) on sale of other real estate owned	325	(98)	80
Gain on sale of interest-bearing deposits in other banks	0	0	186
Shared appreciation income	393	8	1,813
Other	1,000	486	443
Total noninterest income	6,280	4,742	6,148
Noninterest Expense			
Salaries and employee benefits	8,046	6,663	5,089
Occupancy expense	2,327	2,197	1,658
Data processing	624	659	515
Professional fees	1,234	1,236	991
Director fees	210	192	184
Amortization of intangibles	537	470	353
Correspondent bank service charges	359	318	281
Writedown on investment	702	0	0
Writedown on OREO	0	35	403
Loss on tax credit partnership	458	395	276
Other	2,485	2,502	2,105
Total noninterest expense	16,982	14,667	11,855
Income Before Provision for Taxes on Income	17,398	13,371	12,370
Provision for Taxes on Income	6,390	4,966	4,664
Net Income	$ 11,008	$ 8,405	$ 7,706
Other comprehensive income, net of tax			
Unrealized loss on available for sale securities and interest rate swaps - net income tax benefit of ($733), ($535), and ($593)	(854)	(928)	(1,012)
Comprehensive Income	$ 10,154	$ 7,477	$ 6,694
Net Income per common share			
Basic	$ 1.94	$ 1.49	$ 1.41
Diluted	$ 1.92	$ 1.48	$ 1.40
Weighted shares on which net income per common share were based			
Basic	5,684,924	5,630,256	5,459,926
Diluted	5,726,576	5,667,243	5,511,670

See notes to consolidated financial statements

United Security Bancshares and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Periods Ended December 31, 2005

(in thousands except shares)	Common stock Number of Shares	Amount	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total
Balance January 1, 2003	5,406,666	$ 17,553	$ 22,576	$ (609)	$ 1,041	$ 40,561
Director/Employee stock options exercised	123,800	1,293				1,293
Tax benefit of stock options exercised		63				63
Net changes in unrealized gain on available for sale securities (net of income tax benefit of $392)					(588)	(588)
Net changes in unrealized loss on interest rate swaps (net of income tax benefit of $201)					(424)	(424)
Dividends on common stock ($0.58 per share)			(3,189)			(3,189)
Repurchase and retirement of common shares	(34,961)	(691)				(691)
Release of unearned ESOP shares	17,033	9		296		305
Net Income			7,706			7,706
Balance December 31, 2003	5,512,538	18,227	27,093	(313)	29	45,036
Director/Employee stock options exercised	5,000	86				86
Tax benefit of stock options exercised		11				11
Net changes in unrealized gain on available for sale securities (net of income tax benefit of $484)					(726)	(726)
Net changes in unrealized loss on interest rate swaps (net of income tax benefit of $51)					(201)	(201)
Dividends on common stock ($0.64 per share)			(3,619)			(3,619)
Issuance of shares for business combination	241,447	6,033				6,033
Repurchase and retirement of common shares	(89,420)	(2,058)				(2,058)
Release of unearned ESOP shares	14,229	23		246		269
Net Income			8,405			8,405
Balance December 31, 2004	5,683,794	22,322	31,879	(67)	(898)	53,236
Director/Employee stock options exercised	6,000	118				118
Tax benefit of stock options exercised		13				13
Net changes in unrealized loss on available for sale securities (net of income tax benefit of $709)					(1,064)	(1,064)
Net changes in unrealized loss on interest rate swaps (net of income tax benefit of $24)					210	210
Dividends on common stock ($0.74 per share)			(4,205)			(4,205)
Repurchase and retirement of common shares	(13,081)	(377)				(377)
Release of unearned ESOP shares	3,846	8		67		75
Net Income			11,008			11,008
Balance December 31, 2005	5,680,559	$ 22,084	$ 38,682	$ 0	$ (1,752)	$ 59,014

See notes to consolidated financial statements

United Security Bancshares and Subsidiaires
Consolidated Statements of Cash Flows
Periods Ended December 31, 2005, 2004 and 2003

(in thousands)	2005	2004	2003
Cash Flows From Operating Activities:			
Net income	$ 11,008	$ 8,405	$ 7,706
Adjustments to reconcile net earnings to cash provided by operating activities:			
Provision for credit losses	1,140	1,145	1,713
Depreciation and amortization	1,459	1,297	980
(Accretion) amortization of investment securities	(74)	37	265
Gain (loss) on sale of securities	(163)	(35)	58
(Increase) decrease in accrued interest receivable	(871)	(185)	327
Increase (decrease) in accrued interest payable	709	358	(403)
(Decrease) increase in unearned fees	(346)	327	409
Increase (decrease) in income taxes payable	575	(1,647)	1,489
Deferred income taxes	86	(877)	(904)
Decrease (increase) in accounts payable and accrued liabilities	229	149	(119)
Write-down of other investments	702	0	0
Write-down of other real estate owned	0	35	403
(Gain) loss on sale of other real estate owned	(325)	98	(80)
Gain on sale of loans	0	0	(21)
Gain on sale of interest-bearing deposits with banks	0	0	(186)
Gain (loss) on sale of assets	5	(7)	14
Increase in surrender value of life insurance	(379)	(252)	(103)
Loss in limited partnership interest	458	395	276
Net (increase) decrease in other assets	(214)	357	293
Net cash provided by operating activities	13,999	9,600	12,117
Cash Flows From Investing Activities:			
Net (increase) decrease in interest-bearing deposits with banks	(227)	975	2,237
Purchases of available-for-sale securities	(4,804)	(55,552)	(68,763)
Net (purchase) redemption of FHLB/FRB and other bank stock	(267)	(1,038)	1,026
Maturities, calls, and principal payments on available-for-sale securities	13,486	24,126	55,292
Proceeds from sales of available-for-sale securities	6,795	10,923	33,000
Investment in limited partnership	(126)	0	(2,381)
Proceeds from sale of investment in title company	527	0	0
Premiums paid on life insurance	(579)	(9,000)	0
Net increase in loans	(25,971)	(28,238)	(532)
Cash proceeds from sales of loans	0	0	5,529
Cash and equivalents received in bank acquisitions	0	15,383	0
Cash proceeds from sales of foreclosed leased assets	258	192	643
Cash proceeds from sales of other real estate owned	1,895	970	391
Capital expenditures for premises and equipment	(3,857)	(2,779)	(744)
Cash proceeds from sales of premises and equipment	21	26	1,034
Net cash (used in) provided by investing activities	(12,849)	(44,012)	26,732
Cash Flows From Financing Activities:			
Net increase in demand deposit and savings accounts	25,867	54,736	28,326
Net decrease in certificates of deposit	(16,079)	(6,757)	(11,869)
Net decrease in repurchase agreements	0	0	(35,400)
Director/Employee stock options exercised	118	86	1,293
Repurchase and retirement of common stock	(377)	(2,058)	(691)
Repayment of ESOP borrowings	(75)	(269)	(305)
Payment of dividends on common stock	(3,980)	(3,510)	(3,098)
Net cash provided by (used in) financing activities	5,474	42,228	(21,744)
Net increase in cash and cash equivalents	6,624	7,816	17,105
Cash and cash equivalents at beginning of period	56,406	48,590	31,485
Cash and cash equivalents at end of period	$ 63,030	$ 56,406	$ 48,590

See notes to consolidated statements

1. Organization and Summary of Significant Accounting and Reporting Policies

Basis of Presentation – The consolidated financial statements include the accounts of United Security Bancshares, and its wholly owned subsidiaries, United Security Bank and subsidiary (the "Bank"), as well as United Security Bancshares Capital Trust I (the "Trust") which was deconsolidated in 2004 pursuant to FIN46, (collectively the "Company" or "USB"). Intercompany accounts and transactions have been eliminated in consolidation. In the following notes, references to the Bank are references to United Security Bank. References to the Company are references to United Security Bancshares, (including the Bank). United Security Bancshares operates as one business segment providing banking services to commercial establishments and individuals primarily in the San Joaquin Valley of California.

Nature of Operations – United Security Bancshares is a bank holding company, incorporated in the state of California for the purpose of acquiring all the capital stock of the Bank through a holding company reorganization (the "Reorganization") of the Bank. The Reorganization, which was accounted for in a manner similar to a pooling of interests, was completed on June 12, 2001. Management believes the Reorganization has provided the Company greater operating and financial flexibility and has permitted expansion into a broader range of financial services and other business activities.

United Security Bancshares Capital Trust I, a subsidiary of United Security Bancshares, is a Delaware statutory business trust formed for the exclusive purpose of issuing and selling Trust Preferred Securities. The Trust was formed on June 28, 2001 (See Note 8. "Trust Preferred Securities and Junior Subordinated Debt").

USB Investment Trust Inc was incorporated effective December 31, 2001as a special purpose real estate investment trust ("REIT") under Maryland law. The REIT is a subsidiary of the Bank and was funded with $133.0 million in real estate-secured loans contributed by the Bank. USB Investment Trust was originally formed to give the Bank flexibility in raising capital, and reduce the expenses associated with holding the assets contributed to USB Investment Trust (See Note 9. "Income Taxes").

The Bank was founded in 1987 and currently operates ten branches and one construction lending office in an area from eastern Madera County to western Fresno County, as well as Taft and Bakersfield in Kern County. The Bank's primary source of revenue is providing loans to customers, who are predominantly small and middle-market businesses and individuals. The Bank engages in a full compliment of lending activities, including real estate mortgage, commercial and industrial, real estate construction, agricultural and consumer loans, with particular emphasis on short and medium term obligations.

The Bank offers a wide range of deposit instruments. These include personal and business checking accounts and savings accounts, interest-bearing negotiable order of withdrawal ("NOW") accounts, money market accounts and time certificates of deposit. Most of the Bank's deposits are attracted from individuals and from small and medium-sized business-related sources.

The Bank also offers a wide range of specialized services designed to attract and service the needs of commercial customers and account holders. These services include cashiers checks, travelers checks, money orders, and foreign drafts. In addition, the Bank offers Internet banking services to its commercial and retail customers. The Bank does not operate a trust department, however it makes arrangements with its correspondent bank to offer trust services to its customers upon request.

Neither the Company's business or liquidity is seasonal, and there has been no material effect upon the Company's capital expenditures, earnings or competitive position as a result of federal, state or local environmental regulation.

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 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change, relate to the determination of the allowance for loan losses, determination of fair market values, and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets held for sale, management obtains independent appraisals for significant properties.

Significant Accounting Policies - The accounting and reporting policies of the Company conform to generally accepted accounting principles and to prevailing practices within the banking industry. The following is a summary of significant policies:

a. *Cash and cash equivalents* – Cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and repurchase agreements. At times throughout the year, balances can exceed FDIC insurance limits. Generally, federal funds sold and repurchase agreements are sold for one-day periods. Repurchase agreements are with a registered broker-dealer affiliated with a correspondent bank and work much like federal funds sold, except that the transaction is collateralized by various investment securities. The securities collateralizing such transactions generally consist of U.S. Treasuries, U.S. Government and U.S. Government-sponsored agencies. The Bank did not have any repurchase agreements during 2005 or 2004, or at December 31, 2005 or 2004. All cash and cash equivalents have maturities of three months or less.

b. *Securities* - Debt and equity securities classified as available for sale are reported at fair value, with unrealized gains and losses excluded from net income and reported, net of tax, as a separate component of comprehensive income and shareholders' equity. Debt securities classified as held to maturity are carried at amortized cost. Gains and losses on disposition are reported using the identified certificate method for the adjusted basis of the securities sold.

The Company classifies its securities as available for sale or held to maturity, and periodically reviews its investment portfolio on an individual security basis. Securities that are to be held for indefinite periods of time (including, but not limited to, those that management intends to use as part of its asset/liability management strategy, those which may be sold in response to changes in interest rates, changes in prepayments or any such other factors) are classified as securities available for sale. Securities which the Company has the ability and intent to hold to maturity are classified as held to maturity.

Declines in fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary are recognized by write-downs of the individual securities to their fair value. Such write-downs would be included in earnings as realized losses. Premiums and discounts are recognized in interest income using the interest method over the period to 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 based upon the positive and negative evidence available. Evidence evaluated includes, but is not limited to, industry analyst reports, credit market conditions, and interest rate trends. If negative evidence outweighs positive evidence that the carrying amount is recoverable within a reasonable period of time, the impairment is deemed to be other-than-temporary and the security is written down in the period in which such determination is made.

c. *Loans* - Interest income on loans is credited to income as earned and is calculated by using the simple interest method on the daily balance of the principal amounts outstanding. Loans are placed on non-accrual status when principal or interest is past due for 90 days and/or when management believes the collection of amounts due is doubtful. For loans placed on nonaccrual status, the accrued and unpaid interest receivable may be reversed at management's discretion based upon management's assessment of collectibility, and interest is thereafter credited to principal to the extent necessary to eliminate doubt as to the collectibility of the net carrying amount of the loan.

Nonrefundable fees and related direct costs associated with the origination or purchase of loans are deferred and netted against outstanding loan balances. The net deferred fees and costs are generally amortized into interest income over the loan term using a method, which approximates the interest method. Other credit-related fees, such as standby letter of credit fees, loan placement fees and annual credit card fees are recognized as noninterest income during the period the related service is performed.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or as a practical expedient at the loan's observable market rate or the fair value of the collateral if the loan is collateral dependent.

d. *Allowance for Credit Losses* - The allowance for credit losses is maintained to provide for losses that can reasonably be anticipated. The allowance is based on ongoing quarterly assessments of the probable losses inherent in the loan portfolio, and to a lesser extent, unfunded loan commitments.

The allowance for credit losses is increased by provisions charged to operations during the current period and reduced by loan charge-offs net of recoveries. Loans are charged against the allowance when management believes that the collection of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb losses inherent in existing loans, based on evaluations of the probability of collection. In evaluating the probability of collection, management is required to make estimates and assumptions that affect the reported amounts of loans, allowance for credit losses and the provision for credit losses charged to operations. Actual results could differ significantly from those estimates. These evaluations take into consideration such factors as the composition of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. The Company's methodology for assessing the adequacy of the allowance for credit losses consists of several key elements, which include the formula allowance, specific allowances, and the unallocated allowance.

The formula allowance is calculated by applying loss factors to outstanding loans and certain unfunded loan commitments. Loss factors are based on the Company's historical loss experience and may be adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. The Company determines the loss factors for problem-graded loans (substandard, doubtful, and loss), special mention loans, and pass graded loans, based on a loss migration model. The migration analysis incorporates the Company's losses over the past twelve quarters (three years) and loss factors are adjusted to recognize and quantify the loss exposure from changes in market conditions and trends in the loan portfolio. For purposes of this analysis, loans are grouped by internal risk classifications, which are "pass", "special mention", "substandard", "doubtful", and "loss". Certain loans are homogenous in nature and are therefore pooled by risk grade. These homogenous loans include consumer installment and home equity loans. Special mention loans are currently performing but are potentially weak, as the borrower has begun to exhibit deteriorating trends, which if not corrected, could jeopardize repayment of the loan and result in further downgrade. Substandard loans have well-defined weaknesses which, if not corrected, could jeopardize the full satisfaction of the debt. A loan classified as "doubtful" has critical weaknesses that make full collection of the obligation improbable. Classified loans, as defined by the Company, include loans categorized as substandard, doubtful, and loss.

Specific allowances are established based on management's periodic evaluation of loss exposure inherent in classified loans, impaired loans, and other loans in which management believes there is a probability that a loss has been incurred in excess of the amount determined by the application of the formula allowance.

The unallocated portion of the allowance is based upon management's evaluation of various conditions that are not directly measured in the determination of the formula and specific allowances. The conditions may include, but are not limited to, general economic and business conditions affecting the key lending areas of the Company, credit quality trends, collateral values, loan volumes and concentration, and other business conditions.

The allowance analysis also incorporates the results of measuring impaired loans as provided in Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan" and SFAS 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures". A loan is considered impaired when management determines that it is probable that the Company will be unable to collect all amounts due according to the original contractual terms of the loan agreement. Impairment is measured by the difference between the original recorded investment in the loan and the estimated present value of the total expected cash flows, discounted at the loan's effective rate, or the fair value of the collateral, if the loan is collateral dependent. Any differences in the specific allowance amounts calculated in the impaired loan analysis and the migration analysis are reconciled by management and changes are made to the allowance as deemed necessary.

e. *Loans held-for-sale* - Loans originated and designated as held-for-sale are carried at the lower of cost or estimated fair value, as determined by quoted market prices, in aggregate. Net unrealized losses are recognized in a valuation allowance by charges to income. Gains or losses on the sale of such loans are based on the specific identification method. The Company held no loans for sale at December 31, 2005 or 2004.

f. *Premises and Equipment* - Premises and equipment are carried at cost less accumulated depreciation. Depreciation expense is computed principally on the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows:

Buildings	31 Years	Furniture and equipment	3-7 Years

g. *Other Real Estate Owned* - Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at the lower of the book value of the loan, or fair value of the property, less estimated costs to sell. The excess, if any, of the loan amount over the fair value is charged to the allowance for credit losses. Subsequent declines in the fair value of other real estate owned, along with related revenue and expenses from operations, are charged to noninterest expense.

h. *Intangible Assets and Goodwill* - Intangible assets are comprised of core deposit intangibles, residual identifiable intangibles (previously called goodwill), and goodwill acquired in branch acquisitions in which the fair value of the liabilities assumed exceeded the fair value of the assets acquired. Core deposit intangibles of $1,875,000 and $2,276,000 (net of accumulated amortization of $2,121,000 and $1,720,000) at December 31, 2005 and 2004 are amortized over the estimated useful lives of the existing deposit bases (7 years) using a method which approximates the interest method. Residual identifiable intangibles (previously called goodwill), resulting from the purchase of certain bank branches in years prior to 2005, of $926,000 and $1.1 million (net accumulated amortization of $1.3 million and $1.1 million) at December 31, 2005 and 2004 is being accounted for under the provisions of SFAS No. 72 "Accounting for Acquisitions of Certain Financial Institutions", and is being amortized using a method which approximates the interest method over a period of 15 years.

In October 2002, the Financial Accounting Standards Board issued SFAS No. 147, "Accounting for Acquisitions of Certain Financial Institutions". This statement is effective October 1, 2002 and amends FASB Statements No. 72 and 144 and FASB Interpretation No. 9. SFAS No. 147 stipulates that the acquisition of all or part of a financial institution will now be accounted for under SFAS No. 141 and 142 if that transaction was a business combination as defined. SFAS No. 147 also stipulated that under a business combination, the core deposit intangible assets related to the acquisition of financial institutions, will now be subjected to the impairment testing requirements of SFAS No. 144. The Company has reviewed the guidelines under SFAS No. 147 and has determined that the branch purchases consummated during 1997 did not constitute a business combination because the purchased branches were not self-sustaining and thus were not a business as defined. As a result, the Company continues to amortize the intangible assets resulting from those branch acquisitions under SFAS No. 72. The provisions of SFAS No. 147 did not have a material impact on results of operations, financial position, or liquidity.

Goodwill resulting from the acquisition of Taft National Bank during April 2004 is considered to have an indefinite life and is not amortized pursuant to SFAS No. 141, *Business Combinations*. At December 31, 2005 goodwill totaled $750,000. Pursuant to SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill is evaluated annually for impairment. Impairment testing of goodwill is performed during April of each year at a reporting unit level. The Company had no impairment adjustments during 2005 or 2004.

i. *Income Taxes* - Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities using the liability method, and 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.

j. *Net Income per Share* - Basic income per common share is computed based on the weighted average number of common shares outstanding. Diluted income per share includes the effect of stock options and other potentially dilutive securities using the treasury stock method. ESOP shares are only considered outstanding for earnings per share calculations when they are committed to be released (Note 16).

k. *Cash Flow Reporting* - For purposes of reporting cash flows, cash and cash equivalents include cash on hand, noninterest-bearing amounts due from banks, federal funds sold and securities purchased under agreements to resell. Federal funds and securities purchased under agreements to resell are generally sold for one-day periods.

l. *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 Company, (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 Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

m. *Advertising Costs* - The Company expenses marketing costs as they are incurred. Advertising expense was $98,000, $74,000 and $66,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

n. *Stock Based Compensation* - At December 31, 2005, the Company has a stock-based employee compensation plan, which is described more fully in Note 10. The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with APB No. 25, "Accounting for Stock Issued to Employees", and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure an amendment of FASB Statement No. 123".

(In thousands except earnings per share)	Years Ended December 31, 2005	2004	2003
Net income, as reported	$ 11,008	$ 8,405	$ 7,706
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(46)	(40)	(12)
Pro forma net income	$ 10,962	$ 8,365	$ 7,694
Earnings per share:			
Basic – as reported	$ 1.94	$ 1.49	$ 1.41
Basic – pro forma	$ 1.92	$ 1.49	$ 1.41
Diluted – as reported	$ 1.93	$ 1.48	$ 1.40
Diluted – pro forma	$ 1.91	$ 1.48	$ 1.40

In December 2004, the FASB issued SFAS No. 123 (revised 2004) ("SFAS 123(R)"), "Share-Based Payment", which is a revision of SFAS No. 123, "*Accounting for Stock-Based Compensation*." SFAS No. 123(R) eliminates the ability to account for share-based compensation transactions using Accounting Principles Board Opinion No. 25 and requires that such transactions be accounted for using a fair value-based method. The Company will adopt the requirements of SFAS No. 123R using the modified-prospective method during the first quarter of 2006. SFAS No. 123R will require the Company to recognize as compensation expense, the fair value of stock options granted to employees and Directors of the Company beginning with the effective date (a) based on the requirements of Statement 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of Statement 123(R) that remain unvested on the effective date. Exclusive of options that can still be issued, the estimated additional pretax compensation expense expected to be recognized during 2006 is approximately $103,000.

o. *Long-Lived Assets* - The Company periodically evaluates the carrying value of long-lived assets to be held and used, including residual intangible assets (previously called goodwill) and other intangible assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Pursuant to SFAS No. 147, core deposit intangibles are also evaluated for impairment in accordance with the guidelines of SFAS No. 144. It does not apply to financial instruments, mortgage and other servicing rights, or deferred tax assets. Based on such evaluation, the Bank determined that there is no impairment loss to be recognized in 2005, 2004 or 2003.

p. *Employee Stock Ownership Plan ("ESOP")* - The Bank accounts for shares acquired by its leveraged ESOP in accordance with the guidelines established by the American Institute of Certified Public Accounts Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans" ("SOP 93-6"). Under SOP 93-6, the Bank recognizes compensation cost equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the Bank's ESOP shares committed to be released differ from the cost of those shares, the differential is charged or credited to equity. The ESOP is externally leveraged and, as such, the ESOP debt is recorded as a liability and interest expense is recorded on that debt. The ESOP shares not yet committed to be released are accounted for as a reduction of shareholders' equity. The credit line related to the leveraged ESOP matured during 2005, and as result, all remaining balances were repaid during the first quarter of 2005. All remaining unallocated shares were committed to be released and subsequently allocated as of December 31, 2005.

q. *Derivative Financial Instruments* - All derivative instruments (including certain derivative instrument's embedded in other contracts) are recognized in the consolidated balance sheet at fair value. The Company's policy is that the accounting treatment for gains or losses from changes in the derivative instrument's fair value is contingent on whether the derivative instrument qualifies as a hedge. On the date the Company enters into a derivative contract, the Company designates the derivative instruments as (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge) or (3), a hedge for trading, customer accommodation or not qualifying for hedge accounting (free-standing derivative instruments). For a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability or of an unrecognized firm commitment attributable to the hedged risk are recorded in current period net income. For a cash flow hedge, changes in the fair value of the derivative instrument to the extent that it is effective are recorded in other comprehensive income, net of tax, within shareholders' equity and subsequently reclassified to net income in the same period(s) that the hedged transaction impacts net income. For freestanding derivative instruments, changes in the fair values are reported in current period net income. The Company formally documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking any hedge transaction. This process includes relating all derivative instruments that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific forecasted transactions. The Company also formally assesses both at the inception of the hedge and on an ongoing basis, whether the derivative instruments used are highly effective in offsetting changes in fair values or cash flows of hedged items. If it is determined that the derivative instrument is not highly effective as a hedge, hedge accounting is discontinued.

r. *Federal Home Loan Bank stock and Federal Reserve Stock* **-** As a member of the Federal Home Loan Bank (FHLB), the Company is required to maintain an investment in capital stock of the FHLB. In addition, as a member of the Federal Reserve Bank (FRB), the Company is required to maintain an investment in capital stock of the FRB. The investments in both the FHLB and the FRB are carried at cost in the accompanying consolidated statements of condition under other assets and are subject to certain redemption requirements by the FHLB and FRB.

s. *Comprehensive Income* -Comprehensive income is comprised of net income and other comprehensive income. Other comprehensive income includes items previously recorded directly to equity, such as unrealized gains and losses on securities available-for-sale and certain derivative instruments. Comprehensive income is presented in the consolidated statement of shareholders' equity.

t. *Segment Reporting* - The Company's operations are solely in the financial services industry and include providing to its customers traditional banking and other financial services. The Company operates primarily in the San Joaquin Valley region of California. Management makes operating decisions and assesses performance based on an ongoing review of the Company's consolidated financial results. Therefore, the Company has a single operating segment for financial reporting purposes.

u. *New Accounting Standards:*

In December 2004 the FASB revised SFAS No. 123, *Accounting for Stock Based Compensation.* This statement supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and its related implementation guidance. The Statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost will be recognized over the period during which an employee is required to provide service in exchange for the award – the requisite service period (usually the vesting period). This Statement is effective for public entities that do not file as small business users as of the beginning of the first interim or annual reporting period that begins after June 15, 2005.

On April 15, 2005, the Securities and Exchange Commission (SEC) announced the adoption of a new rule that amends the compliance dates for SFAS No. 123R. Under Statement No. 123R, registrants would have been required to implement the standard as of the beginning of the first interim or annual period that begins after June 15, 2005, or after Dec. 15, 2005 for small business issuers. Calendar year-end companies that are not small business issuers, therefore, would have been permitted to follow the pre-existing accounting literature for the first and second quarters of 2005, but required to follow Statement No. 123R for their third quarter reports. The Commission's new rule allows companies to implement Statement No. 123R at the beginning of their next fiscal year, instead of the next reporting period, that begins after June 15, 2005, or Dec. 15, 2005 for small business issuers. This means that the Company, which is a calendar year-end company, is not required to comply with Statement No. 123R until the interim financial statements for the first quarter of 2006 are filed with the Commission. As a result of the SEC's ruling, the Company will adopt the requirements of SFAS No. 123R using the modified-prospective method during the first quarter of 2006. Exclusive of options that can still be issued, Management estimates that the effective of adopting this Statement will result in approximately $103,000 in additional compensation expense during 2006.

v. *New Entity* - During August 2005, the Bank formed a new subsidiary named United Security Emerging Capital Fund (the Fund) for the purpose of providing investment capital for Low-Income Communities (LIC's). The new subsidiary was formed as a Community Development Entity (CDE) and as such, must be certified by the Community Development Financial Institutions Fund of the United States Department of the Treasury in order to apply for New Market Tax Credits (NMTC). The Fund submitted an application to the Department of the Treasury to become certified as a CDE in August 2005. Subsequent to that application, the Fund submitted an application to apply for an allocation of New Market Tax Credits in September 2005. The Fund expects a response to its NMTC application during the second quarter of 2006. If the Fund's NMTC application is approved, and the Fund is certified as a CDE, the Fund can attract investments and make loans and investments in LIC's and thereby qualify its investors to receive Federal Income Tax Credits. The maximum that can be applied for under the New Markets Tax Credit program by any one CDE is $150 million, and the Bank is subject to an investment limitation of 10% of its Risk-based capital. Federal new market tax credits would be applied over a seven-year period, 5% for the first three years, and 6% for the next four years for a total of 39%.

w. *Reclassifications* - Certain reclassifications have been made to the 2004 and 2003 financial statements to conform to the classifications used in 2005.

2. *Investment Securities*

Following is a comparison of the amortized cost and approximate fair value of investment securities for the years ended December 31, 2005 and December 31, 2004:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Amount)
December 31, 2005:				
Securities available for sale:				
U.S. Government agencies	$ 82,215	$ 110	$ (2,002)	$ 80,323
U.S. Government agency collateralized mortgage obligations	22	0	(1)	21
Obligations of state and political subdivisions	2,226	95	(1)	2,320
Other investment securities	13,000	0	(428)	12,572
Total securities available for sale	$ 97,463	$ 205	$ (2,432)	$ 95,236
December 31, 2004:				
Securities available for sale:				
U.S Treasuries	$ 399	$ 0	$ (2)	$ 397
U.S. Government agencies	89,329	312	(764)	88,877
U.S. Government agency collateralized mortgage obligations	31	0	0	31
Obligations of state and political subdivisions	2,242	155	0	2,397
Other investment securities	20,703	70	(225)	20,548
Total securities available for sale	$ 112,704	$ 537	$ (991)	$ 112,250

Included in other investment securities at December 31, 2005, is a short-term government securities mutual fund totaling $7.7 million, and a CRA-qualified mortgage fund totaling $4.9 million. Included in other investment securities at December 31, 2004, is a short-term government securities mutual fund totaling $7.8 million, a commercial asset-backed trust totaling $4.6 million, a CRA-qualified mortgage fund totaling $5.0 million, and Trust Preferred securities pools totaling $3.2 million. The commercial asset-backed trust consists of fixed and floating rate commercial and multifamily mortgage loans. The short-term government securities mutual fund invests in debt securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, with a maximum duration equal to that of a 3-year U.S. Treasury Note.

Management periodically evaluates each available-for-sale or held-to-maturity investment security in an unrealized loss position to determine if the impairment is temporary or 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 Company has the ability and intent to hold all investment securities with identified impairments resulting from interest rate changes to the earlier of the forecasted recovery or the maturity of the underlying investment security.

The following summarizes temporarily impaired investment securities at December 31, 2005:

(In thousands)	Less than 12 Months Fair Value (Carrying Amount)	Less than 12 Months Unrealized Losses	12 Months or More Fair Value (Carrying Amount)	12 Months or More Unrealized Losses	Total Fair Value (Carrying Amount)	Total Unrealized Losses
December 31, 2005:						
Securities available for sale:						
U.S. Government agencies	$ 18,071	$ (306)	$ 58,074	$ (1,696)	$ 76,145	$ (2,002)
U.S. Govt. agency CMO's	0	0	16	(1)	16	(1)
Obligations of state and political subdivisions	35	(1)	0	0	35	(1)
Other investment securities	0	0	12,572	(428)	12,572	(428)
Total impaired securities	$ 18,106	$ (307)	$ 70,662	$ (2,125)	$ 88,768	$ (2,432)
December 31, 2004:						
Securities available for sale:						
U.S. Treasury securities	$ 398	$ (2)	$ 0	$ 0	$ 398	$ (2)
U.S. Government agencies	58,533	(570)	10,174	(194)	68,707	(764)
Other investment securities	1,590	(5)	12,824	(220)	14,414	(225)
Total impaired securities	$ 60,521	$ (577)	$ 22,998	$ (414)	$ 83,519	$ (991)

Temporarily impaired securities at December 31, 2005 are comprised of twenty (20) U.S. government agency securities, two other investment securities, one municipal bond, and one U.S. agency collateralized mortgage obligation with a total weighted average life of 2.8 years. Temporarily impaired securities at December 31, 2004 are comprised of twenty-two (22) U.S. government agency securities, three other investment securities, and one U.S. treasury security with a total weighted average life of 4.2 years.

There were gross realized gains on sales of available-for-sale securities totaling $163,000, $152,000, and $11,000 during the years ended December 31, 2005, 2004, and 2003, respectively. There were no gross realized losses on available-for-sale securities during the year ended December 31, 2005. There were gross realized losses on available-for-sale securities totaling $117,000 and $69,000 during the years ended December 31, 2004 and 2003, respectively.

The amortized cost and fair value of securities available for sale at December 31, 2005, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties. Contractual maturities on collateralized mortgage obligations cannot be anticipated due to allowed paydowns.

(In thousands)	December 31, 2005 Amortized Cost	December 31, 2005 Fair Value (Carrying Amount)
Due in one year or less	$ 20,002	$ 19,519
Due after one year through five years	55,778	54,334
Due after five years through ten years	1,381	1,431
Due after ten years	20,280	19,931
Collateralized mortgage obligations	22	21
	$ 97,463	$ 95,236

At December 31, 2005 and 2004, available-for-sale securities with an amortized cost of approximately $69.3 million and $70.7 million (fair value of $67.8 million and $70.4 million) were pledged as collateral for public funds, treasury tax and loan balances, and repurchase agreements.

The Company had no held-to-maturity or trading securities at December 31, 2005 or 2004.

3. *Loans*

Loans are comprised of the following:

(In thousands)	December 31, 2005	December 31, 2004
Commercial and industrial	$ 113,263	$ 123,720
Real estate – mortgage	89,503	88,187
Real estate – construction	162,873	137,523
Agricultural	24,935	23,416
Installment	15,002	13,257
Lease financing	12,334	12,581
Total Loans	$ 417,910	$ 398,684

The Company's loans are predominantly in the San Joaquin Valley, and the greater Oakhurst/East Madera County area, although the Company does participate in loans with other financial institutions, primarily in the state of California.

Commercial and industrial loans represent 27.1% of total loans at December 31, 2005 and have a high degree of industry diversification. A substantial portion of the commercial and industrial loans are secured by accounts receivable, inventory, leases or other collateral including real estate. The remainder are unsecured; however, extensions of credit are predicated upon the financial capacity of the borrower. Repayment of commercial loans is generally from the cash flow of the borrower.

Real estate mortgage loans, representing 21.4% of total loans at December 31, 2005, are secured by trust deeds on primarily commercial property. Repayment of real estate mortgage loans is generally from the cash flow of the borrower.

Real estate construction loans, representing 38.9% of total loans at December 31, 2005, consist of loans to residential contractors, which are secured by single-family residential properties. All real estate loans have established equity requirements. Repayment on construction loans is generally from long-term mortgages with other lending institutions.

Agricultural loans represent 6.0% of total loans at December 31, 2005 and are generally secured by land, equipment, inventory and receivables. Repayment is from the cash flow of the borrower.

Lease financing loans, representing 3.0% of total loans at December 31, 2005, consist of loans to small businesses, which are secured by commercial equipment. Repayment of the lease obligation is from the cash flow of the borrower.

Occasionally, shared appreciation agreements are made between the Company and the borrower on certain construction loans where the Company agrees to receive interest on the loan at maturity rather than monthly and the borrower agrees to share in the profits of the project. Due to the difficulty in calculating future values, shared appreciation income is recognized when received. The Company does not participate in a significant number of shared appreciation projects, and as a result, does not anticipate large amounts of shared appreciation income on an ongoing basis. Shared appreciation income totaled $393,000, $8,000, and $1.8 million for the years ended December 31, 2005, 2004, and 2003, respectively.

There were no loans over 90 days past due and still accruing at December 31, 2005. Loans over 90 days past due and still accruing totaled $375,000 at December 31, 2004. Nonaccrual loans totaled $13.9 million and $16.7 million at December 31, 2005 and 2004, respectively. There were no remaining undisbursed commitments to extend credit on nonaccrual loans at December 31, 2005. The interest income that would have been earned on nonaccrual loans outstanding at December 31, 2005 in accordance with their original terms is approximately $1.6 million. The interest income recoded on such loans during 2005 totaled $34,000. There was no interest income recorded on such loans during the year ended December 31, 2004 and 2003.

The Company has, and expects to have, lending transactions in the ordinary course of its business with directors, officers, principal shareholders and their affiliates. These loans are granted on substantially the same terms, including interest rates and collateral, as those prevailing on comparable transactions with unrelated parties, and do not involve more than the normal risk of collectibility or present unfavorable features.

Loans to directors, officers, principal shareholders and their affiliates are summarized below:

	December 31,	
(In thousands)	**2005**	**2004**
Aggregate amount outstanding, beginning of year	$ 1,244	$ 615
New loans or advances during year	2,795	974
Repayments during year	(3,209)	(1,212)
Other (1)	1,610	867
Aggregate amount outstanding, end of year	$ 2,440	$ 1,244
Loan commitments	$ 2,904	$ 902

(1) The balance reported at December 31, 2004 did not include $1.6 million in outstanding balances for a Director elected during 2004. This amount has been added during 2005 for purposes of this schedule. During 2004, the Company added one director. This figure represents the addition of outstanding balances at the time of this Directors' election.

An analysis of changes in the allowance for credit losses is as follows:

(In thousands)	Years Ended December 31, 2005	2004	2003
Balance, beginning of year	$ 7,251	$ 6,081	$ 5,556
Provision charged to operations	1,140	1,145	1,713
Losses charged to allowance	(773)	(590)	(1,274)
Recoveries on loans previously charged off	165	136	86
Reserve acquired in merger	—	986	—
Reclass off-balance sheet reserve	(35)	(507)	—
Balance at end-of-period	$ 7,748	$ 7,251	$ 6,081

The allowance for credit losses represents management's estimate of the risk inherent in the loan portfolio based on the current economic conditions, collateral values and economic prospects of the borrowers. Significant changes in these estimates might be required in the event of a downturn in the economy and/or the real estate market in the San Joaquin Valley, and the greater Oakhurst and East Madera County area.

At December 31, 2005 and 2004, the Company's recorded investment in loans for which impairment has been recognized totaled $12.9 million and $17.7 million, respectively. Included in total impaired loans at December 31, 2005 are $10.6 million of impaired loans for which the related specific allowance is $4.1 million, as well as $2.3 million of impaired loans that as a result of write-downs or the fair value of the collateral, did not have a specific allowance. At December 31, 2004, total impaired loans included $12.0 million for which the related specific allowance is $3.2 million, as well as $5.7 million of impaired loans that as a result of write-downs or the fair value of the collateral did not have a specific allowance. The average recorded investment in impaired loans was $15.9 million, $16.6 million, and $18.1 million for the years ended December 31, 2005, 2004 and 2003, respectively. In most cases, the Company uses the cash basis method of income recognition for impaired loans. In the case of certain troubled debt restructuring for which the loan is performing under the current contractual terms, income is recognized under the accrual method. For the year ended December 31, 2005, the Company recognized income of $34,000 on such loans. For the years ended December 31, 2004 and 2003, the Company recognized no income on impaired loans.

In the normal course of business, the Company is party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. At December 31, 2005 and 2004 these financial instruments include commitments to extend credit of $192.3 million and $179.6 million, respectively, and standby letters of credit of $5.5 million and $3.4 million, respectively. These instruments involve elements of credit risk in excess of the amount recognized on the balance sheet. The contract amounts of these instruments reflect the extent of the involvement the Company has in off-balance sheet financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amounts of those instruments. The Company uses the same credit policies as it does for on-balance sheet instruments.

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. Substantially all of these commitments are at floating interest rates based on the Prime rate. Commitments generally have fixed expiration dates. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation. Collateral held varies but includes accounts receivable, inventory, leases, property, plant and equipment, residential real estate and income-producing properties.

Standby letters of credit are generally unsecured and are issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

4. *Premises and Equipment*

The components of premises and equipment are as follows:

(In thousands)	December 31, 2005	December 31, 2004
Land	$ 570	$ 474
Buildings and improvements	9,710	6,897
Furniture and equipment	8,064	7,360
	18,344	14,731
Less accumulated depreciation and amortization	(7,316)	(6,629)
Total premises and equipment	$ 11,028	$ 8,102

During 2005, the Company purchased the Taft branch premises for a total of $1.0 million. The Company previously owned a 25% partnership interest in the building premises with a carrying cost of $190,000, and rented space in the building for its Taft branch operations. The partnership interest was included in other assets on the Company's balance sheet. As a result of the purchase, the Company eliminated its partnership investment and recorded a gain of $61,000 on the transaction.

During April 2004, the Company acquired $1.6 million in net assets, including a fair market value adjustment of $291,000, as a result of the merger with Taft National Bank (see Note 21). The fair values of net assets acquired from Taft were comprised of $220,000 in land, $1,046,000 in buildings and improvements, and $321,000 million in furniture and equipment.

Total depreciation expense on Company premises and equipment totaled $906,000, $823,000, and $623,000 for the years ended December 31, 2005, 2004 and 2003, respectively, and is included in occupancy expense in the accompanying consolidated statements of income.

5. *Investment in Limited Partnership*

During the fourth quarter of 1997, the Bank purchased a limited interest in a private limited partnership that acquires affordable housing properties in California that generate Low Income Housing Tax Credits under Section 42 of the Internal Revenue Code of 1986, as amended. During 2001 and then again in 2003 and 2005, the Bank purchased additional limited partnership interests totaling $939,000, $2.4 million, and $126,000, respectively. Certain properties may also be eligible for state tax credits under various sections of the California Revenue and Taxation Code. The Bank's limited partnership investment is accounted for under the equity method. The Bank's noninterest expense associated with the utilization and expiration of these tax credits for the year ended December 31, 2005, 2004 and 2003 was $458,000, $395,000, and $276,000, respectively. The limited partnership investments are expected to generate remaining tax credits of approximately $3.6 million over the life of the investment. The tax credits expire between 2009 and 2014. Tax credits utilized for income tax purposes for the years ended December 31, 2005, 2004, and 2003 totaled $547,000, $409,000, and $355,000, respectively.

6. *Deposits*

Deposits include the following:

(In thousands)	December 31, 2005	December 31, 2004
Noninterest-bearing deposits	$ 153,113	$ 129,970
Interest-bearing deposits:		
NOW and money market accounts	175,852	173,943
Savings accounts	33,590	32,775
Time deposits:		
Under $100,000	53,254	61,626
$100,000 and over	130,651	138,358
Total interest-bearing deposits	393,347	406,702
Total deposits	$ 546,460	$ 536,672

At December 31, 2005, the scheduled maturities of all certificates of deposit and other time deposits are as follows:

(In thousands)	
One year or less	$ 166,909
More than one year, but less than or equal to two years	10,912
More than two years, but less than or equal to three years	4,010
More than three years, but less than or equal to four years	727
More than four years, but less than or equal to five years	747
More than five years	600
	$ 183,905

The Company may occasionally obtain brokered deposits as an additional source of funding. At December 31, 2005, the Company held brokered time deposits totaling $32.4 million with an average rate of 3.47%. Of this balance, $30.2 million is included in time deposits of $100,000 or more, and the remaining $2.2 million is included in time deposits of less than $100,000. Included in brokered time deposits are balances totaling $19.8 million maturing in three months or less, and $12.6 million maturing in three to six months.

Deposits of directors, officers and other related parties to the Bank totaled $6.4 million and $5.2 million at December 31, 2005 and 2004, respectively. The rates paid on these deposits were those customarily paid to the Bank's customers in the normal course of business.

7. Short-term Borrowings/Other Borrowings

The Company had collateralized and uncollateralized lines of credit with the Federal Reserve Bank of San Francisco and other correspondent banks aggregating $248.7 million, as well as Federal Home Loan Bank ("FHLB") lines of credit totaling $10.7 million at December 31, 2005. At December 31, 2005 and 2004, the Company had no advances on its lines of credit. These lines of credit generally have interest rates tied to the Federal Funds rate or are indexed to short-term U.S. Treasury rates or LIBOR. FHLB advances are collateralized by all of the Company's stock in the FHLB and certain qualifying mortgage loans. As of December 31, 2005, $17.5 million in real estate-secured loans were pledged as collateral for FHLB advances. Additionally, $274.2 million in real estate-secured loans were pledged at December 31, 2005 as collateral for unused borrowing lines with the Federal Reserve Bank totaling $205.7 million. All lines of credit are on an "as available" basis and can be revoked by the grantor at any time.

The Company had collateralized and uncollateralized lines of credit with the Federal Reserve Bank of San Francisco and other correspondent banks aggregating $169.1 million, as well as Federal Home Loan Bank ("FHLB") lines of credit totaling $26.7 million at December 31, 2004.

On June 20, 2000, the Company's ESOP entered into an agreement with a correspondent bank to establish a $1.0 million unsecured line of credit with a variable rate of prime plus 100 basis points and maturity of June 20, 2005. The loan was guaranteed by the Company. The loan matured and was paid off during January 2005. Advances on the line totaled $75,000 at December 31, 2004.

8. Junior Subordinated Debt

On July 16, 2001, the Company's wholly owned special-purpose trust subsidiary, United Security Bancshares Capital Trust I (the "Trust") issued $15 million in Company obligated mandatorily redeemable cumulative trust preferred securities of subsidiary trust holding solely junior subordinated debentures ("Trust Preferred Securities"). Pursuant to FASB-issued Interpretation No. 46 (FIN46), the Company determined that USB Trust is a Variable Interest Entity (VIE) as defined, and deconsolidated the Trust effective March 31, 2004. The securities bear a floating rate of interest of 3.75% over the six month LIBOR rate, payable semi-annually. Concurrent with the issuance of the Trust Preferred Securities, the Trust used the proceeds from the Trust Preferred Securities offering to purchase a like amount of Junior Subordinated Debentures of the Company. The Company will pay interest on the Junior Subordinated Debentures to the Trust, which represents the sole revenues and sole source of dividend distributions to the holders of the Trust Preferred Securities. The Company has the right, assuming no default has occurred, to defer payments of interest on the Junior Subordinated Debentures at any time for a period not to exceed 20 consecutive quarters. The Trust Preferred Securities will mature on July 25, 2031, but can be redeemed after July 25, 2006 at a premium, and can be redeemed after July 25, 2011 at par. The obligations of the Trust are fully and unconditionally guaranteed, on a subordinated basis, by the Company.

The Company received $14.5 million from the Trust upon issuance of the Junior Subordinated Debentures, of which $13.7 million was contributed by the Company to the Bank to increase its capital. The remainder was utilized by the Company for general corporate purposes. Under applicable regulatory guidelines, a portion of the Trust Preferred Securities qualifies as Tier I Capital, and the remainder as Tier II Capital. Issuance costs of $495,000 ($422,000 remaining at December 31, 2005) related to the Trust Preferred Securities have been deferred and are being amortized over the 30-year life of the securities. Interest expense on the Trust Preferred Securities totaled $1.1 million and $805,000, and amortization expense totaled $17,000 for both the years ended December 31, 2005 and 2004.

9. *Taxes on Income*

The tax effects of significant items comprising the Company's net deferred tax assets (liabilities) are as follows:

(In thousands)	December 31, 2005	December 31, 2004
Deferred tax assets:		
Credit losses not currently deductible	$ 3,177	$ 2,853
State franchise tax	638	463
Deferred compensation	685	570
Amortization of core deposit intangible	290	235
Depreciation	0	0
OREO write-down	14	116
Deferred gain on sale of OREO	106	125
Unrealized holding gain on interest rate swap	275	251
Unrealized holding loss on AFS securities	891	182
Amortization of premium on CD's	107	119
Other	172	176
Total deferred tax assets	6,355	5,090
Deferred tax liabilities:		
Depreciation	(89)	(138)
FHLB dividend	(127)	(92)
Loss on tax credit investment	(706)	0
Prepaid expenses	(239)	(313)
Total deferred tax liabilities	(1,161)	(543)
Net deferred tax assets	$ 5,194	$ 4,547

The Company periodically evaluates its deferred tax assets to determine whether a valuation allowance is required, based upon a determination that some or all of the deferred assets may not be ultimately realized. The Company has concluded that it is more likely than not that the deferred tax assets will be recognized in the normal course of business, therefore no valuation allowance is considered necessary at December 31, 2005.

Taxes on income for the years ended December 31 consist of the following:

(In thousands)	Federal	State	Total
2005:			
Current	$ 4,686	$ 1,618	$ 6,304
Deferred	(86)	172	86
	$ 4,600	$ 1,790	$ 6,390
2004:			
Current	$ 4,169	$ 1,674	$ 5,843
Deferred	(629)	(248)	(877)
	$ 3,540	$ 1,426	$ 4,966
2003:			
Current	$ 4,255	$ 1,313	$ 5,568
Deferred	(734)	(170)	(904)
	$ 3,521	$ 1,143	$ 4,664

A reconciliation of the statutory federal income tax rate to the effective income tax rate is as follows:

	Years Ended December 31, 2005	2004	2003
Statutory federal income tax rate	34.3%	34.0%	34.0%
State franchise tax, net of federal income tax benefit	7.2	7.2	7.2
Tax exempt interest income	(0.6)	(0.9)	(1.0)
Low Income Housing – federal credits	(3.1)	(3.1)	(3.8)
Other	(1.1)	(0.1)	1.3
	36.7%	37.1%	37.7%

The Company's subsidiary Real Estate Investment Trust ("REIT") subsidiary was formed effective December 31, 2001 and based on a tax opinion letter provided to the Company state tax benefits were recognized for the year ended December 31, 2002. On December 31, 2003 the California Franchise Tax Board (FTB) announced certain tax transactions related to real estate investment trusts (REITs) and regulated investment companies (RICs) will be disallowed pursuant to Senate Bill 614 and Assembly Bill 1601, which were signed into law in the 4th quarter of 2003. As a result, the Company reversed related net state tax benefits recorded in the first three quarters of 2003 and has taken no further tax benefits.

During the first quarter of 2005, the FTB notified the Company of its intent to audit the REIT for the tax years ended December 2001 and 2002. The Company has retained legal counsel to represent it in the tax audit, and counsel has provided the FTB with documentation supporting the Company's position. The FTB concluded its audit during January 2006. At that time the FTB submitted a closing letter to the Company, which included proposed assessments related to the tax benefits taken for the REIT during 2002. The Company still believes the case has merit based upon the fact that the FTB is ignoring certain facts of law in the case. The Company cannot reasonably determine at this time what the ultimate outcome of the audit will be. The outcome of the audit will not end the administrative processing of the REIT issue because the Company will continue to assert its administrative protest and appeal rights pending the outcome of litigation by another taxpayer presently in process on the REIT issue. If the FTB were to prevail against the Company in its defense of tax benefits taken during 2002, the reversal of such tax benefits and related costs would be approximately $755,000, excluding any possible penalties and interest.

10. Stock Options

Options have been granted to officers and key employees at an exercise price equal to estimated fair values at the date of grant as determined by the Board of Directors. During 1995, the Board of Directors and shareholders of the Company approved the adoption of the 1995 Stock Option Plan. The 1987 Plan was terminated as to the granting of additional options under that plan, and all remaining options under that plan were exercised by December 31, 2000. The options granted under the 1995 Stock Option Plan are exercisable 20% each year commencing one year after the date of grant and expire ten years after the date of grant. Pursuant to the adoption of the 2005 Stock Option Plan (see below), there are no remaining shares reserved under the 1995 Stock Option Plan.

In April 2005, the Board approved the adoption of the United Security Bancshares 2005 Stock Option Plan (2005 Plan), subject to the approval of the Shareholders. At the same time, the 1995 Stock Option Plan was terminated and no further options may be granted under the 1995 Plan. The 2005 Plan provides for the granting of up to 250,000 shares of authorized and unissued shares of common stock at option prices per share which must not be less than 100% of the fair market value per share at the time each option is granted. The 2005 Plan further provides that the maximum aggregate number of shares that may be issued as incentive stock options under the 2005 Plan is 250,000. As with the 1995 Stock Option Plan, options granted under the 2005 Stock Option Plan are exercisable 20% each year commencing one year after the date of grant and expire ten years after the date of grant The 2005 Plan was approved by the Company's shareholders at the 2005 Annual Shareholders meeting held on May 18, 2005.

The options granted (ISO's for employees and NQ's for Directors) have an exercise price of the prevailing market on the date of grant under the 1995 or 2005 Stock Option Plans. All previous plans, including the 1995 Plan, have been terminated. The number of shares granted remaining under the 1995 Plan was 86,000 shares (70,000 exercisable) as of December 31, 2005. Under the 2005 Plan, 35,000 shares have been granted (30,000 incentive stock options and 5,000 nonqualified stock options) since the Plan's approval in May 2005.

Options outstanding, exercisable, exercised and forfeited are as follows:

	2005 Plan	Weighted Average Exercise Price	1995 Plan	Weighted Average Exercise Price
Options outstanding January 1, 2003	—	—	211,800	$ 11.62
Exercised during the year	—	—	(123,800)	$ 10.45
Canceled or expired during the year	—	—	(5,000)	$ 17.50
Options outstanding December 31, 2003	—	—	83,000	$ 13.01
Exercised during the year	—	—	30,000	$ 24.63
Canceled or expired during the year	—	—	(5,000)	$ 17.20
Options outstanding December 31, 2004	0	—	108,000	$ 16.05
Granted during the year	35,000	$ 28.36	15,000	$ 24.33
Exercised during the year	0	—	(6,000)	$ 19.72
Canceled or expired	0	—	(31,000)	$ 24.40
Options outstanding December 31, 2005	35,000	$ 28.36	86,000	$ 14.22

Included in total outstanding options at December 31, 2005, are 70,000 exercisable shares under the 1995 plan, at a weighted average price of $12.31. There are no shares exercisable under the 2005 Plan at December 31, 2005. Included in total outstanding options at December 31, 2004, are 73,000 exercisable shares under the 1995 plan, at a weighted average price of $13.01.

Additional information regarding options as of December 31, 2005 is as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	**Number Outstanding**	**Weighted Avg Remaining Contract Life (yrs)**	**Weighted Avg Exercise Price**	**Number Exercisable**	**Weighted Avg Exercise Price**
$11.33	60,000	1.6	$ 11.33	60,000	$ 11.33
$17.00 to $17.50	13,000	5.1	$ 17.46	9,000	$ 17.44
$24.16 to $28.87	48,000	9.5	$ 27.26	1,000	$ 24.41
Total	121,000			70,000	

As discussed in Note 1, the Company continues to account for its stock-based awards using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and its related interpretations. Accordingly, no compensation expense has been recognized in the financial statements for employee stock arrangements.

Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure an amendment of FASB Statement No. 123", requires the disclosure of pro forma net income and earnings per share. Under SFAS 148, the fair value of stock-based awards to employees is calculated through the use of option pricing models, even though such models were developed to estimate fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The Company's calculations were made using the Black-Scholes option pricing model with the following weighted average assumptions for expected life: 49 months following vesting for 2005, 46 months following vesting for 2004, 60 months following vesting for 2001, 24 months following vesting for 2000, 77 months following vesting for 1997, and 64 months following vesting for 1996 and 1995. Assumptions for stock volatility were 21.3% in 2005, 21.5% in 2004, 12.41% in 2001 and 2000, 15.88% in 1997, 7.08% in 1996 and 6.59% in 1995. Risk free interest rates used were 5.2% in 2005, 3.6% in 2004, 5.1% in 2001, 6.0% in 2000, 6.2% in 1997, 6.9% in 1996 and 6.4% in 1995. Expected dividends range from 1.7% to 3.8% during the expected term of the options. See Note 1 for pro forma net income calculations pursuant to SFAS No. 148.

The Company will adopt the requirements of SFAS No. 123R using the modified-prospective method during the first quarter of 2006. SFAS No. 123R will require the Company to recognize as compensation expense, the fair value of stock options granted to employees and Directors of the Company beginning with the effective date (a) based on the requirements of Statement 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of Statement 123(R) that remain unvested on the effective date. Exclusive of options that can still be issued, the estimated additional pretax compensation expense to be recognized during 2006 is approximately $103,000.

11. *Employee Benefit Plans*

Employee Stock Ownership Plan

The Company has an Employee Stock Ownership Plan and Trust, (the "ESOP"), designed to enable eligible employees to acquire shares of common stock. ESOP eligibility is based upon length of service requirements. The Bank contributes cash to the ESOP in an amount determined at the discretion of the Board of Directors. The trustee of the ESOP uses such contribution to purchase shares of common stock currently outstanding, or to repay debt on the leveraged portion of the ESOP. The shares of stock purchased by the trustee are allocated to the accounts of the employees participating in the ESOP on the basis of total relative compensation. Employer contributions vest over a period of six years.

During June of 2000, the Company's Employee Stock Ownership Plan ("ESOP") established an unsecured five-year variable-rate line of credit ("the loan") in the amount of $1.0 million for the purpose of purchasing common stock of the Company. The loan was with a correspondent bank and was guaranteed by the plan's sponsor, United Security Bancshares. The loan matured and final payment was made during the first quarter of 2005. Concurrent with the loan payoff, the final 3,846 shares remaining unallocated leveraged ESOP shares, with an average cost of $17.33 per share, were committed to be released. There are no further commitments on the line of credit.

The ESOP used the proceeds of the loan to acquire shares of the Company's common stock, which were held in a suspense account by the ESOP. At the end of each year, shares were released for allocation to the accounts of the individual ESOP participants in proportion to the principal and interest paid on the loan during the year. The ESOP loan was recorded as a liability of the Company and the unreleased shares purchased with the loan were reported as unearned ESOP shares in shareholders' equity. Unreleased shares were not recognized as outstanding for earnings per share and capital computations. Dividends on unallocated ESOP shares were used to pay debt service on the ESOP loan and, as such, were recorded as a reduction of debt and accrued interest. Dividends on unallocated ESOP shares used to pay debt service on the ESOP loan amounted to $3,000, $14,000, and $22,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

ESOP compensation expense totaled $467,000, $328,000, and $282,000 for the years ended December 31, 2005, 2004 and 2003, respectively. Interest expense incurred on the ESOP loan totaled $408, $11,000, and $26,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

Allocated, committed-to-be-released, and unallocated ESOP shares as of December 31, 2005, 2004 and 2003 were as follows:

	2005	**2004**	**2003**
Allocated	174,782	143,491	128,307
Committed-to-be-released	3,846	14,229	16,692
Unallocated	0	3,846	18,075
Total ESOP shares	178,628	161,566	163,074
Fair value of unreleased shares	N/A	$ 98,035	$ 493,086

401K Plan

The Company has a Cash or Deferred 401(k) Stock Ownership Plan (the "401(k) Plan") organized under Section 401(k) of the Code. All employees of the Company are initially eligible to participate in the 401(k) Plan upon the first day of the month after date of hire. Under the terms of the plan, the participants may elect to make contributions to the 401(k) Plan as determined by the Board of Directors. Participants are automatically vested 100% in all employee contributions. Participants may direct the investment of their contributions to the 401(k) Plan in any of several authorized investment vehicles. The Company contributes funds to the Plan up to 5% of the employees' eligible annual compensation. Company contributions are subject to certain vesting requirements over a period of six years. Contributions made by the Company are invested in Company stock. During 2005, 2004 and 2003, the Company contributed a total of $214,000, $191,000, and $170,000, respectively, to the Deferral Plan.

Salary Continuation Plan

The Company has established a non-qualified Salary Continuation Plan for five of the Company's key employees, which provides additional compensation benefits upon retirement for a period of 15 years. Future compensation under the Plan is earned by the employees for services rendered through retirement and vests over a period of 12 years. The Company accrues for the salary continuation liability based on anticipated years of service and vesting schedules provided under the Plan. The Company's current benefit liability is determined based upon vesting and the present value of the benefits at a corresponding discount rate. The discount rate used is an equivalent rate for investment-grade bonds with lives matching those of the service periods remaining for the salary continuation contracts, which averages approximately 20 years. At December 31, 2005 and 2004, $2.0 million and $1.7 million, respectively, had been accrued to date, based on a discounted cash flow using a discount rate of 6.39% and 6.15%, respectively, and is included in other liabilities. In connection with the implementation of the Salary Continuation Plans, the Company purchased single premium universal life insurance policies on the life of each of the key employees covered under the Plan. The Company is the owner and beneficiary of these insurance policies. The cash surrender value of the policies was $3.4 million at both December 31, 2005 and 2004. The assets of the Plan, under Internal Revenue Service regulations, are the property of the Company and are available to satisfy the Company's general creditors**.**

Officer Supplemental Life Insurance Plan

During 2004, the Company purchased single premium Bank-owned life insurance policies (BOLI) on certain officers with a portion of the death benefits available to the officers' beneficiaries. The single premium paid at policy commencement of the BOLI in 2004 totaled $9.0 million. Additional BOLI policies totaling $579,000 were purchased during 2005. The BOLI's initial net cash surrender value is equivalent to the premium paid, and it adds income through non-taxable increases in its cash surrender value, net of the cost of insurance, plus any death benefits ultimately received by the Company. The cash surrender value of these insurance policies totaled $10.1 million at December 31, 2005, and $9.2 million at December 31, 2004, and is included on the consolidated balance sheet in cash surrender value of life insurance. Income on these policies, net of expense, totaled approximately $353,000 for the year ended December 31, 2005.

12. *Commitments and Contingent Liabilities*

Lease Commitments: The Company leases land and premises for its branch banking offices and administration facilities. The initial terms of these leases expire at various dates through 2015. Under the provisions of most of these leases, the Company has the option to extend the leases beyond their original terms at rental rates adjusted for changes reported in certain economic indices or as reflected by market conditions. The total expense on land and premises leased under operating leases was $455,000, $471,000, and $275,000 during 2005, 2004, and 2003, respectively.

Future minimum rental commitments under existing leases as of December 31, 2005 are as follows:

(In thousands):		
2006	$	209
2007		209
2008		209
2009		209
2010		225
Thereafter		1,535
	$	2,596

Financial Instruments with Off-Balance Sheet Risk: The Company is party to financial instruments with off-balance sheet risk which arise in the normal course of business. These instruments may contain elements of credit risk, interest rate risk and liquidity risk, and include commitments to extend credit and standby letters of credit. The credit risk associated with these instruments is essentially the same as that involved in extending credit to customers and is represented by the contractual amount indicated in the table below:

	Contractual amount – December 31,			
(in thousands)		**2005**		**2004**
Commitments to extend credit	$	192,269	$	179,633
Standby letters of credit		5,506		3,405

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. Substantially all of these commitments are at floating interest rates based on the Prime rate, and most have fixed expiration dates. The Company evaluates each customer's creditworthiness on a case-by-case basis, and the amount of collateral obtained, if deemed necessary, is based on management's credit evaluation. Collateral held varies but includes accounts receivable, inventory, leases, property, plant and equipment, residential real estate and income-producing properties. Many of the commitments are expected to expire without being drawn upon and, as a result, the total commitment amounts do not necessarily represent future cash requirements of the Company.

Standby letters of credit are generally unsecured and are issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company's letters of credit a short-term guarantees and have terms from less than one month to approximately 2.5 years. At December 31, 2005, the maximum potential amount of future undiscounted payments the Company could be required to make under outstanding standby letters of credit totaled $5.5 million.

13. *Financial Instruments Fair Value Disclosure*

The following summary disclosures are made in accordance with the provisions of Statement of Financial Accounting Standards No. 107, “Disclosures About Fair Value of Financial Instruments,” which requires the disclosure of fair value information about both on- and off- balance sheet financial instruments where it is practicable to estimate that value. Fair value is defined in SFAS No. 107 as the amount at which an instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. It is not the Company’s intent to enter into such exchanges.

In cases where quoted market prices were not available, fair values were estimated using present value or other valuation methods, as described below. The use of different assumptions (e.g., discount rates and cash flow estimates) and estimation methods could have a significant effect on fair value amounts. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. Because SFAS No. 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements, any aggregation of the fair value amounts presented would not represent the underlying value of the Company.

	December 31, 2005		December 31, 2004	
(In thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash and cash equivalents	$ 63,030	$ 63,030	$ 56,406	$ 56,406
Interest-bearing deposits	7,656	7,472	7,429	7,550
Investment securities	95,236	95,236	112,250	112,250
Loans, net	417,157	411,461	397,585	395,852
Interest rate swap contracts	(937)	(937)	(289)	(289)
Financial Liabilities:				
Deposits	546,460	537,598	536,672	537,085
Borrowings	0	0	75	75
Junior Subordinated Debt	15,464	15,464	15,464	15,464
Commitments to extend credit	—	—	—	—

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

Cash and Cash Equivalents - The carrying amounts reported in the balance sheets for cash and cash equivalents approximate their estimated fair values.

Interest-bearing Deposits – Interest bearing deposits in other banks consist of fixed-rate certificates of deposits. Accordingly, fair value has been estimated based upon interest rates currently being offered on deposits with similar characteristics and maturities.

Investments - Fair values for investment securities, including collateralized mortgage obligations, are based on quoted market prices.

Loans - Fair values of variable rate loans, which reprice frequently and with no significant change in credit risk, are based on carrying values. Fair values for all other loans are estimated using discounted cash flows over their remaining maturities, using interest rates at which similar loans would currently be offered to borrowers with similar credit ratings and for the same remaining maturities.

Interest Rate Swaps - The Company records interest rate swap contracts at fair value on the balance sheet. The fair value of interest rate swap contracts is based on the discounted net present value of the swap using third party dealer quotes.

Deposits – In accordance with SFAS No. 107, fair values for transaction and savings accounts are equal to the respective amounts payable on demand at December 31, 2005 and 2004 (i.e., carrying amounts). The Company believes that the fair value of these deposits is clearly greater than that prescribed by SFAS No. 107. Fair values of fixed-maturity certificates of deposit were estimated using the rates currently offered for deposits with similar remaining maturities.

Borrowings - Borrowings consist of federal funds sold, securities sold under agreements to repurchase, and other short-term borrowings. Fair values of borrowings were estimated using the rates currently offered for borrowings with similar remaining maturities.

Junior Subordinated Debt – Junior subordinated debt re-prices semiannually. Consequently, fair values were estimated using the rates currently offered for borrowings with similar remaining repricing characteristics.

Off-balance sheet Instruments - Off-balance sheet instruments consist of commitments to extend credit, credit card arrangements, standby letters of credit and derivative contracts. The contract amounts of commitments to extend credit and standby letters of credit are disclosed in Note 12. Fair values of commitments to extend credit are estimated using the interest rate currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present counterparties' credit standing. There was no material difference between the contractual amount and the estimated value of commitments to extend credit at December 31, 2005 and 2004.

Fair values of standby letters of credit are based on fees currently charged for similar agreements. At December 31, 2002, these commitments were not reflected on the consolidated balance sheet. As discussed in Note 1 to the 2003 consolidated financial statements, FIN 45 became effective for all guarantees issued or modified subsequent to December 31, 2002, and required the fair value of such commitments be recorded after that date. The fair value of commitments generally approximates the fees received from the customer for issuing such commitments. These fees are deferred and recognized over the term of the commitment, and are not material to the Company's consolidated balance sheet.

14. Regulatory Matters

Capital Guidelines **-** The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements adopted by the Board of Governors of the Federal Reserve System ("Board of Governors"). Failure to meet minimum capital requirements can initiate certain mandates and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the consolidated Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require insured institutions to maintain a minimum leverage ratio of Tier 1 capital (the sum of common stockholders' equity, noncumulative perpetual preferred stock and minority interests in consolidated subsidiaries, minus intangible assets, identified losses and investments in certain subsidiaries, plus unrealized losses or minus unrealized gains on available for sale securities) to total assets. Institutions which have received the highest composite regulatory rating and which are not experiencing or anticipating significant growth are required to maintain a minimum leverage capital ratio of 3% of Tier 1 capital to total assets. All other institutions are required to maintain a minimum leverage capital ratio of at least 100 to 200 basis points above the 3% minimum requirement.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(In thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2005 (Company):						
Total Capital (to Risk Weighted Assets)	$ 75,966	14.07%	$ 43,186	8.00%	$ 53,983	10.00%
Tier 1 Capital (to Risk Weighted Assets)	69,652	12.90%	21,593	4.00%	32,390	6.00%
Tier 1 Capital (to Average Assets)	69,652	10.91%	19,152	3.00%	31,920	5.00%
As of December 31, 2005 (Bank):						
Total Capital (to Risk Weighted Assets)	$ 74,014	13.74%	$ 43,093	8.00%	$ 53,867	10.00%
Tier 1 Capital (to Risk Weighted Assets)	67,700	12.57%	21,547	4.00%	32,320	6.00%
Tier 1 Capital (to Average Assets)	67,700	10.61%	19,135	3.00%	31,892	5.00%
As of December 31, 2004 - (Company):						
Total Capital (to Risk Weighted Assets)	$ 68,473	13.42%	$ 40,817	8.00%	$ 51,021	10.00%
Tier 1 Capital (to Risk Weighted Assets)	62,691	12.29%	20,408	4.00%	30,613	6.00%
Tier 1 Capital (to Average Assets)	62,691	10.52%	17,878	3.00%	29,797	5.00%
As of December 31, 2004 – (Bank):						
Total Capital (to Risk Weighted Assets)	$ 65,843	12.96%	$ 40,636	8.00%	$ 50,795	10.00%
Tier 1 Capital (to Risk Weighted Assets)	60,061	11.82%	20,318	4.00%	30,477	6.00%
Tier 1 Capital (to Average Assets)	60,061	10.09%	17,861	3.00%	29,769	5.00%

The Board of Governors has also adopted a statement of policy, supplementing its leverage capital ratio requirements, which provides definitions of qualifying total capital (consisting of Tier 1 capital and supplementary capital, including the allowance for loan losses up to a maximum of 1.25% of risk-weighted assets) and sets forth minimum risk-based capital ratios of capital to risk-weighted assets. Insured institutions are required to maintain a ratio of qualifying total capital to risk weighted assets of 8%, at least one-half of which must be in the form of Tier 1 capital. Management believes, as of December 31, 2005, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2005 and 2004, the most recent notifications from the Bank's regulators categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total capital and Tier 1 capital (as defined) to risk-based assets (as defined), and a minimum leverage ratio of Tier 1 capital to average assets (as defined) as set forth in the proceeding discussion. There are no conditions or events since the notification that management believes have changed the institution's category.

Under regulatory guidelines, the $15 million in Trust Preferred Securities issued in July of 2001 qualifies as Tier 1 capital up to 25% of Tier 1 capital. Any additional portion of Trust Preferred Securities qualifies as Tier 2 capital.

Dividends - Subsequent to the Reorganization on June 12, 2001, dividends paid to shareholders will be paid by the bank holding company, subject to restrictions set forth in the California General Corporation Law. The primary source of funds with which dividends will be paid to shareholders will come from cash dividends received by the Company from the Bank. Year-to-date as of December 31, 2005, the Company received $5.0 million in cash dividends from the Bank, from which the Company has declared $4.2 million in dividends to shareholders.

Under California state banking law, the Bank may not pay cash dividends in an amount which exceeds the lesser of the retained earnings of the Bank or the Bank's net income for the last three fiscal years (less the amount of distributions to shareholders during that period of time). If the above test is not met, cash dividends may only be paid with the prior approval of the California State Department of Financial Institutions, in an amount not exceeding the greater of: (i) the Bank's retained earnings; (ii) its net income for the last fiscal year; or (iii) its net income for the current fiscal year. As of December 31, 2005, approximately $14.7 million was available to the Bank for cash dividend distributions without prior approval. Year-to-date, the Bank has paid dividends of $5.0 million to the Company.

Cash Restrictions - The Bank is required to maintain average reserve balances with the Federal Reserve Bank. During 2005, the Company implemented a deposit reclassification program, which allows the Company to reclassify a portion of transaction accounts to non-transaction accounts for reserve purposes. The deposit reclassification program was provided by a third-party vendor, and has been approved by the Federal Reserve Bank. At December 31, 2005 and 2004, the Bank's qualifying balance with the Federal Reserve Bank was $25,000 and $11.1 million, respectively, consisting of vault cash and balances.

15. *Supplemental Cash Flow Disclosures*

(In thousands)	Years Ended December 31, 2005	2004	2003
Cash paid during the period for:			
Interest	$ 8,949	$ 6,075	$ 7,663
Income Taxes	5,689	7,090	4,019
Noncash investing activities:			
Loans transferred to foreclosed property	4,311	0	1,554
Dividends declared not paid	1,135	910	802
Supplemental disclosures related to acquisitions:			
Deposits	—	$ 48,249	—
Other liabilities	—	454	—
Interest-bearing deposits in other banks	—	(1,192)	—
Securities available for sale	—	(9,227)	—
Loans, net of allowance for loan loss	—	(23,250)	—
Premises and equipment	—	(1,588)	—
Intangibles	—	(2,611)	—
Accrued interest and other assets	—	(1,703)	—
Stock issued	—	6,251	—
Net cash and equivalents acquired	—	$ 15,383	—

16. *Net Income Per Share*

The following table provides a reconciliation of the numerator and the denominator of the basic EPS computation with the numerator and the denominator of the diluted EPS computation:

(In thousands, except earnings per share data)	Years Ended December 31, 2005	2004	2003
Net income available to common shareholders	$ 11,008	$ 8,405	$ 7,706
Weighted average shares issued	5,685	5,641	5,487
Less: unearned ESOP shares	0	(11)	(27)
Weighted average shares outstanding	5,685	5,630	5,460
Add: dilutive effect of stock options	42	37	52
Weighted average shares outstanding adjusted for potential dilution	5,727	5,667	5,512
Basic earnings per share	$ 1.94	$ 1.49	$ 1.41
Diluted earnings per share	$ 1.92	$ 1.48	$ 1.40

17. *Other Comprehensive Income*

The following table provides a reconciliation of the amounts included in comprehensive income:

(In thousands)	Years Ended December 31 2005	2004	2003
Unrealized (loss) gain on available-for-sale securities:			
Unrealized (loss) gain on sale securities – net income tax (benefit) of $(644), $(470), and $(415)	$ (966)	$ (705)	$ (623)
Less: Reclassification adjustment for loss (gain) on sale of available-for-sale securities included in net income - net income tax (benefit) of $65, $14, and $(23)	(98)	(21)	35
Net unrealized (loss) gain on available-for-sale securities - net income tax (benefit) of $(709), $(484), and $(392)	$ (1,064)	$ (726)	$ (588)
Unrealized loss on interest rate swaps:			
Unrealized losses arising during period – net income tax benefit of $24 and $201	$ (36)	$ (76)	$ (301)
Less: reclassification adjustments to interest income	246	(125)	(123)
Net change in unrealized loss on interest rate swaps - net of income tax benefit $24 and $201	$ 210	$ (201)	$ (424)

18. Derivative Financial Instruments and Hedging Activities

As part of its overall risk management, the Company pursues various asset and liability management strategies, which may include obtaining derivative financial instruments to mitigate the impact of interest fluctuations on the Company's net interest margin. During the second quarter of 2003, the Company entered into an interest rate swap agreement with the purpose of minimizing interest rate fluctuations on its interest rate margin and equity.

Under the interest rate swap agreement, the Company receives a fixed rate and pays a variable rate based on the Prime Rate ("Prime"). The swap qualifies as a cash flow hedge under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, and is designated as a hedge of the variability of cash flows the Company receives from certain variable-rate loans indexed to Prime. In accordance with SFAS No. 133, the swap agreement is measured at fair value and reported as an asset or liability on the consolidated balance sheet. The portion of the change in the fair value of the swap that is deemed effective in hedging the cash flows of the designated assets are recorded in accumulated other comprehensive income and reclassified into interest income when such cash flow occurs in the future. Any ineffectiveness resulting from the hedge is recorded as a gain or loss in the consolidated statement of income as part of noninterest income.

At December 31, 2005 and 2004, the information pertaining to the outstanding interest rate swap is as follows:

(000's in millions)	**December 31, 2005**	**December 31, 2004**
Notional amount	$ 17,113	$ 20,118
Weighted average pay rate	6.19%	4.34%
Weighted average receive rate	4.88%	4.88%
Weighted average maturity in years	2.0	3.0
Unrealized loss relating to interest rate swaps	$ 692	$ 878

The amortizing hedge has a remaining notional value of $17.1 million and a duration of approximately 18 months. As of December 31, 2005, the maximum length of time over which the Company is hedging its exposure to the variability of future cash flows is approximately 2.8 years. As of December 31, 2005, the loss amounts in accumulated other comprehensive income associated with these cash flows totaled $416,000 (net of tax benefit of $276,000). During the year ended December 31, 2005, $245,000 was reclassified from other accumulated comprehensive income as a reduction to interest income. As of December 31, 2005, the amounts in accumulated OCI associated with these cash flows that are expected to be reclassified into interest expense within the next 12 months total $140,000.

19. Investment in Title Company

During August 2001, the Company purchased an equity ownership interest of $1.5 million in Diversified Holding Corporation (DHC). At December 31, 2004, the Company's ownership percentage of DHC was 13.8%. For financial reporting purposes, the equity investment is included in *other assets* in the consolidated balance sheets, and as *investment in nonbank entity* in the parent-only balance sheets.

During the early part of 2005, DHC sought restructuring options in an effort to remain a viable entity. DHC had experienced operating losses during 2004 primarily as the result of a significant decrease in mortgage loan refinancing business due to real estate price increases and rising interest rates. During February 2005, the Company provided DHC with a short-term working capital loan of $600,000 to cover potential cash-flow shortfalls as DHC initiated plans to restructure and return to profitability. The $600,000 loan to DHC was subsequently repaid during July 2005.

During April 2005 additional information was obtained on the status of DHC's operations. DHC continued to experience operating losses, and efforts to restructure, recapitalize, or sell the business had not been successful. The Company's management assessed the anticipated cash-flows of DHC and the ultimate ability to collect the Company's equity investment in DHC. At that time, management believed that it was reasonably possible that a loss would ultimately be incurred. Based upon management's estimate of the most likely amount of the potential loss at that time, the Company recorded a write-down of its equity investment in DHC of approximately $662,000 during the second quarter of 2005, and an additional write-down of $40,000 during the fourth quarter of 2005. The write-down is included in noninterest expense.

During July of 2005, DHC concluded a transaction with Transunion Corporation whereby Transunion would purchase DHC and DHC would cease to exist. A new shell corporation was formed to pay off the existing debts as monies are received from Transunion. During December 2005, the Company sold approximately 65% of its investment in Diversified Holdings Corp (1,183593 of 1,825,443 total shares) leaving a net carrying value of $271,000 at December 31, 2005. Based upon review of the investment at December 31, 2005, management believes the remaining carrying amount of the investment in DHC is fairly valued.

20. Common Stock Repurchase Plan

During August 2001, the Company's Board of Directors approved a plan to repurchase, as conditions warrant, up to 280,000 shares of the Company's common stock on the open market or in privately negotiated transactions. The duration of the program is open-ended and the timing of the purchases will depend on market conditions. During the years ended December 31, 2003 and 2002, the Company repurchased 34,961 and 64,676 for a total of $691,000 and $1.1 million, respectively. The repurchased shares were subsequently retired.

On February 25, 2004, the Company announced another stock repurchase plan under which the Board of Directors approved a plan to repurchase, as conditions warrant, up to 276,500 shares of the Company's common stock on the open market or in privately negotiated transactions. As with the first plan, the duration of the new program is open-ended and the timing of purchases will depend on market conditions. Concurrent with the approval of the new repurchase plan, the Board terminated the 2001 repurchase plan. During the year ended December 31, 2005, 13,081 shares were repurchased at a total cost of $377,000 and an average price per share of $28.92.

21. Business Combination

Effective April 23, 2004, the Company acquired all of the outstanding common stock of Taft National Bank ("Taft") headquartered in Taft California, in an acquisition accounted for under the purchase method of accounting. The results of operations for the acquisition are included in the consolidated financial statements since that date. Taft's two branches in Taft and Bakersfield will operate as branches of United Security Bank. The acquisition of Taft was the result of the Company's ongoing effort to expand operations in high growth regions of Central California.

The recorded purchase price of Taft's net assets was approximately $6.3 million, which included the issuance of 241,447 shares of the Company's Common Stock valued at just over approximately $6.0 million, and direct merger-related costs of approximately $211,000. For purposes of recording the purchase, the value of the 241,447 common shares issued was determined based on the $25.00 closing market price for the Company's common stock on April 20, 2004. Fractional shares were paid in cash totaling approximately $3,000. The transaction resulted in core deposit intangibles of approximately $1.9 million and goodwill of approximately $750,000.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed by the Company at the date of acquisition:

Assets:		
Cash	$	5,383
Federal funds sold		10,000
Interest-bearing deposits in other banks		1,192
Securities available for sale		9,227
Loans, net of allowance for loan loss		23,250
Premises and equipment		1,588
Core deposit intangibles		1,861
Goodwill		750
Accrued interest and other assets		1,703
Total Assets		54,954
Liabilities:		
Deposits:		
Noninterest-bearing	$	20,992
Interest-bearing		27,257
Total deposits		48,249
Accrued interest payable and other liabilities		454
Total Liabilities		48,703
Net Assets	$	6,251

The business combination with Taft National Bank resulted in goodwill of $750,000 and core deposit intangibles of $1.9 million. Pursuant to SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill will no longer be amortized. Instead, goodwill will be tested for impairment on an annual basis, and any identified impairment will be charged to earnings during that period. Under SFAS No. 142, amortization of identifiable intangible assets, including core deposit intangibles, will continue over their determinable useful lives. The core deposit intangible asset arising from the Taft acquisition will be amortized over a period of approximately 10 years.

22. *Parent Company Only Financial Statements*

The following are the condensed financial statements of United Security Bancshares and should be read in conjunction with the consolidated financial statements:

United Security Bancshares – (parent only) **Balance Sheet - December 31, 2005 and 2004** ***(In thousands)***	**2005**	**2004**
Assets		
Cash and equivalents	$ 2,640	$ 1,951
Investment in bank subsidiary	72,061	65,606
Investment in nonbank entity	271	1,500
Other assets	889	907
Total assets	$ 75,861	$ 69,964
Liabilities & Shareholders' Equity		
Liabilities:		
Junior subordinated debt securities	$ 15,464	$ 15,464
Accrued interest payable	508	380
Other liabilities	875	884
Total liabilities	16,847	16,728
Shareholders' Equity:		
Common stock, no par value 10,000,000 shares authorized, 5,680,559 and 5,683,794 issued and outstanding, in 2005 and 2004	22,084	22,322
Retained earnings	38,682	31,879
Unearned ESOP shares	0	(67)
Accumulated other comprehensive income	(1,752)	(898)
Total shareholders' equity	59,014	53,236
Total liabilities and shareholders' equity	$ 75,861	$ 69,964

United Security Bancshares – (parent only) **Income Statement** ***(In thousands)***	**Years Ended December 31,** **2005**	 **2004**
Income		
Dividends from subsidiaries	$ 5,012	$ 6,500
Other income	20	0
Total income	5,032	6,500
Expense		
Interest expense	1,091	821
Other expense	1,033	288
Total expense	2,124	1,109
Income before taxes and equity in undistributed income of subsidiary	2,908	5,391
Income tax benefit	(866)	(452)
Equity in undistributed income of subsidiary	7,234	2,562
Net Income	$ 11,008	$ 8,405

United Security Bancshares – (parent only) Statement of Cash Flows *(In thousands)*	Years Ended December 31, 2005	2004
Cash Flows From Operating Activities		
Net income	$ 11,008	$ 8,405
Adjustments to reconcile net earnings to cash provided by operating activities:		
Equity in undistributed income of subsidiaries	(7,234)	(2,562)
Write-down of other investments	702	0
Amortization of issuance costs	17	17
Net change in other liabilities	(92)	60
Net cash provided by operating activities	4,401	5,920
Cash Flows From Investing Activities		
Proceeds from sale of investment in title company	527	0
Net cash provided by investing activities	527	0
Cash Flows From Financing Activities		
Proceeds from stock options exercised	118	86
Repurchase and retirement of common stock	(377)	(2,058)
Payment of dividends on common stock	(3,980)	(3,510)
Net cash used in by financing activities	(4,239)	(5,482)
Net increase in cash and cash equivalents	689	438
Cash and cash equivalents at beginning of period	1,951	1,513
Cash and cash equivalents at end of period	$ 2,640	$ 1,951
Supplemental cash flow disclosures		
Noncash financing activities:		
Dividends declared not paid	$ 1,135	$ 910

23. Quarterly Financial Data (unaudited)

Selected quarterly financial data for the years ended December 31, 2005 and 2004 are presented below:

(In thousands except per share data)	2005 4th	2005 3rd	2005 2nd	2005 1st	2004 4th	2004 3rd	2004 2nd	2004 1st
Interest income	$ 10,376	$ 9,955	$ 9,430	$ 9,137	$ 8,546	$ 8,188	$ 7,574	$ 6,566
Interest expense	2,713	2,686	2,302	1,957	1,807	1,616	1,554	1,456
Net interest income	7,663	7,269	7,128	7,180	6,739	6,572	6,020	5,110
Provision for credit losses	250	392	247	251	256	249	397	243
gain (loss) on sale of securities	163	0	0	0	0	(9)	7	37
Other noninterest income	1,578	1,531	1,712	1,296	1,197	1,240	1,203	1,067
Noninterest expense	4,388	4,064	4,514	4,016	4,191	3,739	3,540	3,197
Income before income tax expense	4,766	4,344	4,079	4,209	3,489	3,815	3,293	2,774
Income tax expense	1,737	1,618	1,490	1,545	1,235	1,433	1,221	1,077
Net income	$ 3,029	$ 2,726	$ 2,589	$ 2,664	$ 2,254	$ 2,382	$ 2,072	$ 1,697
Net income per share:								
Basic	$ 0.53	$ 0.48	$ 0.46	$ 0.47	$ 0.40	$ 0.42	$ 0.37	$ 0.31
Diluted	$ 0.53	$ 0.48	$ 0.45	$ 0.47	$ 0.39	$ 0.42	$ 0.36	$ 0.31
Dividends declared per share	$ 0.20	$ 0.18	$ 0.18	$ 0.18	$ 0.16	$ 0.16	$ 0.16	$ 0.16
Average shares outstanding								
For net income per share:								
Basic	5,684	5,685	5,685	5,686	5,682	5,686	5,653	5,512
Diluted	5,733	5,728	5,722	5,722	5,720	5,720	5,691	5,554

Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures:

a) As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in the Securities and Exchange Act Rule 13(a)-15(e). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective on a timely manner to alert them to material information relating to the Company which is required to be included in the Company's periodic Securities and Exchange Commission filings.

(b) Changes in Internal Controls over Financial Reporting: During the quarter ended December 31, 2005, the Company did not make any significant changes in, nor take any corrective actions regarding, its internal controls over financial reporting or other factors that could significantly affect these controls.

The Corporation does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent all error and fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns in controls or procedures can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

Management Report on Internal Control over Financial Reporting:

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of United Security Bancshares and Subsidiaries (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2005. The Company's internal control over financial reporting is a process designed under the supervision of the Company's management, including the Chief Executive Officer and Chief Financial Officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

The Company's system of internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the Company are being made only in accordance with authorizations of Management and Directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management recognizes that there are inherent limitations in the effectiveness of any system of internal control, and accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation and fair presentation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company performed an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 based upon criteria in *Internal Control — Integrated Frame*work issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, Management determined that the Company's internal control over financial reporting was effective as of December 31, 2005.

The Company's independent registered public accounting firm, Moss Adams LLP who audits the Company's consolidated financial statements, have issued an attestation report on Management's assessment and on the effectiveness of the Company's internal control over financial reporting. This report is included below.

Dated March 15, 2006

Item 9B. Other Information

None

PART III

Item 10 - Directors and Executive Officers of the Registrant

Pursuant to Instruction G, the information required by this item is hereby incorporated herein by reference from the caption entitled "Information on Directors and Executive Officers" set forth in the Company's definitive Proxy Statement for its 2006 Annual Meeting of Shareholders ("Proxy Statement").

Item 11 - Executive Compensation

Pursuant to Instruction G, the information required by this item is hereby incorporated herein by reference from the caption entitled "Compensation of Directors and Executive Officers" set forth in the Company's definitive Proxy Statement for its 2006 Annual Meeting of Shareholders ("Proxy Statement").

Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Pursuant to Instruction G, the information required by this item is hereby incorporated herein by reference from the caption entitled "Shareholdings of Certain Beneficial Owners and Management" set forth in the Company's definitive Proxy Statement for its 2006 Annual Meeting of Shareholders ("Proxy Statement").

Item 13 - Certain Relationships and Related Transactions

Pursuant to Instruction G, the information required by this item is hereby incorporated herein by reference from the caption entitled "Certain Related Parties and Related Party Transactions" set forth in the Company's definitive Proxy Statement for its 2006 Annual Meeting of Shareholders ("Proxy Statement").

Item 14. Principal Accounting Fees and Services

Pursuant to Instruction G, the information required by this item is hereby incorporated herein by reference from the caption entitled "Principal Accounting Fees and Services" set forth in the Company's definitive Proxy Statement for its 2006 Annual Meeting of Shareholders ("Proxy Statement").

PART IV

Item 15 – Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

See Financial Statements beginning on page 50 of this report.

(a)(2) Financial Statement Schedules

All financial statement schedules are omitted because they are not applicable or not required or because the information is included in the financial statements or notes thereto or is not material.

(a)(3) Exhibits

3.1	Articles of Incorporation of Registrant (1)
3.2	Bylaws of Registrant (1)
4.1	Specimen common stock certificate of United Security Bancshares (1)
10.1	Executive Salary Continuation Agreement for Dennis Woods (1)
10.2	Change in Control Agreement for Dennis Woods (1)
10.3	Executive Salary Continuation Agreement for Kenneth Donahue (1)
10.4	Change in Control Agreement for Kenneth Donahue (1)
10.5	Executive Salary Continuation Agreement for David Eytcheson (1)
10.6	Change in Control Agreement for David Eytcheson (1)
10.7	Executive Salary Continuation Agreement for Rhodlee Braa (1)
10.8	Change in Control Agreement for Rhodlee Braa (1)
10.9	Stock Option Agreement for Dennis Woods dated June 16, 1996 (1)
10.10	Stock Option Agreement for Dennis Woods dated July 21, 1997 (1)
10.11	Stock Option Agreement for Kenneth Donahue dated July 21, 1997 (1)
10.12	Stock Option Agreement for David Eytcheson dated July 21, 1997 (1)
10.13	Stock Option Agreement for Rhodlee Braa dated October 10, 1995 (1)
10.14	Stock Option Agreement for Rhodlee Braa dated July 21, 1997 (1)
10.15	USB 1995 Stock Option Plan. Filed as Exhibit 10.15 to the Company's Registration Statement on Form S-4 (file number 333-58256) filed April 4, 2001 and incorporated herein by reference.
10.16	Amendment to USB 1995 Stock Option Plan. Filed as Exhibit 99.2 to the Company's Registration Statement on Form S-8 (file number 333-89362) filed May 28, 2002 and incorporated herein by reference.

10.17	Amended and Restated Declaration of Trust for USB Capital Trust I—dated July 16, 2001. Filed as Exhibit 10.1 to the Company's Form 10-Q filed August 14, 2001.
10.18	Indenture Agreement between United Security Bancshares and Bank of New York for Junior Subordinated Securities—dated July 16, 2001. Filed as Exhibit 10.2 to the Company's Form 10-Q filed August 14, 2001.
10.19	USB 2005 Stock Option Plan. Filed as Exhibit B to the Company's 2005 Schedule 14A Definitive Proxy filed April 18, 2005 and incorporated herein by reference.
10.20	Stock Option Agreement for William F. Scarborough dated August 1, 2005
10.21	Executive Salary Continuation Agreement for William F. Scarborough
11.1	Computation of earnings per share.
	See Note 16 to Financial Statements on page 67 of this report
23.1	Consent of Moss Adams LLP, Independent Registered Public Accounting Firm
31.1	Certification of the Chief Executive Officer of United Security Bancshares pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer of United Security Bancshares pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer of United Security Bancshares pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer of United Security Bancshares pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Previously filed on April 4, 2001 as an exhibit to the Company's filing on Form S-4 (file number 333-58256).

(b) Exhibits filed:

See Exhibit Index under Item 15(a)(3) above for the list of exhibits required to be filed by item 601 of regulation S-K with this report.

(c) Financial statement schedules filed:

See Item 15(a)(2) above.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-K for the year ended December 31, 2005 to be signed on its behalf by the undersigned thereunto duly authorized, in Fresno, California, on the 15th day of March, 2006

United Security Bancshares

March 15, 2006	/S/ Dennis R. Woods
	Dennis R. Woods President and Chief Executive Officer
March 15, 2006	/S/ Kenneth L. Donahue
	Kenneth L. Donahue Senior Vice President and Chief Financial Officer
March 15, 2006	/S/ Richard B. Shupe
	Richard B. Shupe Vice President and Controller

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities on the date indicated:

Date: 3/15/2006	/s/ Robert G. Bitter
	Director
Date: 3/15/2006	/s/ Stanley J. Cavalla
	Director
Date: 3/15/2006	/s/ Tom Ellithorpe
	Director
Date: 3/15/2006	/s/ R. Todd Henry
	Director
Date: 3/15/2006	/s/ Ronnie D. Miller
	Director
Date: 3/15/2006	/s/ Robert M. Mochizuki
	Director
Date: 3/15/2006	/s/ Walter Reinhard
	Director
Date: 3/15/2006	/s/ John Terzian
	Director
Date: 3/15/2006	/s/ Mike Woolf
	Director

UNITED SECURITY BANCSHARES

INCENTIVE STOCK OPTION AGREEMENT

This Incentive Stock Option Agreement ("Agreement") is made and entered into as of the **1st** day of **August 2005**, by and between UNITED SECURITY BANCSHARES, a Company holding company (the "Company"), and **William Scarborough** ("Optionee");

WHEREAS, pursuant to the UNITED SECURITY BANCSHARES 2005 Stock Option Plan (the "Plan"), a copy of which is attached hereto, the Stock Option Committee of the Company has authorized granting to Optionee an incentive stock option to purchase all or any part of **Thirty thousand** (**30,000**) authorized but unissued shares of the Company's common stock (hereinafter referred to as "stock") at the price of **Twenty-eight** Dollars and **eighty-seven** Cents ($**28.87**) per share, such option to be for the term and upon the terms and conditions hereinafter stated;

NOW, THEREFORE, it is hereby agreed:

1. Grant of Option. Pursuant to said action of the Stock Option Committee and pursuant to authorizations granted by all appropriate regulatory and governmental agencies, the Company hereby grants to Optionee the option to purchase, upon and subject to the terms and conditions of the Plan, which is incorporated in full herein by this reference, all or any part of **Thirty thousand** (**30,000**) shares of the Company's stock at the price of **Twenty-eight** Dollars and **eighty-seven cents (28.87**) per share, which price is not less than one hundred percent (100%) of the fair market value of the stock (or not less than 110% of the fair market value of the stock for Optionee-shareholders who own securities possessing more than ten percent (10%) of the total combined voting power of all classes of securities of the Company) as of the date of action of the Stock Option Committee granting this option.

2. Exercisability. This option shall be exercisable as to:

One thousand shares (6,000) on or after August 1, 2006,

One thousand shares (6,000) on or after August 1, 2007,

One thousand shares (6,000) on or after August 1, 2008,

One thousand shares (6,000) on or after August 1, 2009,

and One thousand shares ((6,000) on or after August 1, 2010. This option shall remain exercisable as to all vested shares until **August 1**, **2015** (but not later than ten (10) years from the date this option is granted) unless this option has expired or terminated earlier in accordance with the provisions hereof or in the Plan. Subject to paragraphs 4 and 5, shares as to which this option becomes exercisable may be purchased at any time prior to expiration of this option.

3. Exercise of Option. This option may be exercised by a written notice (substantially in the form as that which is attached as Exhibit A) delivered to the Company stating the number of shares with respect to which this option is being exercised, together (a) with cash in the amount of the purchase price of such shares, or (b) subject to applicable law, with the Company's stock previously acquired by Optionee. Notwithstanding the foregoing, in the event Optionee does exercise the option by utilizing (b) above, Optionee should obtain tax advice as to the consequences of such action. Not less than ten (10) shares may be purchased at any one time unless the number purchased is the total number which may be purchased under this option and in no event may the option be exercised with respect to fractional shares. Upon exercise, Optionee shall make appropriate arrangements and shall be responsible for the withholding of any federal and state taxes then due.

4. Cessation of Employment. Except as provided in Paragraphs 2 and 5 hereof, if Optionee shall cease to be an employee of the Company or a subsidiary corporation for any reason other than Optionee's death or disability [as defined in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended from time to time (the "Code")], this option shall expire three (3) months thereafter. During the three (3) month period this option shall be exercisable only as to those installments, if any, which had accrued as of the date when Optionee ceased to be an employee of the Company or a subsidiary corporation.

5. Termination of Employment for Cause. If Optionee's employment with the Company or a subsidiary corporation is terminated for cause, this option shall expire immediately, unless reinstated by the Board of Directors within thirty (30) days of such termination by giving written notice of such reinstatement to Optionee at his or her last known address. In the event of such reinstatement, Optionee may exercise this option only to such extent, for such time, and upon such terms and conditions as if Optionee had ceased to be an employee of the Company or a subsidiary corporation upon the date of such termination for a reason other than cause, death or disability. Termination for cause shall include, but not be limited to, termination for malfeasance or gross misfeasance in the performance of duties or conviction of a crime involving moral turpitude, and, in any event, the determination of the Board of Directors with respect thereto shall be final and conclusive.

6. Nontransferability; Death or Disability of Optionee. This option shall not be transferable except by will or the applicable laws of descent and distribution and shall be exercisable during Optionee's lifetime only by Optionee. If Optionee dies while serving as an employee of the Company or a subsidiary corporation, or during the three (3) month period referred to in Paragraph 4 hereof, this option shall expire one (1) year after the date of termination or on the day specified in Paragraph 2 hereof, whichever is earlier. After Optionee's death but before such expiration, the persons to whom Optionee's rights under this option shall have passed by will or the applicable laws of descent and distribution or the executor or adminis-trator of Optionee's estate shall have the right to exercise this option as to those shares for which installments had accrued under Paragraph 2 hereof as of the date on which Optionee ceased to be an employee of the Company or a subsidiary corporation.

If Optionee terminates his or her employment because of disability, (as defined in Section 22(e)(3) of the Code), Optionee may exercise this option to the extent he or she is entitled to do so at the date of termination, at any time within one (1) year of the date of termination, or before the expiration date specified in Paragraph 2 hereof, whichever is earlier.

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7. Employment. This Agreement shall not obligate the Company or a subsidiary corporation to employ Optionee for any period, nor shall it interfere in any way with the right of the Company or a subsidiary corporation to reduce Optionee's compensation.

8. Privileges of Stock Ownership. Optionee shall have no rights as a shareholder with respect to the Company's stock subject to this option until the date of issuance of stock certificates to Optionee. Except as provided in the Plan, no adjustment will be made for dividends or other rights for which the record date is prior to the date such stock certificates are issued.

9. Modification and Termination. The rights of Optionee are subject to modification and termination upon the occurrence of certain events as provided in Sections 13 and 14 of the Plan.

10. Notification of Sale. Optionee agrees that Optionee, or any person acquiring shares upon exercise of this option, will notify the Company not more than five (5) days after any sale or other disposition of such shares.

11. Representations of Optionee. Optionee understands that no shares issuable upon the exercise of this option shall be issued and delivered unless and until the Company has complied with all applicable requirements of any regulatory agency having jurisdiction over the Company including registration of the stock options and underlying shares, as necessary, and all applicable requirements of any exchange upon which stock of the Company may be listed. Optionee agrees to ascertain that such requirements shall have been complied with at the time of any exercise of this option. In addition, if Optionee is an "affiliate" for purposes of the Securities Act of 1933, there may be additional restrictions on the resale of stock, and Optionee therefore agrees to ascertain what those restrictions are and to abide by the restrictions and other applicable federal securities laws.

Furthermore, the Company may, if it deems appropriate, issue stop transfer instructions against any shares of stock purchased upon the exercise of this option and affix to any certificate representing such shares the legends which the Company deems appropriate.

Optionee represents that the Company, its directors, officers, employees and agents have not and will not provide tax advice with respect to the option, and Optionee agrees to consult with his or her own tax advisor as to the specific tax consequences of the option, including the application and effect of federal, state, local and other tax laws.

12. Notices. Any notice to the Company provided for in this Agreement shall be addressed to it in care of its President or Chief Financial Officer at its main office and any notice to Optionee shall be addressed to Optionee's address on file with the Company or a subsidiary corporation, or to such other address as either may designate to the other in writing. Any notice shall be deemed to be duly given if and when enclosed in a properly sealed envelope and addressed as stated above and deposited, postage prepaid, with the United States Postal Service. In lieu of giving notice by mail as aforesaid, any written notice under this Agreement may be given to Optionee in person, and to the Company by personal delivery to its President or Chief Financial Officer.

13. Incentive Stock Option. This Agreement is intended to be an incentive stock option agreement as defined in Section 422 of the Code; provided, however, that if the option shall fail to constitute an incentive stock option for any reason, the option shall thereafter be governed by the provisions of the Plan regarding nonqualified stock options.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

OPTIONEE	UNITED SECURITY BANCSHARES
By ______________________	By ______________________
William Scarborough	Dennis R. Woods, Chairman
	By ______________________
	Ken Donahue, Assistant Secretary

EXHIBIT A

NOTICE OF STOCK OPTION EXERCISE

Mr. Dennis R. Woods
President
UNITED SECURITY BANCSHARES
2151 West Shaw Avenue
Fresno, California 93711

Dear Mr. Woods:

Pursuant to my incentive stock option agreement dated _______________, I am exercising my stock option to acquire ____________ shares of common stock of UNITED SECURITY BANCSHARES. I am also enclosing payment by means of (cash in the amount of $_________, or ________ shares of UNITED SECURITY BANCSHARES having a fair market value) equal to the sum of the option exercise price.

I further acknowledge that the UNITED SECURITY BANCSHARES makes no representations as to federal or state tax matters, and that I am to consult with my own tax attorney or tax accountant for advice with respect to the exercise of my stock option and the effect of the sale of the option shares. [(For executive officers of the Company or insiders of the Company) I further acknowledge that I am an affiliate or insider of UNITED SECURITY BANCSHARES and that federal securities laws are applicable to the exercise of the stock option and any subsequent sale of the option shares including the applicability of the Securities Act of 1933 and Rule 144 (both dealing with the sale of shares by an affiliate). I agree to comply with such securities laws and rules.]

Sincerely,

William Scarborough

EXECUTIVE SALARY CONTINUATION AGREEMENT

This Agreement is made and entered into this _01_ day of _Jan_, 2006, by and between United Security Bank, a California banking corporation (the "Employer"), and William F. Scarborough, an individual residing in the State of California (hereinafter referred to as the "Executive"). The purpose of this Agreement is to provide specified benefits to the Executive, a member of a select group of management or highly compensated employees who contribute materially to the continued growth, development, and future business success of the Employer.

RECITALS

WHEREAS, the Executive is an employee of the Employer and is serving as its William Scarborough Officer;

WHEREAS, the Executive's experience and knowledge of the affairs of the Employer and the banking industry are extensive and valuable;

WHEREAS, it is deemed to be in the best interests of the Employer to provide the Executive with certain salary continuation benefits, on the terms and conditions set forth herein, in order to reasonably induce the Executive to remain in the Employer's employment; and

WHEREAS, the Executive and the Employer wish to specify writing the terms and conditions upon which this additional compensatory incentive will be provided to the Executive or to the Executive's designated beneficiaries, as the case may be;

NOW, THEREFORE, in consideration of the services to be performed in the future, as well as the mutual promises and covenants contained herein, the Executive and the Employer agree as follows:

AGREEMENT

1. Terms and Definitions.

1.1. Administrator. The Employer shall be the "Administrator" and, solely for the purposes of ERISA, the "fiduciary" of this Agreement where a fiduciary is required by ERISA.

1.2. Annual Benefit. The term "Annual Benefit" shall mean an annual sum of fifty thousand dollars ($50,000) multiplied by the Applicable Percentage (defined below) and then reduced to the extent required: (i) under the other provisions of this Agreement; (ii) by reason of the lawful order of any regulatory agency or body having jurisdiction over the Employer; and (iii) in order for the Employer to properly comply with any and all applicable state and federal laws, including, but not limited to, income, employment and disability income tax laws (e.g., FICA, FUTA, SDI).

1.3. Applicable Percentage. The term “Applicable Percentage” shall mean that percentage listed on Schedule “A” attached hereto which is adjacent to the number of complete Year of Service provided by Executive for or on behalf of the Employer as an employee which have elapsed starting from the Effective Date of this Agreement and ending on the date the Executive’s employment is terminated for purposes of this Agreement. In the event the Executive’s employment with the Employer is terminated other than by reason of death, disability, termination for cause or Retirement on the part of the Executive, the Executive shall be deemed for purposes of determining the number of complete years to have completed a year of service in its entirety for any partial year of service after the last anniversary date of the Effective Date during which the Executive’s employment is terminated, provided that in no event shall the Executive be deemed to have completed a year of service for the partial year that occurs prior to the first anniversary date of this Agreement.

1.4. Beneficiary. The term “beneficiary” or “designated beneficiary” shall mean the person or persons whom the Executive shall designate in a valid Beneficiary Designation, a copy of which is attached hereto as Exhibit “B”, to receive the benefits provided hereunder. A Beneficiary Designation shall be valid only if it is in the form attached hereto and made a part hereof and is received by the Administrator prior to the Executive’s death. The Executive’s beneficiary designation shall be deemed automatically revoked if the Beneficiary predeceases the Executive or if the Executive names a spouse as Beneficiary and the marriage is subsequently dissolved. Upon the acceptance by the Plan Administrator of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be cancelled. The Plan Administrator shall be entitled to rely on the last Beneficiary Designation Form filed by the Executive and accepted by the Plan Administrator prior to the Executive’s death.

1.5. The Code. The “Code” shall mean the Internal Revenue Code of 1986, as amended (the “Code”).

1.6. Disability/Disabled. The term “Disability” or “Disabled” shall mean either that the Executive is (i) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan sponsored by the Employer.

1.7. Effective Date. The term “Effective Date” shall mean the date upon which this Agreement was entered into by the parties, as first written above.

1.8. ERISA. The term “ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended.

1.9. Key Employee. The term “Key Employee” means a key employee (as defined in Section 416(i) of the Code without regard to paragraph 5 thereof) of the Bank if any stock of the Bank is publicly traded on an established securities market or otherwise.

1.10. Plan Year. The term “Plan Year” shall mean the Employer’s calendar year.

1.11. Retirement. The term “Retirement” or “Retires” shall refer to the date on which the Executive attains the age of at least sixty-three (63) and acknowledges in writing to the Employer to be the last day he will provide any significant personal services, whether as an employee, director or independent consultant or contractor, to the Employer. For purposes of this Agreement, the phrase “significant personal services” shall mean more than ten (10) hours of personal services rendered to one or more individuals or entities in any thirty (30) day period.

1.12. Separation from Service. The term “Separation from Service” means the termination of the Executive’s employment with the Employer for reasons other than death or Disability. Whether a Separation from Service takes place is determined based on the facts and circumstances surrounding the termination of the Executive’s employment and whether the Employer and the Executive intended for the Executive to provide significant services for the Employer following such termination. A termination of employment will not be considered a Separation from Service if:

(a) the Executive continues to provide services as an employee of the Employer at an annual rate that is twenty percent (20%) or more of the services rendered, on average, during the immediately preceding three full calendar years of employment (or, if employed less than three years, such lesser period) and the annual remuneration for such services is twenty percent (20%) or more of the average annual remuneration earned during the final three full calendar years of employment (or, if less, such lesser period), or

(b) the Executive continues to provide services to the Employer in a capacity other than as an employee of the Employer at an annual rate that is fifty percent (50%) or more of the services rendered, on average, during the immediately preceding three full calendar years of employment (or if employed less than three years, such lesser period) and the annual remuneration for such services is fifty percent (50%) or more of the average annual remuneration earned during the final three full calendar years of employment (or if less, such lesser period).

1.13. Surviving Spouse. The term “Surviving Spouse” shall mean the person, if any, who shall be legally married to the Executive on the date of the Executive’s death.

1.14. Termination for Cause. The term “Termination for Cause” shall mean the Separation of Service of the Executive upon the occurrence of any of the following events:

(i) the Executive is convicted of illegal activity by a court of competent jurisdiction or pleads guilty to or nolo contendere to illegal activity, which activity materially adversely affects the Employer’s reputation in the community or which evidences the lack of the Executive’s fitness or ability to perform the Executive’s duty as determined by the Board of Directors in good faith;

(ii) the Executive has committed any illegal or dishonest act which would cause termination of coverage under the Employer’s Bankers’ Blanket Bond as to the Executive, as distinguished from termination of coverage as to the Employer as a whole;

(iii) the Executive materially fails to perform, or habitually neglects, the Executive’s duties or commits a material act of malfeasance or misfeasance in connection therewith; or

(iv) an action is commenced by any bank regulatory agency having jurisdiction, to remove or suspend the Executive from office, or a cease and desist order under 12 U.S.C. 1818(b) or any similar Federal or state statute is issued against the Executive or the Employer which calls for the Executive’s suspension or removal from office.

1.15. Year of Service. The term “Year of Service” means each twelve consecutive month period beginning on the Effective Date and any twelve (12) month anniversary thereof, during the entirety of which time the Executive is an employee of Employer.

2. Scope, Purpose and Effect.

2.1. Contract of Employment. Although this Agreement is intended to provide the Executive with an additional incentive to remain in the employ of the Employer, this Agreement shall not be deemed to constitute a contract of employment between the Executive and the Employer nor shall any provision of this Agreement restrict or expand the right of the Employer to terminate the Executive’s employment. This Agreement shall have no impact or effect upon any separate written employment agreement which the Executive may have with the Employer, it being the parties’ intention and agreement that unless this Agreement is specifically referenced in said employment agreement (or any modification thereto), this Agreement (and the Employer’s obligations hereunder) shall stand separate and apart and shall have no effect upon, nor be affected by, the terms and provisions of said employment agreement.

2.2. Fringe Benefit. The benefits provided by this Agreement are granted by the Employer as a fringe benefit to the Executive and are not a part of any salary reduction plan or any arrangement deferring a bonus or a salary increase. The Executive has no option to take any current payments or bonus in lieu of the benefits provided by this Agreement.

3. Payments Upon or After Retirement.

3.1. Payments Upon Retirement. If the Executive shall remain in the continuous employment of the Employer until Retirement, the Executive shall be entitled to be paid the Annual Benefit, with the Applicable Percent equal to 100% for a period of twelve (12) years, in equal monthly installments, with each installment to be paid on the first day of each month, beginning with the month following the month in which the Executive Retires or upon such later date as may be mutually agreed upon in writing by the Executive and the Employer in advance of said Retirement Date, subject to the deferral of distributions condition in Section 11.14 herein if Executive is a Key Employee.

3.2. Payments in the Event of Death After Retirement. The Employer agrees that if the Executive Retires, but shall die before receiving all of the monthly payments described in Section 3.1 herein, the Employer will make the remaining monthly payments, undiminished and on the same schedule as if the Executive had not died, to the Executive's designated beneficiary. If the Executive dies without a valid beneficiary designation, then the benefits shall be made to the personal representative of the Executive's estate for the benefit of the Executive's estate.

4. Payments in the Event Death or Disability Occurs Prior to Retirement.

4.1. Payments in the Event of Death Prior to Retirement. In the event the Executive should die while actively employed by the Employer at any time after the Effective Date of this Agreement, but prior to Retirement, the Employer agrees to pay the Annual Benefit with the Applicable Percentage equal to 100% for a period of twelve (12) years in equal monthly installments, with each installment to be paid commencing upon the later of (i) the first of the month following Executive's death or (ii) within thirty (30) days following the date of receipt by the Bank of the Executive's death certificate to the Executive's designated beneficiary. If the Executive dies without a valid beneficiary designation, then the benefits shall be made to the personal representative of the Executive's estate for the benefit of the Executive's estate.

4.2. Payments in the Event of Disability Prior to Retirement. In the event the Executive becomes Disabled while actively employed by the Employer at any time after the date of this Agreement but prior to Retirement, the Executive shall: (i) continue to be treated during such period of Disability as being gainfully employed by the Employer but shall not add applicable Years of Service for the purpose of determining the Annual Benefit; and (ii) be entitled to be paid the Annual Benefit, with the Applicable Percentage as set forth in Schedule A and as determined by the applicable years of service at the time of disability, for twelve (12) years in equal monthly installments, with each installment to be paid on the first day of each month, beginning with the month following the earlier of (1) the month in which the Executive attains sixty-three (63) years of age; or (2) the date upon which the Executive is no longer entitled to receive Disability benefits under the Executive's principal Disability insurance policy and does not, at such time, return to and thereafter fulfill the responsibilities associated with the employment position held with the Employer prior to becoming Disabled by reason of such Disability continuing.

The Employer agrees that if (i) the Executive becomes Disabled while actively employed by the Employer at any time after the date of this Agreement but prior to Retirement, (ii) Employer has started to distribute payments to Executive under the first paragraph of this Section 4.2 and (iii) Executive dies before receiving all of the monthly payments described in the first paragraph of this Section 4.2, then the Employer will make the remaining monthly payments, undiminished and on the same schedule as if the Executive had not died, to the Executive's designated beneficiary. If the Executive dies without a valid beneficiary designation, then the benefits shall be made to the personal representative of the Executive's estate for the benefit of the Executive's estate.

Notwithstanding the foregoing, in the event the Executive should die while actively or gainfully employed by the Employer at any time after the Effective Date of this Agreement and prior to Retirement, the payments provided in Section 4.1 herein shall be paid in lieu of the payments provided in the first paragraph of this Section 4.2, provided that the Executive or his legal representative shall have not elected to take the benefits provided by Section 5 herein and payments provided in the first paragraph of this Section 4.2 have not commenced.

5. Payments in the Event Employment is Terminated Other than by Death, Disability, Termination for Cause or Retirement.

As indicated in Section 2 herein, the Employer reserves the right to terminate the Executive's employment, with or without cause but subject to any written employment agreement which may then exist, at any time prior to the Executive's Retirement. In the event that the employment of the Executive shall be terminated for any reason, including voluntary termination by the Executive, but other than by reason of (i) Disability except as provided in the last paragraph of Section 4.2, (ii) death, (iii) Termination for Cause, or (iv) Retirement, the Executive shall be entitled to be paid the Annual Benefit, with the Applicable Percentage as set forth in Schedule A and as determined by the applicable Years of Service at the time of Executive's termination of employment with the Employer, for a period of twelve (12) years in equal monthly installments, with each installment to be paid on the first day of each month, beginning with the month following the later of (i) the Executive's Separation of Service from Employer or (ii) the Executive attaining age sixty-three (63), subject to the deferral of distributions condition in Section 11.14 herein if Executive is a Key Employee.

The Employer agrees that if the Executive is entitled to benefits under the first paragraph of this Section 5, but dies before receiving all of the monthly payments described in the first paragraph of this Section 5, the Employer will make the remaining monthly payments, undiminished and on the same schedule as if the Executive had not died, to the Executive's designated beneficiary. If the Executive dies without a valid beneficiary designation, then the benefits shall be made to the personal representative of the Executive's estate for the benefit of the Executive's estate.

Executive agrees that the payment of benefits pursuant to this Section 5 to the extent Executive is entitled to such benefits is in lieu of any other benefits under this Agreement.

6. Termination for Cause.

Notwithstanding anything to the contrary, in the event the termination of employment of the Executive is Termination for Cause as defined in Section 1.14 herein, the Executive shall not be entitled to any benefits pursuant to this Agreement.

7. No Ownership Rights to the Employer's Assets.

The Employer reserves the right to determine, in its sole and absolute discretion, whether, to what extent and by what method, if any, to provide for the payment of the amounts which may be payable to the Executive or the Executive's beneficiaries under the terms of this Agreement ("Benefits"). The rights of the Executive or any beneficiary of the Executive under this Agreement shall be solely those of an unsecured creditor of the Employer.

In the event that the Employer, in its sole and absolute discretion, elects to acquire an insurance policy, an annuity or any other asset to recoup the costs or any portion thereof of the Benefits, then such insurance policy, annuity or other asset shall not be deemed to be held under any trust for the benefit of the Executive or his beneficiaries or to be security for the performance of the obligations of the Employer under this Agreement, but shall be, and remain, a general unpledged, unrestricted asset of the Employer. The Executive and his beneficiaries shall have no rights whatsoever with respect to, or any claim against, any such insurance policy, annuity or other asset. In connection with the Employer electing to acquire any such insurance policy or annuity, the Executive agrees to cooperate to facilitate such acquisition, and pursuant thereto shall execute such documents and undergo such medical examinations or tests as the Employer may reasonably request.

8. Claims Procedure.

An Executive or Beneficiary ("claimant") who has not received benefits under the Agreement that he or she believes should be distributed shall make a claim for such benefits as follows:

8.1. Written Claim. The claimant initiates a claim by submitting to the Plan Administrator a written claim for the benefits. If such a claim relates to the contents of a notice received by the claimant, the claim must be made within sixty days after such notice was received by the claimant. All other claims must be made within 180 days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the claimant.

8.2. Timing of Plan Administrator Response. The Plan Administrator shall respond to such claimant within 90 days after receiving the claim. If the Plan Administrator determines that special circumstances require additional time for processing the claim, the Plan Administrator can extend the response period by an additional 90 days by notifying the claimant in writing, prior to the end of the initial 90-day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Plan Administrator expects to render its decision.

8.3. Notice of Decision. If the Plan Administrator denies part or all of the claim, the Plan Administrator shall notify the claimant in writing of such denial. The Plan Administrator shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth:

(a) The specific reasons for the denial;
(b) A reference to the specific provisions of the Agreement on which the denial is based;
(c) A description of any additional information or material necessary for the claimant to perfect the claim and an explanation of why it is needed;
(d) An explanation of the Agreement's review procedures and the time limits applicable to such procedures; and
(e) A statement of the claimant's right to bring a civil action following an adverse benefit determination on review.

8.4. Review Procedure. If the Plan Administrator denies part or all of the claim, the claimant shall have the opportunity for a full and fair review by the Plan Administrator of the denial, as follows:

8.5. Written Request for Review of Denial. To initiate the review, the claimant, within 60 days after receiving the Plan Administrator's notice of denial, must file with the Plan Administrator a written request for review.

8.6. Additional Submissions – Information Access. The claimant shall then have the opportunity to submit written comments, documents, records and other information relating to the claim. The Plan Administrator shall also provide the claimant, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to the claimant's claim for benefits.

8.7. Considerations on Review. In considering the review, the Plan Administrator shall take into account all materials and information the claimant submits relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

8.8. Timing of Plan Administrator Response. The Plan Administrator shall respond in writing to such claimant within 60 days after receiving the request for review. If the Plan Administrator determines that special circumstances require additional time for processing the claim, the Plan Administrator can extend the response period by an additional 60 days by notifying the claimant in writing, prior to the end of the initial 60-day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Plan Administrator expects to render its decision.

8.9. Notice of Decision of Review. The Plan Administrator shall notify the claimant in writing of its decision on review. The Plan Administrator shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth:

(a) The specific reasons for the denial;
(b) A reference to the specific provisions of the Agreement on which the denial is based;
(c) A statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to the claimant's claim for benefits; and
(d) A statement of the claimant's right to bring a civil action.

9. Status of an Unsecured General Creditor.

Notwithstanding anything contained herein to the contrary: (i) neither the Executive nor the Executive's beneficiary shall have any legal or equitable rights, interests or claims in or to any specific property or assets of the Employer; (ii) none of the Employer's assets shall be held in or under any trust for the benefit of the Executive or the Executive's beneficiary or held in any way as security for the fulfillment of the obligations of the Employer under this Agreement; (iii) all of the Employer's assets shall be and remain the general unpledged and unrestricted assets of the Employer; (iv) the Employer's obligation under this Agreement shall be that of an unfunded and unsecured promise by the Employer to pay money in the future; and (v) the Executive and the Executive's beneficiary shall be unsecured general creditors with respect to any benefits which may be payable under the terms of this Agreement.

10. Covenant Not to Interfere.

The Executive agrees not to take any action which prevents the Employer from collecting the proceeds of any life insurance policy which the Employer may happen to own at the time of the Executive's death and of which the Employer is the designated beneficiary.

11. Miscellaneous.

11.1. Opportunity to Consult with Independent Counsel. The Executive acknowledges that he has been afforded the opportunity to consult with independent counsel of his choosing regarding both the benefits granted to him under the terms of this Agreement and the terms and conditions which may affect the Executive's right to these benefits. The Executive further acknowledges that he has read, understands and consents to all of the terms and conditions of this Agreement, and that he enters into this Agreement with a full understanding of its terms and conditions.

11.2. Arbitration of Disputes. All claims, disputes and other matters in question arising out of or relating to this Agreement or the breach or interpretation thereof, other than those matters which are to be determined by the Employer in its sole and absolute discretion, shall be resolved by binding arbitration before a representative member, selected by the mutual agreement of the parties, of the Judicial Arbitration and Mediation Services, Inc. ("JAMS"), located in location nearest to Fresno, California. In the event JAMS is unable or unwilling to conduct the arbitration provided for under the terms of this Section, or has discontinued its business, the parties agree that a representative member, selected by the mutual agreement of the parties, of the American Arbitration Association ("AAA"), located in or nearest to Fresno, California, shall conduct the binding arbitration referred to in this Section. Notice of the demand for arbitration shall be filed in writing with the other party to this Agreement and with JAMS (or AAA, if necessary). In no event shall the demand for arbitration be made after the date when institution of legal or equitable proceedings based on such claim, dispute or other matter in question would be barred by the applicable statute of limitations. The arbitration shall be subject to such rules of procedure used or established by JAMS, or if there are none, the rules of procedure used or established by AAA. Any award rendered by JAMS or AAA shall be final and binding upon the parties, and as applicable, their respective heirs, beneficiaries, legal representatives, agents, successors and assigns, and may be entered in any court having jurisdiction thereof. The obligation of the parties to arbitrate pursuant to this clause shall be specifically enforceable in accordance with, and shall be conducted consistently with, the provisions of Title 9 of Part 3 of the California Code of Civil Procedure. Any arbitration hereunder shall be conducted in Southern California, unless otherwise agreed to by the parties.

11.3. Attorneys' Fees. In the event of any arbitration or litigation concerning any controversy, claim or dispute between the parties hereto, arising out of or relating to this Agreement or the breach hereof, or the interpretation hereof, the prevailing party shall be entitled to recover from the losing party reasonable expenses, attorneys' fees and costs incurred in connection therewith or in the enforcement or collection of any judgment or award rendered therein. The "prevailing party" means the party determined by the arbitrator(s) or court, as the case may be, to have most nearly prevailed, even if such party did not prevail in all matters, not necessarily the one in whose favor a judgment is rendered.

11.4. Notice. Any notice required or permitted of either the Executive or the Employer under this Agreement shall be deemed to have been duly given, if by personal delivery, upon the date received by the party or its authorized representative; if by facsimile, upon transmission to a telephone number previously provided by the party to whom the facsimile is transmitted as reflected in the records of the party transmitting the facsimile and upon reasonable confirmation of such transmission; and if by mail, on the third day after mailing via U.S. first class mail, registered or certified, postage prepaid and return receipt requested, and addressed to the party at the address given below for the receipt of notices, or such changed address as may be requested in writing by a party.

If to the Employer:

United Security Bank
1525 East Shaw Avenue Suite 200
Fresno, California 93710
Attention: Dennis R. Woods
Chairman of the Board

If to the Executive:

William F. Scarborough
c/o United Security Bank
2151 West Shaw Avenue
Fresno, California 93711

11.5. Assignment. Neither the Executive nor any other beneficiary under this Agreement shall have any power or right to transfer, assign, hypothecate, modify or otherwise encumber any part or all of the amounts payable hereunder, nor, prior to payment in accordance with the terms of this Agreement, shall any portion of such amounts be: (i) subject to seizure by any creditor of any such beneficiary, by a proceeding at law or in equity, for the payment of any debts, judgments, alimony or separate maintenance obligations which may be owed by the Executive or any designated beneficiary; or (ii) transferable by operation of law in the event of bankruptcy, insolvency or otherwise. Any such attempted assignment or transfer shall be void and shall terminate this Agreement, and the Employer shall thereupon have no further liability hereunder.

11.6. Binding Effect/Merger or Reorganization. This Agreement shall be binding upon and inure to the benefit of the Executive and the Employer and, as applicable, their respective heirs, beneficiaries, legal representatives, agents, successors and assigns. Accordingly, the Employer shall not merge or consolidate into or with another corporation, or reorganize or sell substantially all of its assets to another corporation, firm or person, unless and until such succeeding or continuing corporation, firm or person agrees to assume and discharge the obligations of the Employer under this Agreement. Upon the occurrence of such event, the term “Employer” as used in this Agreement shall be deemed to refer to such surviving or successor firm, person, entity or corporation.

11.7. Nonwaiver. The failure of either party to enforce at any time or for any period of time any one or more of the terms or conditions of this Agreement shall not be a waiver of such term(s) or condition(s) or of that party’s right thereafter to enforce each and every term and condition of this Agreement.

11.8. Partial Invalidity. If any term, provision, covenant or condition of this Agreement is determined by an arbitrator or a court, as the case may be, to be invalid, void, or unenforceable, such determination shall not render any other term, provision, covenant or condition invalid, void or unenforceable, and the Agreement shall remain in full force and effect notwithstanding such partial invalidity.

11.9. Entire Agreement. This Agreement supersedes any and all other agreements, either oral or in writing, between the parties with respect to the subject matter of this Agreement and contains all of the covenants and agreements between the parties with respect thereto. Each party to this Agreement acknowledges that no other representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not set forth herein, and that no other agreement, statement or promise not contained in this Agreement shall be valid or binding on either party.

11.10. Modifications. Any modification of this Agreement shall be effective only if it is in writing and signed by each party or such party's authorized representative.

11.11. Section Headings. The Section headings used in this Agreement are included solely for the convenience of the parties and shall not affect or be used in connection with the interpretation of this Agreement.

11.12. No Strict Construction. The language used in this Agreement shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction will be applied against any person.

11.13. Governing Law. The laws of the State of California, other than those laws denominated choice of law rules, and, where applicable, the rules and regulations of the Federal Deposit Insurance Corporation or any other regulatory agency or governmental authority having jurisdiction over the Employer, shall govern the validity, interpretation, construction and effect of this Agreement.

11.14. Restriction on Timing of Distribution. Notwithstanding any provision of this Agreement to the contrary, if the Executive is considered a Key Employee at the time of Separation from Service of the Employer in accordance with Section 409A of the Code, benefit distributions that are made upon Separation from Service may not commence earlier than six (6) months after the date of such Separation from Service. Therefore, in the event this Section 11.14 is applicable to the Executive, any distribution or series of distributions to be made due to a Separation from Service shall commence no earlier that the first day of the seventh month following the Separation from Service.

11.15. Distributions. Upon Income Inclusion Under Section 409A of the Code. Upon the inclusion of any portion of the accrued liability recorded on the Employer's books into the Executive's income as a result of the failure of this non-qualified deferred compensation plan to comply with the requirements of Section 409A of the Code, to the extent such tax liability can be covered by the Executive's accrued liability, a distribution shall be made as soon as is administratively practicable following the discovery of the plan failure.

11.16. Unfunded Agreement for ERISA Purposes. This Agreement shall be unfunded for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974 (“ERISA”), as amended from time to time.

11.17. Suicide or Misstatement. No benefits shall be distributed if the Executive commits suicide within two years after the Effective Date of this Agreement, or if an insurance company which issued a life insurance policy covering the Executive and owned by the Employer denies coverage (i) for material misstatements of fact made by the Executive on an application for such life insurance, or (ii) for any other reason.

IN WITNESS WHEREOF, the Employer and the Executive have executed this Agreement on the date first above-written in the City of Fresno, Fresno County, California.

United Security Bank
“Employer”

Dennis R. Woods
Chairman of the Board

William F. Scarborough
“Executive”

SCHEDULE A

NUMBER OF COMPLETE YEARS OF SERVICE	APPLICABLE PERCENTAGE
1	8 1/3%
2	16 2/3%
3	25%
4	33 1/3%
5	41 2/3%
6	50%
7	58 1/3%
8	66 2/3%
9	75%
10	83 1/3%
11	91 2/3%
12 or more	100%

SCHEDULE B

BENEFICIARY DESIGNATION

TO: The Administrator of United Security Bank,
Executive Salary Continuation Agreement

Pursuant to the provisions of my Executive Salary Continuation Agreement with United Security Bank, permitting the designation of a beneficiary or beneficiaries by a participant, I hereby designate the following persons and entities as primary and secondary beneficiaries of any benefit under said Agreement payable by reason of my death:

NOTE: To name a trust as beneficiary, please provide the name of the trustee and the exact date of the trust agreement.

In the event the primary beneficiary is not the spouse of the Executive, the spouse of the Executive will need to sign the Spousal Consent below and such signature must be notarized.

Primary Beneficiary:

____

Name Address Relationship

Secondary (Contingent) Beneficiary:

____

Name Address Relationship

____

Name Address Relationship

THE RIGHT TO REVOKE OR CHANGE ANY BENEFICIARY DESIGNATION IS HEREBY RESERVED. ANY PRIOR DESIGNATION OF PRIMARY BENEFICIARIES AND SECONDARY BENEFICIARIES IS HEREBY REVOKED.

The Administrator shall pay all sums payable under the Agreement by reason of my death to the Primary Beneficiary, if he or she survives me, and if no Primary Beneficiary shall survive me, then to the Secondary Beneficiary, and if no named beneficiary survives me, then the Administrator shall pay all amounts in accordance with the terms of my Executive Salary Continuation Agreement. In the event that a named beneficiary survives me and dies prior to receiving the entire benefit payable under said Agreement then and in that event, the remaining unpaid benefit payable according to the terms of my Executive Salary Continuation Agreement shall be payable to the personal representatives of the estate of said beneficiary who survived me but died prior to receiving the total benefit provided by my Executive Salary Continuation Agreement.

____

William F. Scarborough

Dated: ______________________

CONSENT OF THE EXECUTIVE'S SPOUSE

TO THE ABOVE BENEFICIARY DESIGNATION:

I, ________________________, being the spouse of William F. Scarborough, after being afforded the opportunity to consult with independent counsel of my choosing, do hereby acknowledge that I have read, agree and consent to the foregoing Beneficiary Designation which relates to the Executive Salary Continuation Agreement entered into by my spouse on ______________, 2006. I understand that the above Beneficiary Designation adversely affects my community property interest in the benefits provided for under the terms of the Executive Salary Continuation Agreement. I understand that I have been advised to consult with an attorney of my choice prior to executing this consent, so that such attorney can explain the effects of this consent.

Dated:_____________, 2006

____

__________________________, Spouse

ACKNOWLEDGEMENT

STATE OF CALIFORNIA)
)ss
COUNTY OF FRESNO)

On this ______ day of ___________, 2006, before me ___________________, a Notary Public in and for said State, personally appeared ___________________, personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or entity upon behalf of which the person acted, executed the instrument.

____

___________________________, Notary Public

Commission expiration: __________, 20__

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
United Security Bancshares

We consent to the incorporation by reference in Registration Statement No. 333-89362 dated May 30, 2002 on Form S-8 and in Registration Statement No. 333-10078 dated September 25, 2002 on Form S-8 of United Security Bancshares and Subsidiaries (United Security Bancshares) of our report dated March 14, 2006, with respect to the consolidated balance sheets of United Security Bancshares as of December 31, 2005 and 2004, and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for each of the years in the three year period ended December 31, 2005, and in our same report, with respect to United Security Bancshares management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which report is included in this annual report on Form 10-K of United Security Bancshares for the year ended December 31, 2005.

/s/ Moss Adams LLP

Stockton, California
March 15, 2006

**CERTIFICATION UNDER SECTION 302 OF
THE SARBANES OXLEY ACT OF 2002**

I, Dennis R. Woods, certify that:

1. I have reviewed this report on Form 10-K of United Security Bancshares;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13(a) - 15(e) and 15d - 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2006

/S/ Dennis R. Woods

Dennis R. Woods
President and Chief Executive Officer

A signed original of this written statement required by Section 302 of the Sarbanes-Oxley Act of 2002 has been provided to United Security Bancshares and will be retained by United Security Bancshares and furnished to the SEC or its staff upon request.

CERTIFICATION UNDER SECTION 302 OF THE SARBANES OXLEY ACT OF 2002

I, Kenneth L. Donahue, certify that:

1. I have reviewed this report on Form 10-K of United Security Bancshares;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13(a) - 15(e) and 15d - 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2006

/S/ Kenneth L. Donahue

Kenneth L. Donahue
Senior Vice President and
Chief Financial Officer

A signed original of this written statement required by Section 302 of the Sarbanes-Oxley Act of 2002 has been provided to United Security Bancshares and will be retained by United Security Bancshares and furnished to the SEC or its staff upon request.

Exhibit 32.1

SECTION 906 CERTIFICATION

The certification set forth below is being submitted to the Securities and Exchange Commission solely for the purpose of complying with Section 1350 of Chapter 63 of Title 18 of the United States Code.

March 15, 2006

Dennis R. Woods, the Chief Executive Officer of United Security Bancshares certifies:

1. that this annual report on Form 10-K for the period ended December 31, 2005 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. that information contained in this annual report on Form 10-K for the period ended December 31, 2005 fairly presents, in all material respects, the financial condition and results of operations of United Security Bancshares.

/s/ Dennis R. Woods

Dennis R. Woods
President and Chief Executive Officer

SECTION 906 CERTIFICATION

The certification set forth below is being submitted to the Securities and Exchange Commission solely for the purpose of complying with Section 1350 of Chapter 63 of Title 18 of the United States Code.

March 15, 2006

Kenneth L. Donahue, the Chief Financial Officer of United Security Bancshares certifies:

1. that this annual report on Form 10-K for the period ended December 31, 2005 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. that information contained in this annual report on Form 10-K for the period ended December 31, 2005 fairly presents, in all material respects, the financial condition and results of operations of United Security Bancshares.

/s/ Kenneth L. Donahue

Kenneth L. Donahue
Senior Vice President and
Chief Financial Officer