UNITED SECURITY BANCSHARES
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To the Shareholders of Taft National Bank
A MERGER PROPOSAL YOUR VOTE IS VERY IMPORTANT

The board of directors of Taft National Bank has approved a merger combining Taft National with United Security Bank, which will continue as the subsidiary of United Security Bancshares. This document serves as both the proxy statement of Taft National and the prospectus of United Security Bancshares.

In the transaction, shareholders of Taft National will receive shares of stock in United Security Bancshares for each share of Taft National common stock that they own. It is most likely that the shareholders of Taft National will receive approximately 0.90 shares of United Security common stock for each share of Taft National common stock. Assuming December 11, 2003, the date the merger agreement was signed, was the closing date, the United Security stock received would have been worth $23.93. Assuming March 31, 2004, was the closing date, the United Security stock received would have been worth $22.23.

We expect the transaction will be tax-free to Taft National's shareholders that do not choose to exercise dissenter's rights, except that cash paid in lieu of fractional shares will be taxable. Upon completion of the merger, we expect that the shareholders of Taft National will own approximately 4.2% of the outstanding common stock of United Security Bancshares.

We will hold a special meeting at which we will ask our shareholders to approve the merger. Information about this meeting and the merger is contained in this proxy statement-prospectus. **In particular, see "Risk Factors" beginning on page 9.** We urge you to read this document carefully and in its entirety.

Whether or not you plan to attend the meeting, please vote as soon as possible to make sure that your shares are represented at the meeting. If you do not vote, it will have the same effect as voting against the merger.

Our board of directors unanimously recommends that our shareholders vote FOR the merger.

Charles Beard	Dennis Tishma
Chairman of the Board	President and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued in connection with the merger or determined if this proxy statement-prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

This proxy statement-prospectus is dated April 2, 2004.

Taft National Bank

Notice of Special Meeting of Shareholders
April 21, 2004

To: The Shareholders of
Taft National Bank

Notice is hereby given that, under the terms of its Bylaws and the call of its Board of Directors, the special meeting of shareholders of Taft National will be held at Chicken of Oz, located at 1107 Kern Street, Suite #3, Taft, California, on Wednesday, April 21, 2004, at 4:00 p.m., for the purpose of considering and voting upon the following matters:

1.

Approval of the Merger Agreement. To approve the merger agreement dated December 11, 2003 and the amendment to the merger agreement, attached as Appendix A to the proxy statement-prospectus and the merger of Taft National with United Security Bank.

2\.

Transaction of Other Business. To transact other business that may properly be presented at the special meeting and any adjournment or adjournments of the special meeting.

The merger agreement, as amended sets forth the terms of the acquisition of Taft National by United Security Bancshares. As a result of the acquisition, all shareholders of Taft National will receive newly issued shares of United Security common stock for their shares of Taft National common stock. The transaction is also more fully described in the enclosed proxy statement-prospectus and in Appendix A.

The Board of Directors has fixed the close of business on March 17, 2004, as the record date for determination of shareholders entitled to notice of, and the right to vote at, the special meeting of shareholders.

Since the affirmative vote of shareholders holding not less two-thirds of the outstanding shares of Taft National common stock is required to approve the merger agreement, as amended and the merger of Taft National with United Security Bank, it is essential that all shareholders vote. You are urged to vote in favor of the proposal by signing and returning the enclosed proxy as promptly as possible, whether or not you plan to attend the special meeting of shareholders in person. If you do attend the meeting you may then withdraw your proxy. The proxy may be revoked at any time prior to its exercise.

By Order of the Board of Directors

Dated: April 2, 2004

Bob Hampton, Corporate Secretary

Table of Contents

List of Appendices

Questions and Answers About the Merger

This question and answer summary highlights selected information contained in other sections of this proxy statement-prospectus. To understand the merger more fully, you should carefully read this entire proxy statement-prospectus, including all appendices and financial statements.

Q:

What am I being asked to vote on?

A:

You are being asked to vote on an agreement which, if approved, will result in Taft National being merged with United Security Bank, a subsidiary of United Security.

Q:

What will happen if Taft National shareholders approve the merger?

A:

If Taft National shareholders approve the merger, Taft National will merge with United Security Bank, a bank subsidiary of United Security, and Taft National will cease to operate. We expect this to take place on or about April 30, 2004.

Q:

Why is Taft National merging with United Security Bank?

A:

United Security's and Taft National's respective managements believe that their respective shareholders will benefit from the merger because the business potential for the combined companies exceeds what each company could individually accomplish. United Security and Taft National believe that their similar and complementary financial products and services in the Central Valley market will contribute to enhanced future performance, as well as providing a larger shareholder base. United Security and Taft National believe a larger shareholder base will increase shareholder liquidity and provide for increased shareholder value. Please read the section entitled "The Merger Background and Reasons for the Merger; Recommendation of the Board of Directors" for additional information.

Q:

Should I send in my certificates now?

A:

No. You should not send your Taft National stock certificates in the envelope provided for use in returning your proxy. You will be sent written instructions for exchanging your stock certificates only if the merger is approved and completed.

Q:

What happens if I do not return my proxy card?

A:

If you fail to execute and return your proxy card, it will have the same effect as voting against the merger.

Q:

What risks should I consider before I vote on the merger?

A:

The risks that you should consider in deciding how to vote on the merger are explained in the section of this proxy statement-prospectus entitled "Risk Factors." You are urged to read this section, as well as the rest of this proxy statement-prospectus, before deciding how to vote.

Q:

How do I vote?

A:

Just indicate on your proxy card how you want to vote. Sign and mail your proxy card in the enclosed envelope as soon as possible so that your shares will be represented at the Taft National special shareholders' meeting. Alternatively, you may attend the meeting and vote in person.

If you sign and send in your proxy card and do not indicate how you want to vote, your proxy will be voted in favor of the merger. If you do not sign and send in your proxy card or you abstain from voting, it will have the effect of voting against the merger.

You may attend the meeting and vote your shares in person, rather than voting by proxy. In addition, you may withdraw your proxy up to and including the day of the Taft National special

shareholders' meeting by following the directions on pages 22-23 and either change your vote or attend the meeting and vote in person.

Q:

If my shares are held in my broker's name, will my broker vote them for me?

A:

No. Your broker can only vote your shares of Taft National common stock if you provide instructions on how to vote them. You should, therefore, instruct your broker on how to vote your shares by following the directions your broker provides when forwarding these proxy materials to you. If you do not provide voting instructions to your broker, your broker will not be able to vote your shares. This will have the effect of voting against the merger.

Q:

How do Taft National's directors plan to vote?

A:

All of Taft National's directors have committed to vote their shares in favor of the merger. Taft National's directors collectively hold, as of the record date for the special shareholders' meeting, 79,887 shares, or approximately 29.9%, of Taft National common stock eligible to vote. The affirmative vote of $66^2/_3$%, or 178,322 shares, of Taft National's issued and outstanding common stock eligible to vote is needed to approve the merger.

Q:

Who can help answer my other questions?

A:

If you want to ask any additional questions about the merger, you should contact Mr. Dennis Tishma, President and Chief Executive Officer, Taft National Bank, 523 Cascade Place, Taft, California 93268, telephone (661) 763-5151.

Summary

This summary only highlights selected information from this proxy statement-prospectus. You should carefully read this entire proxy statement-prospectus, including the appendices. These will give you a more complete description of the merger, the merger agreement, as amended, which is referred to in this proxy statement- prospectus as the merger agreement, and the transactions proposed. You should also refer to the section entitled "Description of United Security."

General

This proxy statement-prospectus relates to the proposed merger of Taft National with United Security Bank, a subsidiary of United Security. Taft National and United Security believe that the merger will create opportunities to apply their similar community banking philosophies to realize enhanced revenues through asset growth and market penetration.

Parties to the Merger (pages 58 and 117)

United Security Bancshares
1525 East Shaw Avenue
Fresno, California 93710
(559) 248-4944

United Security is a bank holding company headquartered in Fresno, California. United Security has one subsidiary bank, United Security Bank. Through its subsidiary, United Security serves the California communities of Fresno, Firebaugh, Coalinga, Caruthers, San Joaquin and Oakhurst.

Please read the section entitled "Description of United Security" for additional information about United Security and United Security Bank.

Taft National Bank
523 Cascade Place
Taft, California 93268
(661) 763-5151

Taft National is a national banking association which opened for business January 8, 1983. It has an office in Taft, and added its Bakersfield office in May of 1998. Taft National serves the California communities of Taft and Bakersfield.

Please read the section entitled "Information About Taft National" for additional information.

United Security Bank
1525 East Shaw Avenue
Fresno, California 93710
(559) 248-4944

United Security Bank, N.A., predecessor to United Security Bank, originally started business as a national banking association on December 21, 1987. On February 1, 1999, United Security Bank was incorporated under the laws of the State of California, and on February 3, 1999, following its conversion from a national banking association, was licensed by the Commissioner of Financial Institutions and started operations as a California state-chartered bank. United Security Bank is a member of the Federal Reserve System. United Security Bank serves the California communities of Fresno, Firebaugh, Coalinga, Caruthers, San Joaquin and Oakhurst, through full service branches. Under the terms of the merger agreement Taft National will merge with United Security Bank, and United Security Bank will be the survivor.

Special Shareholders' Meeting (Page 22)

Taft National will hold its special shareholders' meeting at Chicken of Oz, located at 1107 Kern Street, Suite #3, Taft, California 93268 on Wednesday, April 21, 2004 at 4:00 p.m. At this important meeting, Taft National shareholders will consider and vote upon the approval of the merger and any

other matter that is properly presented at the special shareholders' meeting. You may vote at the Taft National special shareholders' meeting if you owned shares at the close of business on March 17, 2004. On that date, Taft National had 267,481 shares of common stock issued and outstanding and entitled to be voted.

Each Taft National shareholder is entitled to one vote for each share he or she held on March 17, 2004. The affirmative vote of at least two-thirds of Taft National's shareholders, or at least 178,322 shares entitled to vote, is required to approve the merger. United Security's shareholders are not required to approve the merger. Please read the section entitled "The Taft National Meeting" for additional information.

The Merger (Page 24)

The merger will result in Taft National being merged out of existence and into United Security Bank. The merger will not occur without Taft National's shareholders approval. There are also other customary conditions which must be met in order for the merger to be completed. Please read the sections entitled "The Merger Structure of the Merger" and " Certain Effects of the Merger" for additional information.

The Merger Agreement (Page 50)

The merger agreement is the legal document that contains the merger's terms and governs United Security's and Taft National's merger process, including the issuance of United Security common stock to Taft National's shareholders in the merger. Please read the entire merger agreement which is attached to this proxy statement-prospectus as Appendix A. Also, please read the section entitled "The Merger The Merger Agreement" for additional information.

Consideration to be Paid to Taft National Shareholders (Page 28)

You will have the right to receive newly issued shares of United Security common stock in exchange for your shares of Taft National common stock. The number of shares of United Security common stock to be issued is based upon an exchange ratio contained in the merger agreement.

The merger agreement provides that the number of shares of United Security common stock into which a share of Taft National common stock shall be converted shall be determined in accordance with a formula. The formula for the calculation of the number of shares of United Security received for each Taft National share is as follows:

Z÷267,481, where Z = [$5,349,620 - the lesser of (A) merger related expenses in excess of $300,000 or (B) $35,000] ÷ [the lesser of (i) $22.00 or (ii) the average closing price of United Security during the 20 business days ending on the third business day immediately prior to the closing of the merger.] In the calculation,

267,481 = the current number of shares of Taft National common stock outstanding;

$5,349,620 = the minimum aggregate value United Security will pay for all of the shares of Taft National; and

United Security and Taft National assume that the final calculation will use (B) $35,000 and (i) $22.00.

Therefore, it is most likely that the shareholders of Taft National will receive approximately 0.90 shares of United Security common stock for each share of Taft National common stock. Assuming March 31, 2004, was the closing date, the United Security stock received would have been worth $22.23.

The effect of capping United Security's stock price at $22.00 for purposes of calculating the exchange ratio is that as the average trading price of United Security's stock rises above $22.00 per share, Taft National shareholders will receive greater value for each share of Taft National common stock. Please read the sections entitled "Risk Factors Risks Regarding the Merger" and "The

Merger Calculation of Consideration to be Paid to Taft National Shareholders" for additional information.

Regulatory Approvals (Page 33)

United Security has received the necessary approvals from the Federal Reserve Board, or FRB, and the California Department of Financial Institutions, or the DFI for the merger. Please read the section entitled "The Merger Regulatory Approvals" for additional information.

Votes Required; Securities Held by Insiders (Page 22)

Approval of the merger requires the affirmative vote of two-thirds of the outstanding shares, or 178,322 shares, of Taft National's 267,481 issued and outstanding shares of common stock. Your failure to vote in person or by proxy, or your abstention from voting entirely, will have the same effect as voting against the merger. Please read the section entitled "The Taft National Meeting."

Directors and executive officers owned approximately 79,887 shares, or 29.9%, of Taft National's outstanding shares of common stock. Taft National's directors have entered into separate agreements in which they have agreed, among other things, to vote "FOR" approval of the merger agreement. Please read the section entitled "The Merger The Merger Agreement Director Voting Agreements" for additional information.

Opinion of Taft National's Financial Advisor (Page 38)

In deciding to approve the merger, Taft National's Board of Directors considered, among other things, the opinion dated December 11, 2003 of James H. Avery Co., Taft National's financial advisor, regarding the fairness, from a financial point of view, of the consideration to be received by Taft National's shareholders as a result of the merger. The financial advisor determined that the merger agreement is fair to Taft National's shareholders from a financial standpoint. The advisor's written opinion is attached as Appendix C. You should read it carefully to understand the assumptions made, matters considered and limitations of the review undertaken by the advisor in providing its opinion. Please read the section entitled "The Merger Opinion of Financial Advisor" for additional information.

Recommendation of Taft National's Board of Directors (Page 24)

On December 11, 2003, Taft National's Board of Directors unanimously approved the merger agreement and the merger of Taft National with United Security Bank and on March 31, 2004, unanimously approved the amendment of the merger agreement. Moreover, they unanimously believe that the merger's terms are fair to you and in your best interests. Accordingly, they unanimously recommend a vote "FOR" the proposal to approve the merger agreement and the merger. The conclusions of Taft National's Board of Directors regarding the merger are based upon a number of factors. Please read the sections entitled "The Merger Background and Reasons for the Merger: Recommendation of the Board of Directors" and " Opinion of Financial Advisor" for additional information.

Exchange of Share Certificates (Page 51)

After completing the merger, holders of Taft National stock certificates will need to exchange those certificates for new certificates of United Security common stock. Shortly after completing the merger, Wells Fargo Shareowner Services, United Security's exchange agent, will send Taft National's shareholders detailed instructions on how to exchange their shares. Please do not send any stock certificates until you receive these instructions. Please read the section entitled "The Merger The Merger Agreement Exchange Procedures" for additional information.

Conditions to Closing the Merger (Page 55)

In addition to shareholder approval, United Security's and Taft National's obligations to close the merger depend on the holders of Taft National's convertible debentures not converting the debentures into shares of Taft National common stock and United Security paying the principal and any accrued and unpaid interest due on the debentures at the time of the closing of the merger. Please read the section entitled "The Merger The Merger Agreement Conditions to the Parties' Obligations" for additional information.

Closing the Merger (Page 51)

If shareholder approval is received as planned, and if the conditions to the merger have either been met or waived, United Security and Taft National anticipate that the merger will close on or about April 30, 2004. However, neither United Security nor Taft National can assure you whether or when the merger will actually close. Please read the section entitled "The Merger The Merger Agreement The Closing" for additional information.

Termination of the Merger (Page 56)

United Security and Taft National can mutually agree to terminate or extend the merger agreement. Either United Security or Taft National can terminate the merger agreement in the event of a material breach or the occurrence of certain other events, including receipt of an offer from a third party.

United Security and Taft National have agreed that in the event the merger agreement is terminated because of a material breach, the non-breaching party will be entitled to receive $200,000 from the breaching party. Additionally, a fee of $300,000 must be paid by Taft National if it completes an alternative merger or similar proposal within twelve months following a termination of the merger agreement by either Taft National or United Security because of certain events specified in the merger agreement. Please read the section entitled "The Merger The Merger Agreement Termination" and " Discussions with Third Parties" for additional information.

Federal Income Tax Consequences (Page 30)

We have received a tax opinion that the merger will be treated as a tax-free merger under federal tax law so most Taft National shareholders, Taft National and United Security will not recognize any gain or loss. If you exercise your dissenter rights, your tax treatment will be different. Please read the section entitled "The Merger Certain Federal Income Tax Consequences" for additional information.

The tax laws are complex. Therefore, you should consult your individual tax advisor regarding the federal income tax consequences of the merger to you. You should also consult your tax advisor concerning all state, local and foreign tax consequences of the merger.

Accounting Treatment (Page 50)

United Security must account for the merger as a purchase. Under this method of accounting, the assets and liabilities of the company acquired are recorded at their respective fair value as of completion of the merger, and are added to those of the acquiring company. Financial statements of the acquiring company issued after the merger takes place reflect these values, but are not restated retroactively to reflect the historical financial position or results of operations of the company that was acquired. Please read the section entitled "The Merger Accounting Treatment" for additional information.

United Security Bank's Management and Operations After the Merger (Page 35)

After the merger, United Security Bank's present directors will remain the directors and the current executive officers will remain the executive officers. Please read the section entitled "The Merger Certain Effects of the Merger" and " Interests of Certain Persons in the Merger" for additional information.

Interests of Certain Persons in the Merger That Are Different From Yours (Page 35)

The directors and executive officers of Taft National have financial interests in the merger over and above those of Taft National shareholders. The President and Chief Executive Officer of Taft National, Mr. Tishma, and the Chief Credit Officer of Taft National, Mr. Morris, have agreements with Taft National that provide for the payment of money to them in the event of a merger if they are not retained by the company purchasing Taft National. In satisfaction of the agreements with Messrs. Tishma and Morris, United Security has offered each of them a one year employment agreement at their current base compensation level.

The merger agreement also requires United Security to pay all outstanding principal and accrued but unpaid interest on five subordinated convertible debentures, each in the face amount of $100,000. Five directors of Taft National are each the holder of one of the debentures. The five directors are, Robert Colston, Charles E. Beard, Bob Hampton, John Hollingworth and Glen Lloyd. Finally, as a condition to the merger, the directors and officers will receive continuing insurance protections under the existing directors' and officers' liability insurance policy of Taft National. You should consider these interests in deciding how to vote. Please read the section entitled "The Merger Interests of Certain Persons in the Merger" for additional information.

Differences in Your Rights as a Shareholder (Page 135)

As a Taft National shareholder, your rights are currently governed by Taft National's Articles of Association and Bylaws and by the national banking laws. If you do not exercise your dissenters' rights, you will receive United Security common stock in exchange for your Taft National common stock, and you will become a United Security shareholder. Consequently, your rights as a United Security shareholder will be governed by United Security's Articles of Incorporation and Bylaws and by the California Corporations Code, rather than national banking laws. Therefore, the rights of United Security shareholders differ from the rights of Taft National shareholders in certain respects. Please read the section entitled "Comparison of Shareholder Rights" for additional information.

Dissenters' Rights (Page 37)

Holders of Taft National common stock who vote against the merger, or who give written notice to Taft National prior to the meeting that they dissent from the merger, and who have fully complied with all applicable provisions of Section 214a of Title 12 of the United States Code, including making a written demand for dissenter's rights and surrendering their certificates to United Security Bank for endorsement within 30 days of completion of the merger, have the right to receive from United Security the value of the Taft National shares as of the date of the meeting based upon a valuation by a committee of three persons. If the appraisal is unsatisfactory, a dissenting shareholder may appeal to the Office of the Comptroller of the Currency, or the OCC, whose determination of value shall be final and binding. The OCC does not permit the appraisal value of the dissenting shares to include appreciation or depreciation as a result of the merger. Please read the section entitled "The Merger Dissenters' Rights of Taft National Shareholders" and Appendix B for additional information.

Dividends

United Security has paid quarterly cash dividends since its first full year of operation. United Security has paid cash dividends of $0.115 per share on January 23, 2002, cash dividends of $0.13 per share on April 24, 2002, July 24, 2002, October 23, 2002, January 22, 2003 and cash dividends of $0.145 on April 23, 2003, July 23, 2003, October 22, 2003 and January 21, 2004.

Resale of United Security Common Stock by Former Taft National Shareholders (Page 35)

United Security common stock that you receive in the merger will be freely transferable, unless you are considered an affiliate of Taft National. Please refer to the section entitled "The Merger Resale of United Security Common Stock" for additional information.

Risk Factors

In addition to the other information included in this proxy statement-prospectus or incorporated by reference, you are urged to carefully consider the following factors before making a decision to approve the merger.

Risks Regarding the Merger

Combining United Security and Taft National May Be More Difficult Than Expected

If United Security and Taft National are unable to successfully integrate their businesses, operating results may suffer. Both United Security and Taft National have operated and, until completion of the merger, will continue to operate independently of one another. It is possible that the integration process could result in the loss of key employees, disruption of United Security's and Taft National's ongoing business or inconsistencies in standards, controls, policies or procedures. These could negatively affect both United Security's and Taft National's ability to maintain relationships with customers and employees, or achieve the anticipated benefits of the merger within the time period expected, if at all.

As with any merger of financial institutions, there may also be disruptions that cause customers, both deposit and loan, to take their business to competitors. No guarantees exist that Taft National's integration within United Security's operations will be successful.

You Will Not Know in Advance the Value of the Merger Consideration You Will be Entitled to Receive

The merger agreement provides that the number of shares of United Security common stock into which a share of Taft National common stock shall be converted will be determined by a formula which has variables that will not be known until shortly before the merger is completed. Please read the section entitled "Summary Consideration to be Paid to Taft National Shareholders."

Because of these variables affecting the exchange ratio and per share value of your shares of Taft National common stock, you will not know in advance either the number of shares of United Security common stock or the value of the shares of United Security common stock that you will receive until the merger is completed. Please read the sections entitled "The Merger Calculation of Consideration to be Paid to Taft National Shareholders."

Risks Regarding United Security Common Stock

Limited Market for United Security Common Stock

United Security common stock has only traded on the Nasdaq NMS under the symbol "UBFO" since June 5, 2001. Additionally, United Security had 5,530,613 shares issued and outstanding as of January 1, 2004 owned by 646 shareholders of record. Of that amount, 2,086,122 shares are held by directors, executive officers and other insiders and an additional 329,805 shares are owned by United Security's 401(k) plan and employee stock ownership plan, or ESOP. Thus, for all practical purposes, the shares of United Security common stock held by United Security's directors, executive officers, other insiders, the 401(k) plan and the ESOP do not trade. United Security cannot assure you that the stock you receive in the merger may be resold at the frequency or at the prices occurring before the merger. Please read the section entitled "Markets; Market Prices and Dividends" for additional information.

United Security Can Issue Common Stock Without Your Approval, Diluting Your Proportional Ownership Interest

United Security's articles of incorporation authorize it to issue 10,000,000 shares of common stock. Currently, United Security has 5,530,613 shares of common stock issued and outstanding, with up to an additional 243,164 additional shares to be issued in the merger. United Security also has 83,000 shares

reserved under various stock option plans covering its directors, officers and employees at exercise prices ranging between $11.33 and $17.50. Consequently, any shares of common stock that United Security issues after the merger with Taft National will dilute your proportional ownership interest in United Security, unless you participate in the future offerings.

United Security intends to seek acquisitions of other banks where it believes that those acquisitions will enhance shareholder value or satisfy other strategic objectives. United Security can make future acquisitions, if any, by issuing additional shares of its common stock or other securities convertible into or exercisable for its common stock. As of the date of this proxy statement-prospectus, United Security has not entered into any agreements to acquire other banks, bank holding companies or any other entities. Please read the section entitled "Description of United Security -Description of Capital Stock" for additional information.

The Price of United Security Common Stock May Decrease, Preventing You from Selling Your Shares at a Profit

The market price of United Security common stock could decrease and prevent you from selling your shares at a profit. The market price of United Security common stock has fluctuated in recent years. Since June 12, 2001, United Security's common stock market price has ranged from a low bid price of $14.94 per share to a high bid price of $29.50 per share, as adjusted for stock dividends. Fluctuations may occur, among other reasons, due to:

- operating results;
- market demand;

announcements by competitors;

economic changes;

general market conditions; and

legislative and regulatory changes.

The trading price of United Security common stock may continue to fluctuate in response to these factors and others, many of which are beyond United Security's control. We strongly urge you to consider the likelihood of these market fluctuations before deciding how to vote for the merger. Please read the section entitled "Markets; Market Prices and Dividends" for additional information regarding the trading prices of United Security common stock.

Risks Regarding the Businesses of United Security and Taft National

Taft National Regulatory Agreement

Taft National has been the subject of enforcement proceedings by bank regulators. Specifically, on March 21, 2001, Taft National entered into a formal written agreement with the Office of the Comptroller of the Currency. The agreement generally prohibits certain operations or practices deemed objectionable by the OCC and required Taft National to take several affirmative actions. Taft National understands that the OCC believes that Taft National has not sufficiently reduced criticized assets. In particular, as part of Taft National's efforts to reduce criticized assets, the OCC has required Taft National to hire an additional experienced lending officer. Taft National has been unable to locate and hire a qualified lending officer despite earnest efforts to do so. Taft National also continues to strive to reduce its criticized assets. As to the balance of the requirements of the regulatory agreement, Taft National believes it is in compliance with the regulatory agreement. However, the ultimate determination of compliance is made by the OCC, and until such time as Taft National is released from the formal agreement, it may be subject to further enforcement proceedings by the OCC.

9

Because United Security Bank is not regulated by the OCC, Taft National's management believes that the regulatory agreement will terminate if and when the merger is completed. If the merger is not completed, the regulatory agreement will remain in effect and Taft National will continue its efforts to fully comply with all of its terms. Noncompliance with the regulatory agreement can result in further regulatory sanctions which could adversely affect the value of Taft National's stock. These sanctions may include additional asset restrictions, restrictions on operations and growth, mandatory asset disposition, termination of deposit insurance, fines and sanctions against officers and directors, and possible action by the OCC to take possession of Taft National. For additional information, please read the section entitled "Information About Taft National Taft National Regulatory Agreement."

United Security and Taft National Face Lending Risks

The risk of loan defaults or borrowers' inabilities to make scheduled payments on their loans is inherent in the banking business. Moreover, United Security and Taft National focus primarily on lending to small- and medium-sized businesses. Consequently, United Security and Taft National may assume greater lending risks than other financial institutions which have a smaller concentration of those types of loans, and which tend to make loans to larger businesses. Borrower defaults or borrowers' inabilities to make scheduled payments may result in losses which may exceed United Security's and Taft National's allowances for loan losses. Furthermore, should United Security and Taft National be required to fund currently unfunded loan commitments and letters of credit at higher than anticipated levels, there may be an increased exposure to loan losses, necessitating higher loan loss provisions. Other than these unfunded loan commitments and letters of credit, neither United Security nor Taft National have any off balance sheet exposure. These risks, if they occur, may require higher than expected loan loss provisions which, in turn, can materially impair profitability, capital adequacy and overall financial condition. Please read the sections entitled "Description of United Security Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Information About Taft National Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information.

United Security and Taft National Are Limited in the Amount They Can Lend to Any Individual Borrower

United Security, through its subsidiary, United Security Bank, and Taft National are limited in the amount that they can lend to a single borrower. Therefore, the size of the loans which they can offer to potential customers is less than the size of loans that their competitors with larger lending limits can offer. Legal lending limits also affect United Security Bank's and Taft National's ability to seek relationships with larger and more established businesses. Through previous experience and relationships with a number of other financial institutions, participations in loans which exceed lending limits are sometimes sold. However, United Security and Taft National cannot assure you of any future success that they may have in attracting or retaining customers seeking larger loans or that they can successfully engage in participation transactions for those loans on favorable terms. For additional information, please read the sections entitled "Description of United Security Business Competition" and "Information About Taft National Banking Services Competition."

An Increase in Classified Loans May Hurt Performance

Some of the loans that United Security and Taft National make may, with the passage of time, pose a higher risk of becoming uncollectible. These loans may be classified and require a larger than anticipated amount of loss reserves which, in turn, may reduce United Security's and Taft National's liquidity, earnings and ultimately their capitalization and financial condition. Classified loans as of December 31, 2003, of United Security and Taft National were 40.7% and 59.8% of capital respectively. United Security and Taft National continually evaluate the credit risks associated with loans that

indicate a higher than normal risk of collectability. United Security and Taft National believe that they have adequately provided for the related credit risks of their respective loans. However, their respective loan portfolios are vulnerable to adverse changes in the economy and in the particular industries in which their borrowers operate. Therefore, United Security and Taft National cannot assure you that the level of their classified loans will not increase in the future. For additional information, please read the sections entitled "Description of United Security Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Information About Taft National Management's Discussion and Analysis of Financial Condition and Results of Operations."

Declines in Real Estate Values Could Materially Impair Profitability and Financial Condition

Approximately 69% and 52% respectively, of United Security's and Taft National's loans are secured by real estate collateral. A substantial portion of the real estate securing these loans is located in Central California. Real estate values are generally affected by factors such as:

- the socioeconomic conditions of the area where real estate collateral is located;
- fluctuations in interest rates;
- property and income tax laws;
- local zoning ordinances governing the manner in which real estate may be used; and
- federal, state and local environmental regulations

Management and the Boards of Directors of United Security and Taft National monitor the concentrations of loans secured by real estate, which are within pre-approved limits. However, declines in real estate values could significantly reduce the value of the real estate collateral securing United Security's and Taft National's loans, increasing the likelihood of defaults. Moreover, if the value of real estate collateral declines to a level that is not enough to provide adequate security for the underlying loans, United Security and Taft National will need to make additional loan loss provisions which, in turn, will reduce their profits. Also, if a borrower defaults on a real estate secured loan, United Security and Taft National may be forced to foreclose on the property and carry it as a nonearning asset which, in turn, may reduce net interest income. For additional information, please read the sections entitled "Description of United Security Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Information About Taft National Management's Discussion and Analysis of Financial Condition and Results of Operations."

Interest Rates and Other Conditions Impact Profitability

United Security's and Taft National's profitability depends on the difference between the rates of interest they earn on their loans and investments, and the interest rates they pay on deposits and other borrowings. Like other financial institutions, United Security's and Taft

National's net interest income is affected by general economic conditions and other uncontrollable factors, like the monetary policies of the FRB, which influence market interest rates. Therefore, the ability to adjust the interest rates on investments, loans and deposit products in response to changes in market interest rates may be limited for a period of time. Consequently, United Security's and Taft National's inability to immediately respond to changes in market interest rates can have either a positive or negative effect on net interest income, capital, liquidity and financial condition. United Security and Taft National cannot assure you that any positive trends or developments that they have experienced will continue, or that they will not experience negative trends or developments in the future. Finally, in response to negative economic trends, the FRB has lowered interest rates 13 times since the beginning of 2001. The benchmark overnight federal funds rate, which is the rate banks charge each other for overnight borrowings, currently stands at 1.00%, one of the lowest levels in four decades. Declines in this key rate affect other rates which United Security and Taft National charge their borrowers and pay depositors,

impacting United Security's and Taft National's net interest margins. Due to the mix and composition of United Security's and Taft National's assets and liabilities, changing interest rates may adversely impact their net interest incomes and margins. For additional information, please read the section entitled "Supervision and Regulation United Security Bank and Taft National Impact of Monetary Policies."

United Security Is Limited in its Ability to Pay Cash Dividends

While United Security and United Security Bank have paid quarterly cash dividends for the last five years, United Security depends on dividends from United Security Bank, and if the merger is closed, from the profit contribution of Taft National to United Security Bank, in order to pay cash dividends to its shareholders. Moreover, the amount and timing of any dividends is at the discretion of United Security's board of directors. Please refer to the section entitled "Description of United Security Description of Capital Stock" for additional information. Also, please read the sections entitled "Supervision and Regulation United Security Bank Holding Company Liquidity" and " Limitations on Dividend Payments" for additional information.

United Security's Future Growth May Be Limited If it Is Not Able to Raise Additional Capital

Banks and bank holding companies are required to conform to regulatory capital adequacy guidelines and maintain their capital at specified percentages of their assets. These guidelines may limit United Security's ability to grow and could result in banking regulators requiring increased capital levels or reduced loan and other earning asset levels. Therefore, in order to continue to increase its earning assets and net income, United Security may, from time to time, need to raise additional capital. United Security cannot assure you that additional sources of capital will be available or, if they are, that the additional capital will be available on economically reasonable terms. Currently, United Security is "well capitalized" and has no plans to raise additional capital to facilitate the merger with Taft National or for any other purpose. For additional information, please read the sections entitled "Supervision and Regulation United Security Bank and Taft National Risk-Based Capital Guidelines" and "Description of United Security Trust Preferred Securities Offerings."

United Security Has a Continuing Need to Adapt to Technological Changes

The banking industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. The effective use of technology allows a bank to:

- better serve its customers;
- increase operating efficiencies through reduced operating costs;
- provide a wider range of products and services to their customers; and
- attract new customers.

Future success of United Security and Taft National partially depends upon their ability to successfully use technology in providing products and services that will satisfy customers' demands for convenience, as well as to create additional operating efficiencies. Larger competitors already have existing technological infrastructures and substantially greater resources to invest in technological improvements.

Neither United Security nor Taft National can assure you that it will be able to effectively implement new technology-driven products and services as they develop, or be successful in marketing those products and services to their current and prospective customers.

United Security and Taft National Compete Against Larger Banks and Other Institutions

United Security and Taft National compete for loans and deposits with other banks, savings and thrift associations and credit unions located in their service areas, as well as with other financial services organizations such as brokerage firms, insurance companies and money market mutual funds. These competitors aggressively solicit customers within their market area by advertising through direct mail, the electronic media and other means. Many of their competitors have been in business longer, have established customer bases and are substantially larger. These competing financial institutions offer services, including international banking services, that United Security and Taft National can only offer through correspondents, if at all. Additionally, their larger competitors have greater capital resources and, consequently, higher lending limits. Finally, some of their competitors are not subject to the same degree of regulation. For additional information, please read the sections entitled "Description of United Security Business Competition" and "Information About Taft National Banking Services Competition."

Current Banking Laws and Regulations Affect Activities

United Security and Taft National are subject to extensive regulation. Supervision, regulation and examination of banks and bank holding companies by regulatory agencies are intended primarily to protect depositors rather than stockholders. These regulatory agencies examine bank holding companies and commercial banks, establish capital and other financial requirements and approve acquisitions or other changes of control of financial institutions. United Security's and Taft National's ability to establish new facilities or make acquisitions requires approvals from applicable regulatory bodies. Changes in legislation and regulations will continue to have a significant impact on the banking industry. Although some of the legislative and regulatory changes may benefit United Security and Taft National, others may increase their costs of doing business and assist their nonbank competitors who are not subject to similar regulation. For additional information, please read the section entitled "Supervision and Regulation."

A Warning about Forward Looking Statements

Certain statements contained in this proxy statement-prospectus or in documents incorporated by reference, including, without limitation, statements containing the words "believes," "anticipates," "intends," "expects," and words of similar import, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward looking statements, including among others those found in "Questions and Answers About the Merger," "Summary," and "The Merger" involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the combined companies to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

In particular, we have made statements in this document regarding expected cost savings to result from the merger, the anticipated accretive effect to earnings of the combined enterprise, an improved ability to compete with larger competitors, restructuring charges expected to be incurred in connection with the merger, and the operation of the combined companies. With respect to estimated cost savings, we have made assumptions about the anticipated overlap between the costs of the two banks for data processing and other operations, the amount of general and administrative expenses, the costs of converting Taft National's data processing to United Security Bank's systems, the size of anticipated reductions in fixed labor costs, the effort involved in aligning accounting policies and the transactional costs of the merger. The realization of the anticipated cost savings is subject to the risk of possible inaccuracy of the foregoing assumptions.

In addition to the risks discussed in "Risk Factors," the following factors may also affect the accuracy of forward looking statements in this proxy statement-prospectus:

- demographic changes;

changes in business strategy or development plans;

the availability of capital to fund the expansion of the combined business; and

other factors referenced in this proxy statement-prospectus or the documents incorporated by reference.

Given these uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. United Security and Taft National disclaim any obligation to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements contained in this proxy statement-prospectus to reflect future events or developments.

Markets; Market Prices And Dividends

Taft National Common Stock

The common stock of Taft National is not listed on any national stock exchange, but is listed on the Over-the-Counter (OTC) Bulletin Board under the symbol of "TFNB.PK." As of March 1, 2004, there were approximately 198 shareholders. The management of Taft National is not aware of any dealers that make a market for Taft National common stock.

There is and has been very little trading in Taft National common stock. On December 10, 2003, the last trading day prior to the announcement of the merger, the bid price of Taft National common stock was $10.80. There have been no trades in the common shares of Taft National since November 25, 2003, at which time 1,562 shares traded at $10.00 per share. Since 2001, all trades in Taft National common stock have been at $10.00 per share. No cash or stock dividends have been declared since 1998.

United Security Common Stock

The following chart summarizes the approximate high and low bid prices and dividends declared per share for United Security. United Security common stock has been quoted on the Nasdaq-NMS and traded under the symbol "UBFO" since June 5, 2001. Before that date, United Security common stock was traded on the over-the-counter marker under the symbol "UBFO.OB." The information in the following table is based upon information provided by the National Association of Securities

Dealers for prices on the Nasdaq-NMS. Bid quotations reflect inter-dealer prices, without adjustments for mark-ups, mark-downs, or commissions and may not necessarily represent actual transactions.

	United Security Common Stock	
	High Bid	Low Bid
2002		
First Quarter	$ 17.50	$ 16.13
Second Quarter	$ 18.25	$ 16.60
Third Quarter	$ 18.00	$ 15.00
Fourth Quarter	$ 19.74	$ 15.50
2003		
First Quarter	$ 21.73	$ 16.29
Second Quarter	$ 27.64	$ 18.53
Third Quarter	$ 26.59	$ 19.00
Fourth Quarter	$ 27.69	$ 24.17
2004		

	United Security Common Stock	
First Quarter	$ 29.50	$ 23.50

The following table sets forth the closing price per share of United Security common stock on the Nasdaq-NMS as of December 10, 2003, the last trading day before the date on which United Security and Taft National announced the execution of the merger agreement, and as of March 31, 2004, the last practicable date prior to the date of this proxy statement-prospectus.

Market Price Per Share as of	United Security Common Stock
December 10, 2003	$ 26.74
March 31, 2004	$ 24.70

You should obtain current market quotations for United Security common stock. The market price of United Security common stock will probably fluctuate between the date of this proxy statement-prospectus, the date on which the merger is completed and after the merger. Because the market price of United Security common stock is subject to fluctuation, the number of shares of United Security common stock that you may receive in the merger may increase or decrease.

Selected Financial Data

United Security and Taft National are providing the following information to aid you in your analysis of the financial aspects of the merger. The following charts show financial results actually achieved by United Security and Taft National.

United Security

United Security derived its annual historical financial data for 2003 and 2002 from the audited consolidated financial statements included at the end of this proxy statement-prospectus. In the opinion of United Security's management, all adjustments, consisting solely of recurring adjustments, necessary to fairly present the data at those dates and for those periods have been made.

Taft National

Taft National derived its annual historical financial data for 2003 and 2002 from its audited financial statements included at the end of this proxy statement-prospectus. In the opinion of Taft National's management, all adjustments, consisting solely of recurring adjustments, necessary to fairly present the data at those dates and for those periods have been made.

Comparative Historical Financial Data for United Security (Unaudited)

	Year Ended December 31,				
	2003	2002	2001	2000	1999
	(in thousands, except per share data and ratios)				
SUMMARY OF EARNINGS:					
Net interest income	$ 19,667	$ 17,200	$ 16,652	$ 17,397	$ 13,995
Provision for credit losses	1,713	1,963	1,733	1,580	1,025
Noninterest income	6,271	5,368	4,277	2,538	2,781
Noninterest expense	11,855	10,860	9,818	8,648	7,898
Net Income	$ 7,706	$ 6,833	$ 6,193	$ 6,257	$ 4,923

	Year Ended December 31,				
FINANCIAL POSITION:					
Total assets	$ 506,588	$ 519,316	$ 450,928	$ 356,832	$ 281,531
Total net loans and leases	338,716	343,042	331,163	256,802	195,233
Total deposits	440,444	423,987	368,651	271,862	238,863
Total shareholders' equity	45,036	40,561	36,059	33,749	28,316
PER SHARE DATA:					
Net Income Basic	$ 1.41	$ 1.27	$ 1.14	$ 1.16	$ 0.95
Net Income Diluted	$ 1.40	$ 1.25	$ 1.11	$ 1.12	$ 0.89
Book value per share	$ 8.17	$ 7.50	$ 6.68	$ 6.23	$ 5.41
SELECTED FINANCIAL RATIOS:					
Return on average assets	1.51%	1.37%	1.55%	1.95%	1.77%
Return on average shareholders' equity	17.80%	17.64%	17.25%	20.05%	18.31%
Average shareholders' equity to average assets	8.48%	7.76%	9.00%	9.71%	9.69%
Allowance for credit losses to total nonperforming loans	32.58%	36.00%	34.23%	134.27%	39.00%
Dividend payout ratio	40.07%	40.94%	40.09%	32.14%	31.50%

16

Comparative Historical Financial Data for Taft National (Unaudited)

	Year Ended December 31,				
	2003	2002	2001	2000	1999
Summary of Earnings:					
Net Interest Income	$ 2,259	$ 2,457	$ 2,993	$ 3,497	$ 2,516
Provision for Loan Losses	331	155	878	1,515	92
Noninterest Income	1,000	883	668	549	432
Noninterest Expense	2,731	3,332	3,080	2,871	2,591
Net Income	$ 197	$ (147)	$ (297)	$ (196)	$ 168
Financial Position:					
Total Assets	$ 50,393	$ 52,926	$ 53,038	$ 56,119	$ 48,695
Total Net Loans and Leases from Loans, net of Deferred Fees	27,449	31,140	31,842	39,744	32,893
Total Deposits	45,774	48,379	48,367	51,702	44,192
Total Shareholders' Equity	3,556	3,442	3,562	3,859	4,055
Per Share Data:					
Net Income Basic	$ 0.74	$ (0.55)	$ (1.11)	$ (0.73)	$ 0.63
Net Income Diluted	$ 0.74	$ (0.55)	$ (1.11)	$ (0.73)	$ 0.63
Book Value	$ 13.29	$ 12.87	$ 13.32	$ 14.43	$ 15.16

Selected Financial Ratios:

	Year Ended December 31,				
Return on Average Assets	0.37%	(0.28%)	(0.53%)	(0.36%)	0.32%
Return on Average Equity	5.67%	(4.20%)	(7.84%)	(4.50%)	4.20%
Shareholder's Equity to Assets	7.06%	6.50%	6.72%	6.88%	8.33%
Allowance for credit losses to nonperforming loans	122.61%	159.29%	2,217.14%	196.41%	2,133.33%

17

The Taft National Meeting

General

Taft National will hold a special shareholders' meeting on April 21, 2004 at 4:00 p.m., local time, at Chicken of Oz, 1107 Kern Street, Suite #3, Taft, California 93268. At the special shareholders' meeting you will be asked to consider and vote on the approval of the merger agreement, and any other matters that may properly come before the meeting.

Record Date; Stock Entitled to Vote; Quorum

Only holders of record of Taft National common stock at the close of business on March 17, 2004, the record date for Taft National's special shareholders' meeting, are entitled to receive notice of and to vote at the special shareholders' meeting. On the record date, Taft National had 267,481 shares of its common stock issued, outstanding and eligible to vote at the special shareholders' meeting. A majority of the shares of Taft National common stock issued and outstanding and entitled to vote on the record date must be represented in person or by proxy at the special shareholders' meeting in order for a quorum to be present for purposes of transacting business. In the event that a quorum is not present, it is expected that the special shareholders' meeting will be adjourned or postponed to solicit additional proxies.

Number of Votes

Each holder of Taft National common stock will be entitled to one vote, in person or by proxy, for each share of Taft National common stock held on the record date on approval of the merger agreement.

Votes Required

Approval of the merger agreement and the merger requires the affirmative vote of at least two-thirds of the shares of Taft National common stock outstanding on the record date. As of the record date, Taft National's directors and executive officers owned 79,887 shares, representing approximately 29.9%, of Taft National's issued and outstanding shares of common stock entitled to vote.

Voting of Proxies

Submitting Proxies

Taft National shareholders may vote their shares in person by attending the special shareholders' meeting or they may vote their shares by proxy. In order to vote by proxy, Taft National shareholders must complete the enclosed proxy card, sign and date it and mail it in the enclosed postage pre-paid envelope.

If a written proxy card is signed by a shareholder and returned without instructions, the shares represented by the proxy will be voted "FOR" approval of the merger. Taft National shareholders whose shares are held in "street name" (i.e., in the name of a broker, bank or other record holder) must either direct the record holder of their shares as to how to vote their shares or obtain a proxy from the record holder to vote at the Taft National special shareholders' meeting. It is important that you follow the directions provided by your broker regarding instructions on how to vote your shares. Your failure to instruct your broker on how to vote your shares will have the same effect as voting against the proposal to approve the merger agreement and the merger.

Revoking Proxies

Taft National shareholders of record may revoke their proxies at any time before the time their proxies are voted at the Taft National special shareholders' meeting. Proxies may be revoked by written notice, including by telegram or telecopy, to the Corporate Secretary of Taft National, by a later-dated

proxy signed and returned by mail or by attending the special shareholders' meeting and voting in person. Attendance at the special shareholders' meeting will not, in and of itself, constitute a revocation of a proxy. Instead, Taft National shareholders who wish to revoke their proxies must inform Taft National's Corporate Secretary at the special shareholders' meeting, prior to the vote, that he or she wants to revoke his or her proxy and vote in person. Written notices of proxy revocations must be sent so that they will be received before the taking of the vote at Taft National's special shareholders' meeting as follows:

Taft National Bank
523 Cascade Place
Taft, California 93268
Attention: Bob Hampton
Corporate Secretary

Abstentions and Broker Nonvotes

The presence, in person or by properly executed proxy, of the holders of a majority of Taft National's outstanding shares entitled to vote is necessary to constitute a quorum at the special shareholders' meeting. Abstentions and broker nonvotes will be counted in determining whether a quorum is present. Under the applicable rules of the National Association of Securities Dealers, Inc., brokers or members who hold shares in street name for customers who are the beneficial owners of Taft National common stock are prohibited from giving a proxy to vote those shares regarding approval of the merger and the merger agreement, in the absence of specific instructions from beneficial owners. We refer to these as "broker nonvotes." Abstentions and broker nonvotes will not be counted as a vote "FOR" or "AGAINST" the merger agreement and merger at the Taft National special shareholders' meeting. However, abstentions and broker nonvotes will have the same effect as a vote "AGAINST" the merger agreement and merger.

Other Matters

In addition to voting for approval of the merger, any other matters that are properly presented at the special shareholders' meeting will be acted upon. Taft National's management does not presently know of any other matters to be presented at the Taft National special shareholders' meeting other than those set forth in this proxy statement-prospectus. If other matters come before the special shareholders' meeting, the persons named in the accompanying proxy intend to vote according to the recommendations of Taft National's Board of Directors.

Solicitation of Proxies

Taft National's Board of Directors is soliciting the proxies for the Taft National special shareholders' meeting. Taft National will pay for the cost of solicitation of proxies. In addition to solicitation by mail, Taft National's directors, officers and employees may also solicit proxies from shareholders by telephone, facsimile, telegram or in person. If Taft National's management deems it advisable, the services of individuals or companies that are not regularly employed by Taft National may be used in connection with the solicitation of proxies. Arrangements will also be made with brokerage houses and other custodians, nominees and fiduciaries to send the proxy materials to beneficial owners. Taft National will, upon request, reimburse those brokerage houses and custodians for their reasonable expenses in so doing.

Taft National shareholders who submit proxy cards should not send in any stock certificates with their proxy cards. Instructions for the surrender of stock certificates representing shares of Taft National common stock will be mailed by Wells Fargo Shareowner Services, United Security's exchange agent, to former Taft National shareholders shortly after the merger is completed. Please read the section entitled "The Merger The Merger Agreement Exchange of Stock Certificates" for additional information.

The Merger

This section of the proxy statement-prospectus describes certain aspects of the proposed merger. Because this is a summary, it does not contain all the information that may be important to you. You should read this entire proxy statement-prospectus, including the appendices. A copy of the merger agreement is attached as Appendix A to this proxy statement-prospectus. The following discussion, and the discussion under the subsection entitled "The Merger Agreement," describes important aspects of the merger and the material terms of the merger agreement. These descriptions are qualified by reference to Appendix A.

Background and Reasons for the Merger; Recommendation of the Board of Directors

Taft National, based in Taft, California, has conducted general banking operations to serve individuals and small to medium-sized businesses since January 3, 1983 in Taft and, since May 11, 1998 with a branch in Bakersfield. Both of these offices are located in Kern County. In serving individuals and small businesses, Taft National has focused on a community-based approach to banking.

During the past several years the board of directors of Taft National has been concerned about the rapid changes occurring in the banking industry in California and Kern County including the trend of consolidation in the banking industry, further expected consolidation and increased competition in Kern County particularly by local and regional banks. In order to compete in a way that more banking customers are now expecting, Taft National faced the prospect of having to expend considerable capital and human resources to develop and maintain technological assets such as computer networks, online transaction processing, internet-enabled accounts and other features of modern banking that would require the raising of additional capital and the prospect of significant on-going expense.

In terms of capital and assets, Taft National is one of the smallest banks in California. Although the board of directors believed that Taft National could and would meet the challenges necessary to build a healthy, modern bank, there would be considerable risk and uncertainty. The board of directors realized that a combination with another bank might be a more effective and less costly way to achieve the necessary scale and/or expertise necessary to accomplish these challenges with fewer risks to Taft National's shareholders. The board and senior management determined that Taft National would and should be receptive to offers that would maximize shareholder value consistent with its fiduciary duties while at the same time continuing to improve on the safety, soundness and profitability of its existing banking franchise.

Taft National had received a number of unsolicited expressions of interest from various banks and private individuals. The board of directors considered each of these and determined that none were in the best interests of Taft National's shareholders.

In September, 2002, the board of directors of Taft National engaged the services of James H. Avery Company as its financial advisor in connection with potential merger or acquisition transactions. James H. Avery Company contacted numerous potential banks as prospective acquirors. Of these institutions, three expressed considerable interest including non-binding offers. Following a review of the expressions of interest by Taft National's legal counsel and financial advisor a term sheet was adopted by the board of directors. After the issuance of the term sheet by Taft National stating the minimum price and terms acceptable to its board of directors, one of these three potential acquirers, United Security, expressed interest at a proposed value to Taft National shareholders significantly above the other preliminary indications and significantly above the limited trading market for Taft National's shares and within the range in which shares of comparable banks had been acquired. United Security was also the largest of the three potential acquirers with the most stock liquidity.

United Security's offer was $5,349,620 in shares of United Security common stock, which was to be reduced, dollar for dollar, by certain merger-related expenses incurred by Taft over $300,000, plus payment of the principal and all accrued interest on five $100,000 convertible subordinated debentures held by certain directors of Taft National. James H. Avery Company was asked to prepare a financial

analysis of the offer, including comparable transactions, which analysis is contained in a written fairness opinion dated December 11, 2003 and concludes that the initial offer was fair from a financial standpoint to Taft National shareholders. United Security's offer was then enhanced to compensate Taft National for United Security's delay in signing the merger agreement due to a regulatory examination of United Security. United Security added a provision that the maximum value of United Security common stock to be used in determining the number of shares to be exchanged for Taft National's shares be set at $22.00 per share. Thus, while the minimum consideration to Taft's shareholders would be $5,349,620, assuming Taft National's merger expenses do not exceed $300,000, regardless of the market value of United Security's common stock, there was to be no maximum consideration should the market value of United Security's common stock rise above $22.00 per share. On the date preceding the signing of the merger agreement, for example, the closing price of United Security's common stock was $26.74 indicating a consideration to Taft's shareholders of $6,502,220 assuming no adjustment for merger-related expenses incurred by Taft over $300,000. In addition to the consideration to be paid to Taft National shareholders, United Security's offer included the payment of all principal and accrued but unpaid interest of five convertible subordinated debentures of Taft National each in the face amount of $100,000 and each held by one of five Taft National directors. The five directors are Messrs. Beard, Colston, Hampton, Hollingsworth and Lloyd. The closing of the merger is contingent upon these five directors not converting the debentures into Taft National common stock. Upon the completion of the merger, the debentures will be entirely paid off and canceled.

Additional negotiations related to the agreement and addressing personnel staffing, severance and other issues as well as due diligence investigations by United Security of Taft National and Taft National of United Security were conducted.

On December 11, 2003, the Taft National board held a meeting to discuss and review, with its legal counsel, the draft merger agreement and the related documents. These documents included the shareholder and non-compete agreements of all of Taft National's directors. James H. Avery Company also delivered its written opinion, along with various documentation, that as of December 11, 2003, the consideration to be received by Taft National's shareholders is fair from a financial point of view.

Against this background, upon consideration of the factors discussed above and elsewhere in this proxy statement-prospectus, and based upon the review and discussions by the Taft National board of the terms and conditions of the merger and the related documents and the opinion of James H. Avery Company as well as other relevant factors, the board reached the conclusion that the proposed merger was in the best interest of Taft National and it shareholders, and decided to enter into it. By unanimous vote, the board authorized and approved the merger and the execution of the merger agreement. The merger agreement was executed on December 11, 2003 and a joint press release was issued by the parties later that day.

In reaching its conclusion, the Taft National board considered a number of important matters, including, among other things:

- the increased liquidity to be provided to Taft National's shareholders by receiving shares of United Security's common stock in exchange for their shares of Taft National common stock because United Security common stock is reported on the Nasdaq, it has more outstanding shares and shareholders, and the shareholders of Taft National would have the benefit of a more active market for their shares after completion of the acquisition;

- the prospects for dividend yields to Taft National shareholders based on United Security's past dividend history and future prospects;

- the current and prospective economic conditions and prospects for the markets in which Taft National operates;

- competitive pressures and increasing regulatory burdens and constraints in the financial services industry in general and the community banking industry in particular;

- the review by Taft National's board, with its legal and financial advisor, of alternatives to the merger, the range of possible values to Taft National's shareholders obtainable through implementation of alternatives and the timing and likelihood of the same;

- the strong commitment United Security has shown in the communities it currently serves, and the likelihood that it will continue this commitment in the communities now served by Taft National;

- the enhancement of Taft National's competitiveness and its ability to serve its customers, depositors, creditors, other constituents and the communities in which it operates as a result of a business combination with an institution with greater resources, such as United Security;

- the expanded products and services provided by United Security, including larger lending limits, which will significantly enhance the products available to Taft National's customers;

- the availability as part of United Security to utilize the technology infrastructure needed to become competitive in the current financial services marketplace;

the improved ability to attract and retain top employees by offering greater challenges, opportunities and benefits;

the complimentary geographic distribution of United Security's offices in the San Joaquin Valley as compared with Taft National's existing banking offices;

information concerning the business, results of operation, asset quality and financial condition of Taft National and United Security on a stand-alone and combined basis, and the future growth prospects following the merger;

an assessment that, in the current economic environment, expansion through acquisition by another financial institution would be most economically advantageous to Taft National shareholders when compared to other alternatives such as de novo branch openings or branch acquisitions;

the terms and conditions of the merger agreement and related agreements, including the substantial premium over both book value and market value being offered and the earnings multiple of Taft National;

James H. Avery Company's analysis of the financial condition, results of operations, business prospects and stock price of Taft National and comparisons of Taft National to other banks and bank holding companies operating in its industry;

an analysis of the terms of other recent acquisitions in the banking industry, including the prices paid on other recent comparable combinations of banks and bank holding companies, compared to the price to be paid to the shareholders of Taft National;

the opinion of James H. Avery Company to the effect that, as of the date of the opinion, the merger agreement is fair, from a financial view, to the holders of Taft National common stock; and

the expectation that the acquisition will constitute a tax-free reorganization for federal income tax purposes.

In addition to the advantages, discussed in the previous paragraph, of a merger with a larger financial institution, the board of directors and management of Taft National also discussed the various risks of combining with United Security, including:

the disadvantages of being part of a larger entity, including the potential for decreased customer service;

the risk that integration of Taft National and United Security will divert the combined entities management from other beneficial activities; and

the possible adverse effect on certain employees of Taft National.

However, after weighing the advantages and disadvantages of a merger with United Security, the Taft National board of directors determined that the advantages clearly outweighed the disadvantages.

The above discussion of the factors considered by the Taft National board of directors is not intended to be exhaustive. In view of the variety and nature of the factors considered by the Taft National board of directors, the Taft National board of directors did not find it practicable to assign relative weights to the specific factors considered in reaching its decision.

For the reasons stated above, the board of directors of Taft National unanimously approved the merger agreement and related transactions, including the merger. The board of directors of Taft National believes that the merger is fair and in the best interests of Taft National and its shareholders. The board of directors of Taft National unanimously recommends that its shareholders vote "FOR" approval of the merger.

Structure of the Merger

The merger agreement provides that Taft National will merge with United Security Bank, United Security's subsidiary. As a result of the merger, United Security Bank will be the surviving bank and will operate under the name "United Security Bank." Each share of Taft National common stock issued and outstanding, other than shares with respect to which dissenters' rights have been perfected, will be converted into the right to receive shares of United Security common stock. Each share of United Security common stock outstanding will remain outstanding after the merger. Please read the sections entitled "The Merger Calculation of Consideration to be Paid to Taft National Shareholders" and " Dissenters' Rights" for additional information.

Calculation of Consideration to be Paid to Taft National Shareholders

The merger agreement provides that the number of shares of United Security common stock into which a share of Taft National common stock shall be converted shall be equal to the amount determined by dividing the lesser of, (a) the daily average of the closing price of a share of United Security common stock during the 20 consecutive trading days ending at the end of the third trading day immediately preceding the closing of the merger, or (b) $22.00, into $5,349,620, subject to a dollar for dollar adjustment in the event Taft National's expenses in the merger exceed $300,000 , with a maximum adjustment of $35,000, with the resulting quotient then divided by 267,481. It is likely that Taft National's merger expenses will exceed $300,000 by $35,000. In that event, the $5,349,620 will be reduced by $35,000. United Security shall pay the merger consideration in shares of United Security common stock, with a minimum number of shares equal to 243,164, unless Taft National's merger related expenses exceed $300,000 in the aggregate. Assuming Taft National's merger expenses are $335,000, then the minimum number of shares of United Security common stock to be issued will be 241,573.

On a per share basis, each share of Taft National common stock will be entitled to receive the aggregate merger consideration described above, in shares of United Security common stock. In

addition, cash will be paid to Taft National shareholders in lieu of any fractional shares of United Security common stock they would otherwise be entitled to receive.

The following table provides an illustration, at various assumed United Security average stock prices, of the number of shares of United Security common stock to be issued, the aggregate value of merger consideration to be received by Taft National shareholders, and the Taft National per share consideration. Please note that the following table is only an illustration. The Taft National per share merger consideration was computed based upon 267,481 shares of common stock issued and outstanding on December 11, 2003, Taft National's merger expenses equaling $335,000 and assumes, as has been agreed in the merger agreement, that the five $100,000 convertible subordinated notes which are convertible into shares of Taft National common stock under certain circumstances are not converted.

Assumed Average United Security Stock Prices	Number of United Security Shares to be Received for each Taft National Share	Aggregate Value of Merger Consideration	Value of Taft National per Share Merger Consideration
$ 19.00	1.04574471	$ 5,314,620	$ 19.87
$ 20.00	0.99345748	$ 5,314,620	$ 19.87
$ 21.00	0.94614998	$ 5,314,620	$ 19.87
$ 22.00	0.90314316	$ 5,314,620	$ 19.87
$ 23.00	0.90314316	$ 5,556,194	$ 20.77
$ 24.00	0.90314316	$ 5,797,767	$ 21.68
$ 25.00	0.90314316	$ 6,039,341	$ 22.58
$ 26.00	0.90314316	$ 6,280,915	$ 23.48
$ 27.00	0.90314316	$ 6,522,488	$ 24.38
$ 28.00	0.90314316	$ 6,764,062	$ 25.29
$ 29.00	0.90314316	$ 7,005,635	$ 26.19

As the table above illustrates, as the average United Security stock price increases beyond $22.00 per share, the aggregate value of the merger consideration also increases.

Fractional Shares

It is very likely that most of Taft National's shareholders will be entitled to receive a fractional interest of a share of United Security common stock in addition to a whole number of shares of United Security common stock. The merger agreement provides that, in lieu of receiving a fractional share, Taft National's shareholders entitled to a fractional share will receive cash equal to the value of the fractional interest.

Certain Federal Income Tax Consequences

General

The following discussion addresses the material federal income tax considerations of the merger that are generally applicable to Taft National shareholders. The entirety of the following discussion is the tax opinion of Vavrinek, Trine, Day & Co., LLP. It does not address the tax consequences of the merger under foreign, state, or local tax laws or the tax consequences of transactions completed before or after the merger, such as the exercise of options to purchase Taft National common stock in anticipation of the merger. Also, the following discussion does not deal with all federal income tax considerations that may be relevant to certain Taft National shareholders in light of their particular circumstances, such as shareholders who:

- are dealers in securities;
- are insurance companies, or tax-exempt organizations;
- are subject to alternative minimum tax;
- hold their shares as part of a hedge, straddle, or other risk reduction transaction;
- are foreign persons;
- dissent from the merger; or
- acquired their Taft National common stock through the exercise of stock options or otherwise as compensation.

You are urged to consult your own tax advisors regarding the tax consequences of the merger to you based on your own circumstances, including the applicable federal, state, local, and foreign tax consequences.

The following discussion is based on the Internal Revenue Code of 1986, as amended, referred to as the Code, applicable Treasury Regulations, judicial decisions, and administrative rulings and practice, as of the date of this proxy statement-prospectus, all of which are subject to change. Any such change could be applied to transactions that were completed before the change, and could affect the accuracy of the statements and conclusions in this discussion and the tax consequences of the merger to United Security, Taft National and Taft National shareholders.

Tax Opinion of Vavrinek, Trine, Day & Co., LLP

Neither United Security nor Taft National has requested nor will request a ruling from the Internal Revenue Service with regard to any of the tax consequences of the merger. Instead, as a condition to the closing of the merger, Vavrinek, Trine, Day & Co., LLP, independent accountants to Taft National, has rendered its opinion to United Security and Taft National to the effect that:

the merger constitutes a "reorganization" within the meaning of Code Section 368(a)(1)(A) by reason of the application of Code Section 368(a)(2)(D);

United Security, United Security Bank and Taft National are each a "party" to a reorganization within the meaning of Code Section 368(b);

neither United Security, United Security Bank nor Taft National will recognize federal taxable gain or loss as a result of the merger;

the federal income tax basis and holding periods of the assets exchanged between the parties to the merger will be the same as the federal income tax basis and holding periods of those assets prior to the merger;

to the extent that Taft National shareholders do not dissent in the merger and solely receive shares of United Security common stock: (i) no gain or loss will be recognized on the exchange;

(ii) the federal income tax basis of the shares of United Security common stock received by former holders of Taft National common stock will equal the federal income tax basis of such stockholders' shares of Taft National common stock, reduced by any amount allocable to fractional share interests for which cash is received, exchanged; and (iii) the holding period for the shares of United Security common stock received will include the holding period for the shares of Taft National common stock exchanged, provided that the Taft National common stock exchanged was held as a "capital asset" as such term is defined in Code Section 1221; and

to the extent that cash is received by holders of Taft National common stock in lieu of fractional share interests in United Security common stock, the cash will be treated as being received by the holders of Taft National common stock as a distribution in redemption of such stockholders' fractional share interests, subject to the provisions and limitations of the Code Section 302.

This tax opinion is based upon the assumption that the merger will take place in the manner described in the merger agreement and also assumes the truth and accuracy of certain factual representations that have been made by United Security and Taft National and which are customarily given in transactions of this nature.

Consequences to Taft National Shareholders

Based on the assumption that the merger will constitute a tax-free reorganization, and subject to the limitations and qualifications referred to in this discussion, the following federal income tax consequences will result from the merger. When you exchange your shares of Taft National common stock solely for United Security common stock, and cash in lieu of a fractional share, you should not recognize any gain or loss, except with respect to the fractional share. If you receive cash in lieu of a fractional share of United Security common stock, you will generally recognize gain or loss in an amount equal to the difference between (1) the amount of cash received in lieu of a fractional share and (2) your basis allocated to the fractional share. The holding period of the United Security common stock you receive in the merger will include the period for which you held your Taft National common stock, provided that you held your Taft National common stock as a capital asset at the time of the merger.

Withholding

Payments in respect of Taft National common stock or a fractional share of United Security common stock may be subject to the information reporting requirements of the Internal Revenue Service and to a 30% backup withholding tax. Backup withholding will not apply to a payment made to you if you complete and sign the substitute Form W-9 that will be included as part of the transmittal letter and notice from United Security's exchange agent, or you otherwise prove to United Security and its exchange agent that you are exempt from backup withholding.

Reporting and Record Keeping

When you exchange shares of Taft National common stock in the merger for United Security common stock, you are required to retain records of the transaction, and to attach to your federal income tax return for the year of the merger a statement setting forth all relevant facts with respect to the nonrecognition of gain or loss upon the exchange. At a minimum, the statement must include:

- your tax basis in the Taft National common stock surrendered; and
- the amount of cash and the fair market value, as of the effective date of the merger, of the United Security common stock received in exchange.

Federal Income Tax Treatment of Dissenters

If you effectively dissent from the merger and receive cash for your shares, you will recognize a gain, or loss, for federal income tax purposes equal to the amount by which the cash received for those shares exceeds, or is less than, your federal income tax basis for the shares. The amount of that gain, or loss, if any, will be treated as ordinary income or loss, or long-term or short-term capital gain or loss depending on:

- the length of time you held the shares;
- whether you held the shares as a capital asset; and
- whether you actually own United Security common stock or are deemed to own shares of Taft National common stock or United Security common stock under the constructive ownership rules.

In certain circumstances, you can be deemed for tax purposes to own shares that are actually owned by a nondissenter who is related to you, or to own shares of United Security common stock, with the possible result that the cash received upon the exercise of your rights could be treated as a dividend received in a corporate distribution rather than as an amount received in a sale or exchange of Taft National common stock.

Warning Regarding Federal Income Tax Opinions

This opinion of Vavrinek, Trine, Day & Co., LLP is not binding on the Internal Revenue Service or the courts. If the Internal Revenue Service were to successfully assert that the merger is not a reorganization within the meaning of Section 368(a) of the Code, then you would be required to recognize gain or loss equal to the difference between:

- the fair market of all United Security common stock and cash received in the exchange; and
- your federal income tax basis in the Taft National common stock surrendered.

In such an event, your total initial tax basis in the United Security common stock received would be equal to its fair market value, and your holding period for the United Security common stock would begin the day after the merger. The gain or loss would be a long-term capital gain or loss if your holding period for the Taft National common stock was more than one year and the Taft National common stock was a capital asset in your hands.

The preceding discussion does not purport to be a complete analysis of all potential tax consequences of the merger that may be relevant to a particular Taft National shareholder. You are urged to consult with your own tax advisor regarding the specific tax consequences to you of the merger, including the applicability and effect of foreign, state, local, and other tax laws.

Regulatory Approvals

Federal Reserve Board

Because the survivor of the merger will be a state-chartered member bank, the merger is subject to approval of an application by United Security Bank to the FRB. In reviewing the application, the FRB takes into consideration, among other things, competition, the financial and managerial resources and future prospects of the companies, and the convenience and needs of the communities to be served. Federal law prohibits the FRB from approving the merger if the merger would result in undue concentration of resources or decreased or unfair competition, unless the anti-competitive effects of the merger are clearly outweighed by the benefits to the public.

The FRB has the authority to deny United Security Bank's application if the FRB concludes that the combined organization would have an inadequate capital structure, taking into account, among

other factors, the nature of the business and operations and plans for expansion. Furthermore, the FRB must also evaluate the records of United Security Bank in meeting the credit needs of its community, including low- and moderate-income neighborhoods, consistent with safe and sound operation. United Security Bank has an "Outstanding" Community Reinvestment Act evaluations.

United Security Bank submitted its application for FRB approval of the merger on December 16, 2003, and on February 19, 2004, the FRB approved its application.

California Department of Financial Institutions

Because the survivor of the merger will be a California-chartered bank, the approval of the DFI is also required. In determining whether to approve the merger, the DFI evaluates the application to determine, among other things, that:

- the merger will not result in a monopoly;
- the merger will not have the effect of substantially lessening competition;
- the shareholders' equity of United Security will be adequate and will not jeopardize United Security Bank's financial condition;
- the directors and executive officers of United Security Bank after the merger will be competent;
- the merger will afford a reasonable promise of successful operation and that United Security Bank will be operated in a safe and sound manner, in compliance with all applicable laws; and
- the merger will be fair, just and equitable.

The application for DFI approval of the merger was submitted on December 20, 2003, and on January 30, 2003, the DFI approved the merger.

Statutory Waiting Period

Under federal banking laws, a 30-day waiting period must expire following the FRB's approval of the merger. Within that 30-day waiting period the Department of Justice may file objections to the merger under federal antitrust laws. The FRB may reduce the waiting period to 15 days with the concurrence of the Department of Justice. The Department of Justice could take such action under antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the merger unless divestiture of an acceptable number of branches to a competitively suitable purchaser can be made. If the Department of Justice commences an action challenging the merger on antitrust grounds during either the 30-day or 15-day waiting periods, commencement of that action would stay the effectiveness of the regulatory approvals, unless a court of competent jurisdiction specifically orders otherwise.

The merger cannot proceed in the absence of the regulatory approvals and the expiration of the statutory waiting period. United Security and Taft National are not aware of any reasons why regulatory approvals will not be received. United Security and Taft National have agreed to use their reasonable best efforts to obtain all necessary regulatory approvals. ***However, there can be no assurance that approvals will be obtained, nor can there be assurance as to the date of any approval. There also can be no assurance that any approvals will not contain unacceptable conditions or requirements.***

Resale of United Security Common Stock

The shares of United Security common stock that you receive as a result of the merger will be registered under the Securities Act of 1933, or the Securities Act. You may freely trade these shares of United Security common stock if you are not considered an "affiliate" of Taft National, as that term is defined in the federal securities laws. Generally, an "affiliate" of Taft National is any person or entity directly or indirectly controlling or who is controlled by Taft National. Taft National's affiliates generally

include directors, certain executive officers and holders of 10% or more of Taft National's common stock.

Taft National's affiliates may not sell their shares of United Security common stock acquired in the merger, unless those shares are registered under an effective registration statement under the Securities Act, or by complying with Securities Act Rule 145 or another applicable exemption from the registration requirements of the Securities Act. United Security may also place restrictive legends on certificates representing shares of United Security common stock issued to all persons considered "affiliates" of Taft National.

Before United Security and Taft National complete the merger, the merger agreement requires each "affiliate" of Taft National to execute and deliver to United Security a letter acknowledging that such person or entity will not dispose of any United Security common stock in violation of the Securities Act or Securities Act Rule 145.

Certain Effects of the Merger

The merger agreement requires Taft National to merge into United Security Bank, with United Security Bank as the surviving entity. After the merger, United Security Bank will continue to be United Security's subsidiary, and will continue to have its headquarters at 2151 West Shaw Avenue, Fresno, California 93710. United Security and United Security Bank will continue to operate with its present directors and executive officers.

After the merger, there will be no more trading in Taft National's common stock. Each Taft National shareholder will receive instructions from United Security's exchange agent regarding exchanging Taft National stock certificates.

Interests of Certain Persons in the Merger

Taft National's executive officers have interests in the merger in addition to their interests as Taft National shareholders. Taft National's Board of Directors was aware of these interests and considered them, among other matters, in approving the merger agreement. Under the merger agreement, United Security has agreed to enter into one year employment agreements with Dennis Tishma, Taft National's President and Chief Executive Officer, and Robert Morris, Taft National's Chief Credit Officer and Executive Vice President. The terms of both employment agreements provide that Messrs. Tishma and Morris will continue to receive their current salaries. Both agreements further provide that if Mr. Tishma or Mr. Morris is terminated by United Security without cause before the one year term of the agreement has expired, then United Security must pay Mr. Tishma or Mr. Morris, as the case may be, an amount of money equal to the salary that they would have earned had they not been terminated early.

On December 18, 1991, Taft National entered into a Salary Continuation Agreement with its former President, Charles E. Smith. The Salary Continuation Agreement provides for the payment of $60,000 per year for fifteen (15) years beginning on the first month after Mr. Smith retires. Mr. Smith retired December 31, 2001, and Taft National thereafter began payments to Mr. Smith under the terms of the Salary Continuation Agreement. If Mr. Smith dies within fifteen (15) years after his retirement, Mr. Smith's designated beneficiary shall receive the balance of the payments. United Security Bank will assume Taft National's obligations under the Salary Continuation Agreement upon consummation of the merger.

Taft National's bylaws provide Taft National's directors and officers with contractual rights to indemnification binding upon a successor. Please read the section entitled "Comparison of Shareholder Rights Indemnification of Directors and Officers" for additional information.

In settlement of a claim by Taft National against a former director, Taft National was assigned a twenty-five percent (25%) general partnership interest in a partnership that holds title to 523 Cascade

Place, Taft, California, Taft National's current headquarters. The remaining seventy-five percent (75%) is owned by three of the directors of Taft National (25% each), Messrs. Beard, Hampton and Colston. The partnership has leased the 11,000 square foot building to Taft National on a long term triple net lease that began September 1, 1982, and will terminate on November 30, 2007. The current rent under the lease is $9,000 per month plus the landlord's cost of taxes, insurance and maintenance. Although the settlement agreement has been signed by all parties, the formal assignment document called for by the settlement agreement has not yet been signed by the former director. Upon consummation of the merger, United Security will succeed to Taft National's interest in the partnership.

The discovery period for Taft National's policy of directors and officers liability insurance will be extended for up to 48 months with respect to all matters arising from facts or events which occurred before the effective time of the merger for which Taft National would have an obligation to indemnify its directors and officers. The cost of this extension shall not exceed $50,000 under the terms of the merger agreement; however, any premium cost in excess of $10,000 will be included in the $300,000 transaction cost ceiling for merger related expenses, above which the purchase price will be reduced dollar for dollar, with a maximum reduction of $35,000.

Taft currently is indebted on five subordinated debentures each with a principal amount of $100,000, and are convertible at the option of the holder into common stock of Taft National. These notes were purchased by directors of Taft National to provide additional capital for it as required by the OCC. The directors who each hold one of the $100,000 subordinated debentures are Messrs. Beard, Hampton, Colston, Hollingsworth, and Lloyd. Each debenture carries an interest rate of Western Edition Wall Street Journal Prime Rate plus 1%, with a term of 10 years ending on September 30, 2011, with principal payments beginning on December 31, 2006 and with an initial conversion price of $11.50. As consideration for the merger, the holders of the debentures have agreed not to convert those debentures into common stock of Taft National and United Security has agreed to pay all principal and accrued interest on the debentures on or before the effective time of the merger.

Dissenters' Rights of Taft National's Shareholders

Dissenters' rights will be available to the Taft National shareholders in accordance with Section 214a(b) of Title 12 of the United States Code. ***The required procedure set forth in Section 214a(b) of the United States Code must be followed exactly or any dissenters' rights may be lost.***

The information set forth below is a general summary of dissenters' rights as they apply to Taft National shareholders and is qualified in its entirety by reference to Section 214a(b) of Title 12 of the United States Code which is attached to this proxy statement-prospectus as Appendix B.

Fair Market Value of Shares

If the merger is approved, Taft National shareholders who dissent from the merger by complying with the procedures set forth in Section 214a(b) of Title 12 of the United States Code will be entitled to receive an amount equal to the fair market value of their shares as of April 21, 2004, the date of the shareholders' meeting.

Voting Procedure

In order to be entitled to exercise dissenters' rights, the shares of Taft National common stock which are outstanding and are entitled to be voted at the special shareholders' meeting must be voted "AGAINST" the merger by the holder of such shares, or the holder of such shares must give written notice to Taft National at or prior to the special meeting of shareholders that such shareholder dissents from the merger agreement. Thus, any Taft National shareholder who wishes to dissent and executes and returns a proxy in the accompanying form or votes at the special shareholders' meeting must vote "AGAINST" the merger. If the shareholder does not return a proxy or provide written notice of dissent, or returns a proxy without voting instructions or with instructions to vote "FOR" or

"ABSTAIN" with respect to the merger, or votes in person or by proxy at the special shareholders' meeting "FOR" the merger, his or her shares will be counted as votes in favor of the merger and the shareholder will lose any dissenters' rights.

Written Demand

Furthermore, in order to preserve his or her dissenters' rights, a Taft National shareholder must make a written demand upon Taft National for the purchase of dissenting shares and payment to the shareholder of their fair market value, specifying the number of shares held of record by the shareholder and a statement of what the shareholder claims to be the fair market value of those shares as of April 21, 2004, the date of the special meeting of shareholders. The demand must be addressed to United Security Bank, 1525 East Shaw Avenue, Fresno, California 93710; Attention: Ken Donahue, Assistant Corporate Secretary, and the demand must be received by United Security Bank not later than 30 days after the date of completion of the merger. A vote "AGAINST" the merger does not constitute the written demand.

Surrender of Certificates

Within 30 days after the date of completion of the merger, the dissenting shareholder must surrender to United Security Bank, both the written demand and the certificates representing the dissenting shares to be stamped or endorsed with a statement that they are dissenting shares or to be exchanged for certificates of appropriate denomination so stamped or endorsed. Any shares of Taft National common stock that are transferred prior to their submission for endorsement lose their status as dissenting shares.

Valuation of Shares and Payment

The value of the shares of Taft National common stock will be determined by a committee of three persons, one to be selected by the majority vote of the dissenting shareholders entitled to received the value of their shares, one by the directors of United Security Bank and the third by the two so chosen. The valuation agreed upon by any two of the three appraisers shall be the value used for payment to the dissenters.

Disagreement on Price and Comptroller Determination

If the value decided by the appraisers is not satisfactory to a dissenting shareholder who has requested payment, such shareholder may within five days after being notified of the appraised value of his or her shares appeal to the Comptroller of the Currency, who shall cause a reappraisal to be made, which shall be final and binding as to the value of the shares. If within ninety days form the date of completion of the merger, for any reason one or more of the appraisers is not selected as provided above, or the appraisers fail to determine the value of the shares, the Comptroller shall upon written request of any interested party, cause an appraisal to be made, which shall be final and binding on all parties.

Withdrawal of Demand

A dissenting shareholder may not withdraw his or her dissent or demand for payment unless Taft National consents to the withdrawal.

Opinion of Financial Advisor

Taft National's Board of Directors retained James H. Avery Company, under the terms of an engagement letter dated September 24, 2002, to provide financial advisory services for the purposes of analyzing Taft National's strategic options including the rendering of a fairness opinion from a financial point of view to Taft National's shareholders in the event of a proposed merger. Taft National and

James H. Avery Company provided this discussion of the review undertaken by James H. Avery Company.

Taft National retained James H. Avery Company as investment analysts to determine the fairness, from a financial point of view, to the holders of shares of Taft National common stock of the consideration to be received by Taft National in the merger. Under the terms of the merger agreement, each holder of shares of Taft National common stock will receive from United Security, in exchange for his or her shares of Taft National common stock, shares of United Security common stock. The transaction is based on a minimum aggregate consideration of $5,349,620 less certain specified costs of the transaction incurred by Taft National in excess of $300,000. The share value for Taft National is to be exchanged based on the determined market value per share of United Security common stock for each share of Taft National common stock based on the average closing price of United Security during the 20 consecutive days of trading ending on the third trading day immediately preceding the date of closing of the merger with a maximum valuation of United Security common stock at $22.00 per share. Based on each of the analyses discussed below, James H. Avery Company determined that United Security's offer was fair to the Taft National shareholders from a financial standpoint.

James H. Avery Company has acted for Taft National and for the board of directors of Taft National as financial advisor in this transaction and will receive a fee for its services, including rendering this opinion, equal to 2.00% of the aggregate consideration paid up to a maximum of $125,000.00 should the aggregate consideration paid equal $5,000,000.01 to $7,000,000.00. This fee shall be 2.50% of the aggregate consideration paid up to a maximum of $200,000.00 should the aggregate consideration paid exceed $7,000,000.00. It is expected that the total fee to be paid to James H. Avery Company will be $125,000. To date, $33,000 has been paid to James H. Avery Company and the balance of the fee is contingent upon the consummation of the merger. James H. Avery Company has not previously provided financial advisory services to Taft National. James H. Avery Company is not a market maker in shares of Taft National common stock nor do its principals or employees own, directly or indirectly, any shares of Taft National common stock. Taft National's board of directors selected James H. Avery Company to act as its financial advisor on the basis of James H. Avery Company's expertise and experience in the banking industry since 1968. James H. Avery Company is an independent financial advisor to the banking industry in California specializing in capital planning, mergers and acquisitions, the valuation of banks and their securities as well as additional related activities.

No limitations were imposed by Taft National on James H. Avery Company in the investigations made or procedures followed in rendering its opinion. James H. Avery Company issued the Taft National fairness opinion on the consideration to be received by the shareholders of Taft National in the merger agreement as fair, from a financial point of view, to the holders of the shares of Taft National common stock on December 11, 2003.

In arriving at the Taft National fairness opinion, James H. Avery Company has reviewed and analyzed, among other things, the following:

- the merger agreement;
- certain publicly available financial and other data with respect to Taft National, United Security and United Security Bank including the consolidated financial statements for recent years and interim periods to September 30, 2003;
- certain other publicly available information concerning Taft National and United Security and internal information concerning Taft National;
- publicly available information concerning other banks and bank holding companies, the trading markets for their securities and the nature, terms and circumstances of certain other merger transactions James H. Avery Company believed to be relevant, in whole or in part, to its inquiry; and

- evaluations and analysis prepared and presented to the board of directors of Taft National.

James H. Avery Company has held discussions with senior management of Taft National concerning Taft National's past and current operations, financial condition and prospects, as well as the results of regulatory examinations. James H. Avery Company has reviewed with senior management of Taft National various operating projections for Taft National as a stand-alone entity, assuming the merger does not occur. Certain pro forma shareholder value comparative projections were derived by James H. Avery Company for United Security and for Taft National as a stand-alone entity based on historical data.

In conducting the review and in arriving at the Taft National fairness opinion, James H. Avery Company relied upon and assumed the accuracy and completeness of the financial and other information provided to James H. Avery Company or was publicly available. James H. Avery Company has not assumed any responsibility for independent verification of this information. James H. Avery Company has relied upon the management of Taft National for various operating projections and assumed that such projections reflect the best currently available estimates and judgments of Taft National management. James H. Avery Company has also assumed, without assuming any responsibility for the independent verification of same, that the allowances for loan losses of United Security is adequate to cover its loan losses. James H. Avery Company has also assumed, without assuming any responsibility for the independent verification of same, that there are no active, pending or anticipated legal actions; no under or over market leases or owned fixed asset valuations; or any other under or over-evaluated assets or liabilities for either Taft National or United Security that would significantly change the financial condition for either company.

James H. Avery Company has not made or obtained any evaluations or appraisals of the property of Taft National or United Security, nor has James H. Avery Company examined any individual loan credit files. For purposes of its opinion, James H. Avery Company has assumed that the merger will have the tax, accounting and legal effects described in the merger agreement and has assumed the accuracy of the disclosures in the merger agreement. The Taft National fairness opinion is limited to the fairness, from a financial point of view, to the holders of shares of Taft National common stock of the aggregate minimum consideration as described in the merger agreement and does not address Taft National's underlying decision to proceed with the merger.

James H. Avery Company has considered the financial and other factors, as it has deemed appropriate under the circumstances, including among others the following:

- the historical and current financial positions and results of operations of Taft National and United Security, including interest income, interest expense, net interest income, net interest margin, provision for loan losses, noninterest income, noninterest expense, earnings, dividends, internal capital generation, book value, return on assets, return on shareholder's equity, capitalization, intangible assets, the amount and type of nonperforming assets, loan losses, all as set forth in the financial statements of Taft National and United Security;

- the assets and liabilities of Taft National and United Security, including loan, investment and mortgage portfolios, deposits, other liabilities, historical and current liability sources and costs and liquidity, and

- the nature, terms and conditions regarding other merger transactions involving banks and bank holding companies.

James H. Avery Company has also taken into account its assessment of economic, market and financial conditions generally and specifically to the markets in which Taft National and United Security operate, as well as its experience in other transactions, in bank securities valuation and its knowledge of the banking industry generally. The Taft National fairness opinion is necessarily based only upon conditions as they exist and can be evaluated on the date of the opinion and the information made available to James H. Avery Company through the date of the opinion.

James H. Avery Company performed financial analysis and peer-group comparisons with Taft National relating to overall performance and financial condition. James H. Avery Company analyzed other bank merger and acquisition transactions announced between December 5, 2002 and December 5, 2003 where the seller's assets were under $100 million. This asset size peer group was deemed comparable to the $52 million in assets reported by Taft National at September 30, 2003. In James H. Avery Company's opinion, the rural and agricultural nature of Taft National's market area and the lack of sufficient recent regional or California transactions in similar markets as Taft National's justified analysis of "peer group" banks nationwide. The transactions analyzed and defined in this section of this proxy statement-prospectus as the "peer group" were:

1 First Carolina State Bank by Capital Bancorp

2 Alliance Bank of Baton Rouge by IBERIABANK Corp

3 Midstate Bancorp by Shore Bancshares

4 FNB Bancshares by American Community Bancshares

5 BNW Bancorp by Pacific Financial Corp

6 Hawthorn Corp (Hawthorn Bank) by State Financial Services

7 PriVest Bank by America Bancshares

8 Abbeville Capital (Bank of Abbeville) by Community Capital Corp

9 South Texas Capital Group (Plaza Bank) by Sterling Bancshares

10 Auburn Community Bank by Western Sierra Bancorp

11 Village Bancorp by Wintrust Financial Corp

12	Community Bank of Grants Pass by Cascade Bancorp
13	North Oakland Community Bank by Community Central Bank
14	Ojai Valley Bank by Mid-State Bancshares
15	Hacienda Bank by Heritage Oaks Bancorp
16	Valley Bancorp by Marquette Financial
17	Kaweah National Bank by CVB Financial
18	Suburban Community Bank by Univest Corp
19	Random Lake Bancorp by Merchants and Manufacturers Bancorp
20	Pend Oreille Bancorp by Glacier Bancorp
21	Asiana Bank by Nara Bancorp
22	Southland Business Bank by Vineyard National Bancorp
23	DunC Bancshares by Blackhawk Bancorp
24	RVB Bancshares by Bank of the Ozarks
25	Centennial Bank by Crescent Financial Corp
26	Dalles Bancshares by Prosperity Bancshares
27	Abrams Centre National Bank by Prosperity Bancshares
28	Millennium Bank by Alabama National BanCorp.

Of the foregoing twenty-eight peer group banks, seven had a return on assets of less than 0.50% at the time the analysis was made.

The analysis of these announced transactions included comparative financial data relating to income, return on assets, return on equity, equity to assets, loan loss reserves, purchase price announced as a multiple to book value, purchase price announced as a multiple of the last twelve months of net income, purchase price announced as a multiple of total assets and purchase price

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announced as a premium for "core deposits" over book value with "core deposits" defined as all domestic deposits less accounts of $100,000 or more. As discussed in this proxy statement-prospectus, Taft National's various financial ratios do not compare favorably with the peer group median ratios in the areas of loan loss reserves to non-current loans, return on equity and return on assets. Based on the peer group medians to Taft National's ratios in these comparisons, James H. Avery Company's analysis and judgment is that Taft National's value should be lower than the peer group median values.

At September 30, 2003, Taft National's total equity was 6.65% of total assets. The range of peer group banks in terms of total equity to total assets was 6.33% to 14.85% with the median at 8.57%. The range of peer group banks with return on assets of under 0.50% in terms of total equity to total assets was 6.33% to 13.75% with the median at 9.17%. In this total equity to total assets comparison, the median of the peer group was 1.3 times Taft National's. The median for those banks with less than a 50% return on assets was 1.4 times Taft National's.

At September 30, 2003, Taft National's loan loss reserves represented 160% of non-current loans. The range of peer group banks as to loan loss reserves to non-current loans was 35% to 5,045% with five banks having no non-current loans and with the median at 231%. The range of peer group banks with return on assets of under 0.50% as to loan loss reserves to non-current loans was 35% to 1,050% with one bank having no non-current loans and with the median at 185%. In this loan loss reserves to non-current loans comparison, the median of the peer group was 1.4

times Taft National's. The median for those banks with less than a 50% return on assets was 1.2 times Taft National's.

At September 30, 2003, Taft National's annualized return on equity was 3.08% for the year, 2003. The range of peer group banks as to annualized year-to-date return on equity prior their respective announced transactions was -8.02%% to +31.30% with the median at 9.21%. The range of peer group banks with return on assets of under 0.50% as to annualized year-to-date return on equity prior their respective announced transactions was -8.02% to +7.03% with the median at 2.76%. In this comparison, the median of the peer group was 3.0 times Taft National's. The median for those banks with less than a 50% return on assets was 0.9 times Taft National's.

At September 30, 2003, Taft National's annualized return on assets was 0.20% for the year, 2003. The range of peer group banks as to annualized year-to-date return on assets prior to their respective announced transactions was -0.74% to +2.19% with the median at 0.81%. The range of peer group banks with return on assets of under 0.50% as to annualized year-to-date return on assets prior to their respective announced transactions was -0.74% to +0.46% with the median at 0.25%. In this comparison, the peer group median was 4.1 times Taft National's. The median for those banks with less than a 50% return on assets was 1.3 times Taft National's.

James H. Avery Company determined that no transaction reviewed was identical to the subject transaction and that, accordingly, any analysis of comparable transactions necessarily involves subjective considerations and judgments concerning differences in financial, operating and market characteristics of the parties to the transactions being compared.

Set forth below is a brief summary of the considerations related to the fairness opinion rendered.

Multiple of Book Value Method. This valuation approach is formulated on the announced purchase prices and multiples of book values based on the announced transactions of Taft National's asset-size peer group and those peers with less than a 0.50% return on assets. The multiple of book value is but one methodology utilized in the determination of overall market value of Taft National.

The peer group multiple factor ranged from 1.09 to 2.83 with the median at 1.84. Utilizing the Multiple of Book Value Method the minimum acquisition value, as of the Taft National fairness opinion report date, is as follows:

$3,454,000 (Taft National's September 30, 2003 book value) X 1.84 (the peer group median) = $6,355,360.

The peer group with less than a 0.50% return on assets multiple factor was from 1.22 to 2.09 with the median at 1.62. Utilizing the Multiple of Book Value Method the minimum acquisition value, as of the Taft National fairness opinion report date, is as follows:

$3,454,000 (Taft National's September 30, 2003 book value) X 1.62 (the under 0.50% ROA peer median) = $5,595,480.

Using the minimum merger consideration to be paid to Taft National's shareholders of $5,349,620 and Taft National's book value as of September 30, 2003, of $3,454,000, United Security's offer equates to 1.54 times Taft National's book value. Based on the price of United Security's common stock of $26.34 on December 10, 2003, the day before James H. Avery Company issued its fairness opinion, United Security's offer represented $6,405,000 in total merger consideration. Using $6,405,000 as the merger consideration to be paid to Taft National shareholders and Taft National's book value as of September 30, 2003, of $3,454,000, United Security's offer equates to 1.85 times Taft National's book value.

Multiple of Income Method. This valuation approach is formulated on the announced purchase prices and multiples of net income over the previous twelve months based on announced transactions of Taft National's asset-size peer group. Such income data for Taft National was based on call report data through September 30, 2003. The multiple of income is but one methodology utilized in the determination of overall market value of Taft National.

The peer group multiple factor ranged from 11.91 to 63.19 with the median at 23.32. Utilizing the Multiple of Income Method (based on Taft National's twelve-month income through September 30, 2003) the acquisition value, as of the Taft National fairness opinion report date, is as follows:

$187,000 (Taft National's last twelve months income) X 23.32 (the peer group median) = $4,360,840.

Using the minimum merger consideration to be paid to Taft National's shareholders of $5,349,620 and Taft National's last twelve months of income of $187,000, United Security's offer equates to 28.50 times Taft National's income. Based on the price of United Security's common stock of $26.34 on December 10, 2003, the day before James H. Avery Company issued its fairness opinion, United Security's offer represented $6,405,000 in total merger consideration. Using $6,405,000 as the merger consideration to be paid to Taft National's shareholders and Taft National's last twelve months income of $187,000, United Security's offer equates to 34.25 times Taft National's income.

The peer group with less than a 0.50% return on assets multiple factor was not considered as all but three of this group had a negative income during the period preceding their respective announcements. It is also noted that Taft National would have had a net loss during the period as well except for a one-time profit related to its sale of securities during the period.

Percentage of Total Assets Method. This valuation approach is formulated on the announced purchase prices as a percentage of total assets based on the announced transactions of Taft National's asset-size peer group. Such asset data for Taft National was based on call report data as of September 30, 2003. The percentage of total assets is but one methodology utilized in the determination of overall market value of Taft National.

The peer group percentage factor ranged from 9.96% to 26.51% with the median at 17.10%. Utilizing the Percentage of Total Assets Method (based on Taft National's total assets as of September 30, 2003) the acquisition value, as of the Taft National fairness opinion report date, is as follows:

$51,939,000 (Taft National's total assets at September 30, 2003) X 0.1710 (the peer group median) = $8,881,569.

The peer group with less than a 0.50% return on assets multiple factor ranged from 9.96% to 18.28% with the median at 15.58%. Utilizing the Percentage of Total Assets Method (based on Taft National's total assets as of September 30, 2003) the acquisition value, as of the Taft National fairness opinion report date, is as follows:

$51,939,000 (Taft National's total assets at September 30, 2003) X 0.1558 (the peer group median) = $8,092,096.

Using the minimum merger consideration to be paid to Taft National's shareholders of $5,349,620 and Taft National's total assets as of September 30, 2003, of $51,939,000, United Security's offer equates to 10.26% of Taft National's total assets. Based on the price of United Security's common stock of $26.34 on December 10, 2003, the day before James H. Avery Company issued its fairness opinion, United Security's offer represented $6,405,000 in total merger consideration. Using $6,405,000 as the merger consideration to be paid to Taft National's shareholders and Taft National's total assets as of September 30, 2003, of $51,939,000, United Security's offer equates to 12.33% of Taft National's total assets.

Core Deposits Premium over Book Value Method. This valuation approach is formulated on the announced purchase prices and the percentage premium paid for core deposits over the book value based on the announced transactions of Taft National's asset-size peer group. Core deposits are all domestic bank deposits excluding accounts in excess of $100,000. Such deposit data for Taft National was based on call report data as of September 30, 2003. The core deposits premium is but one methodology utilized in the determination of overall market value of Taft National.

The peer group premium on core deposits ranged from 1.53% to 22.40% with the median at 9.57%. Utilizing the Core Deposits Premium over Book Value Method (based on Taft National's book value and its core deposits as of September 30, 2003) the acquisition value, as of the Taft National fairness opinion report date, is as follows:

$43,324,000 (Taft National's core deposits as of September 30, 2003) X .0957 (the peer group median) = $4,146,107 plus $3,454,000 (Taft National's book value as of September 30, 2003) = $7,600,107.

The peer group with less than a 0.50% return on assets premium on core deposits ranged from 2.12% to 9.75% with the median at 7.33%. Utilizing the Core Deposits Premium over Book Value Method (based on Taft National's book value and its core deposits as of September 30, 2003) the acquisition value, as of the Taft National fairness opinion report date, is as follows:

$43,324,000 (Taft National's core deposits as of September 30, 2003) X .0733 (the peer group median) = $3,175,649 plus $3,454,000 (Taft National's book value as of September 30, 2003) = $6,629,649.

Using the minimum merger consideration to be paid to Taft National's shareholders of $5,349,620 and Taft National's core deposits as of September 30, 2003, of $43,324,000, and Taft National's book value as of September 30, 2003, of $3,454,000, United Security's offer equates to a core deposits premium of 4.32%. Based on the price of United Security's common stock of $26.34 on December 10, 2003, the day before James H. Avery Company issued its fairness opinion, United Security's offer represented $6,405,000 in total merger consideration. Using $6,405,000 as the merger consideration to

be paid to Taft National's shareholders and Taft National's core deposits as of September 30, 2003, of $43,324,000, and Taft National's book value as of September 30, 2003, of $3,454,000, United Security's offer equates to a core deposits premium of 6.81%.

Valuation Summary using Median Comparative Values All Peer Group Banks

	Total Value
Multiple of Book Value Method	$ 6,355,360
Multiple of Income Method	$ 4,360,840
Percentage of Total Assets Method	$ 8,881,569
Core Deposits Premium over Book Value Method	$ 7,600,107
Mean Average	$ 6,799,469
Median Average	$ 6,977,734
Minimum Merger Consideration	$ 5,349,620
Merger Consideration based on United Security Stock price of $26.34 on December 10, 2003	$ 6,404,939

As previously noted, financial comparisons of Taft National to the peer-group ratios indicate that the Taft National valuation should be somewhat below the peer group median valuations.

Valuation Summary using Median Comparative Values
Peer Group Banks with under 0.50% return on assets

	Total Value
Multiple of Book Value Method	$ 5,595,480
Multiple of Income Method	Not calculated
Percentage of Total Assets Method	$ 8,092,096
Core Deposits Premium over Book Value Method	$ 6,629,649
Mean Average	$ 6,772,408
Median Average	$ 6,629,649
Minimum Merger Consideration	$ 5,349,620
Merger Consideration based on United Security Stock price of $26.34 on December 10, 2003	$ 6,404,939

As previously noted, financial comparisons of Taft National to the peer-group with return on assets of less than 0.50% ratios indicate that the Taft National valuation should be somewhat below the peer group median valuations.

A review of these comparable multiples, considering Taft National's financial condition relative to the peer group, indicates that the comparisons indicate that the merger consideration is fair.

Earnings Accretion Analysis

James H. Avery Company reviewed and analyzed various projected earnings of Taft National made based on Taft National's continuing independent operation or on a "stand alone" basis. Using the year 2005, Taft National's most recent management projections show a pre-tax profit of $317,896. These projections were subsequently proved conservative based on November, 2003 pre-tax income being 27% ahead of projections. Much of this was due to the reduction of the loan loss provision which may not be sustainable. Nevertheless, we increased the 2005 management projection by approximately 20% to $381,000. Based on taxes at 44% of pre-tax earnings, our net profit projection is $214,000 or $0.80 per share using current shares outstanding of 267,481.

As of September 30, 2003, United Security's earnings were $6,309,000 for the year 2003 exclusive of the increase in income as a result of restating 2002 income. United Security's last twelve months income was $8,564,000. Including the restatement of income in 2002, United Security's net income has averaged a 15.3% increase per year over the 2000 - 2002 periods. Projecting income at the above $8,564,000 for 2003 and using a 15% annual increase in such income, United Security's 2005 net income is projected at $9,850,000 in 2004 and $11,330,000 in 2005 all projections being on a "stand alone" basis or without the proposed acquisition of Taft National.

Based on conversations with Taft National management we are assuming that, in combining the earnings of Taft National and United Security, there will be a cost savings to the combined entity of approximately 25% of Taft National's stand alone projection of noninterest expenses in 2005 or approximately $716,000 with a net income after tax increase to the combination of $425,000. Thus, the projected combined income of the two entities in 2005 is $11,969,000. Based on the exchange value of United Security shares at $22.00 per share and the minimum value of the transaction at $5,349,620 Taft National shareholders will be issued 243,165 shares. Added to United Security's shares outstanding at September 30, 2003 (5,506,466 shares), the combined entities would have 5,749,631 shares outstanding and the earnings per share would be projected at $2.03. This is approximately 254% higher than that projected for Taft National on a stand alone basis.

A review of the projected accretion of earnings to Taft National shareholders indicates substantially increased earnings to Taft National shareholders and, therefore, higher value to Taft National shareholders if the merger is completed.

Future Trading Value Analysis

An analysis of per share earnings projected in 2005 for Taft National on a stand alone basis and on United Security on a combined entity basis was made by James H. Avery Company.

Taft National's projected earnings in 2005 are $0.80 per share on a stand alone basis. The following California banks with assets under $200,000 were deemed comparable as to earnings per share relative to market value based on third quarter, 2003 reports of SNL Bank & Thrift Weekly: Mission Community Bank San Luis Obispo, Mission Oaks National Bank Temecula, First American Bank Rosemead, Cuyamaca Bank Santee, Summit Bancshares Oakland, and Sonoma Valley Bank Sonoma. These banks had price to last twelve months earnings ratios ranging from 12.4 to 23.9 with a median ratio of 17.0. The application of this median ratio to Taft National's projected earnings per share in 2005 indicated a future market value per share on a stand alone basis at $13.60.

The combined entities of Taft National and United Security show projected earnings per share in 2005 of $2.03. The following California banks with assets of $400,000 to $700,000 were deemed comparable as to earnings per share relative to market value based on third quarter, 2003 reports of SNL Bank & Thrift Weekly: First Northern Community Bancorp Dixon, FNB Bancorp South San Francisco, Pacific Mercantile Bancorp Costa Mesa, North Bay Bancorp Napa, Pacific Crest Capital Inc. Agoura Hills, First Regional Bancorp Inc. Los Angeles, Redwood Empire Bancorp -Santa Rosa, BWC Financial Corp Walnut Creek, Bank of Marin California Corte Madera, Community Bancorp Inc. Escondido, Foothill Independent Bancorp Glendora, and North Valley Bancorp Redding. These banks had price to last twelve months earnings ratios ranging from 13.4 to 23.1 with a median ratio of 16.0. The application of this median ratio to projected earnings per share of the combined entities in 2005 indicated a future market value per share on a combined basis at $32.48. This is approximately 239% higher than that projected for Taft National on a stand alone basis.

A review of the projected future trading value to Taft National shareholders indicates substantially increased share value to Taft National shareholders and, therefore, higher value to Taft National shareholders if the merger is completed.

Future Merger Value Analysis

An analysis of per share earnings projected in 2005 for Taft National on a stand alone basis and on United Security on a combined entity basis was made by James H. Avery Company.

Taft National's projected earnings in 2005 are $0.80 per share on a stand alone basis. The following announced sales of California bank's with assets under $200,000, excluding banks with negative earnings during the twelve month period preceding their announced sales, were deemed comparable as to previous twelve months seller's earnings relative to announced acquisition values for 2002 and 2003: Kerman State Bank by Westamerica Bancorp, Upland Bank by First Community Bancorp, Marathon Bancorp by First Community Bancorp, Bank of Coronado by First Community Bancorp, North State National Bank by TriCo Bancshares, Harbor National Bank by First Community Bancorp, PriVest Bank by America Bancshares, Auburn Community Bank by Western Sierra Bancorp, First State Bancorp by Boston Private Financial Holdings, Ojai Valley Bank by Mid-State Bancshares, Hacienda Bank by Heritage Oaks Bancorp, Kaweah National Bank by CVB Financial Corp, Sun Country Bank by America Bancshares, Verdugo Banking Company by First Community Bancorp, and Central Sierra Bank by

Western Sierra Bancorp. These banks had announced price to last twelve months earnings to sales price ratios ranging from 13.74 to 71.77 with a median ratio of 17.66. The application of this median ratio to Taft National's projected earnings per share in 2005 indicated a future market value per share on a stand alone basis at $14.13.

The combined entities of Taft National and United Security show projected earnings per share in 2005 of $2.03. The following announced sales of California banks with assets of $200,000 to $1,000,000, excluding banks with negative earnings during the twelve month period preceding their announced sales, were deemed comparable as to previous twelve months seller's earnings relative to announced acquisition values for 2002 and 2003: Pacific Crest Capital, Inc. by Pacific Capital Bancorp, California Independent Bancorp by Humboldt Bancorp, First Continental Bank by UCBH Holdings, Central Valley Bancorp by 1867 Western Financial Corp, and Orange County Bancorp by LandAmerica Financial Group. These banks had announced price to last twelve months earnings to sales price ratios ranging from 6.88 to 20.12 with a median ratio of 17.52. The application of this median ratio to projected earnings per share of the combined entities in 2005 indicated a future market value per share on a combined basis at $35.57. This is approximately 252% higher than that projected for Taft National on a stand alone basis.

A review of the projected future merger value to Taft National shareholders indicates substantially increased share value to Taft National shareholders and, therefore, higher value to Taft National shareholders if the merger is completed.

Shareholder Liquidity Considerations

The last trade of Taft National's common stock per OTC Bulletin Board quotes was on July 17, 2003. No volume data was available. Taft National trades under the ticker symbol TFNB.PK. The Chief Executive Officer of Taft National believes that less than 500 shares have traded in the past year which is 0.19% of shares outstanding.

United Security trades under the ticker symbol UBFO with a reported average daily volume of 2,727 shares at the date of the fairness opinion or approximately 700,000 shares annually representing approximately 13% of shares outstanding as of September 30, 2003.

This analysis indicates that Taft National shareholders would, as a result of the proposed merger, enjoy greater liquidity as shareholders of United Security than now available as Taft National shareholders.

In performing its analyses, James H. Avery Company made numerous assumptions about industry performance, general business and economic conditions and other matters, many of which are beyond

the control of Taft National or United Security. The analyses performed are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than suggested by those analyses. The analyses were prepared solely as part of James H. Avery Company's analysis as to the fairness of the consideration to holders of shares of Taft National common stock in the merger. The analyses do not purport to be appraisals or to reflect the prices at which Taft National might actually be sold or the prices at which any securities may trade at the present time or in the future.

Consideration of Discounted Cash Flow Method.

James H. Avery Company did not employ the discounted cash flow method in its analysis of the proposed merger even though it is aware that the discounted cash flow method is a commonly used valuation methodology. Discounted cash flow analysis is most appropriate for companies which show relatively steady or somewhat predictable streams of cash flow. Given the negative history of such cash flows, the uncertainty in estimating Taft National's future cash flows and a sustainable long-term growth rate, James H. Avery Company considered a discounted cash flow analysis as inappropriate in its valuation. In addition, James H. Avery Company believes that the provided methodologies proved adequate for determining the fairness of the consideration to Taft National's shareholders from a financial standpoint.

Conclusion

James H. Avery Company provided the written Taft National fairness opinion dated December 11, 2003 regarding the fairness, from a financial point of view, of the consideration to be received by Taft National in the proposed merger, based on the information then available. As of December 11, 2003, James H. Avery Company is of the opinion that the consideration to be received by Taft National shareholders in the proposed merger is fair, from a financial standpoint.

A copy of the fairness opinion of James H. Avery Company, dated as of December 11, 2003, which sets forth certain assumptions made, matters considered and limits on the review undertaken by James H. Avery Company, is attached as Appendix C to this proxy statement-prospectus. Shareholders of Taft National are urged to read the fairness opinion in its entirety.

Accounting Treatment

United Security must account for the merger under the purchase method of accounting prescribed by accounting principles generally accepted in the United States. Under this method, United Security's purchase price will be allocated to Taft National's assets acquired and liabilities assumed based upon their estimated fair values as of the completion of the merger. Deferred tax assets and liabilities will be adjusted for the difference between the tax basis of the assets and liabilities and their estimated values. The excess, if any, of the total acquisition cost over the sum of the assigned fair values of the tangible and identifiable intangible assets acquired, less liabilities assumed will be recorded as goodwill and periodically evaluated for impairment. United Security's financial statements issued after completion of the merger will reflect these values, but historical data are not restated retroactively to reflect the combined historical financial position or results of operations of United Security and Taft National. For additional information, please read the section entitled "Description of United Security Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Merger Agreement

The Merger

United Security and Taft National entered into the merger agreement on December 11, 2003. Under the merger agreement's terms, Taft National will merge with United Security Bank. The separate corporate existence of Taft National will cease, and United Security Bank will be the survivor.

Each share of Taft National common stock issued and outstanding, other than shares with respect to which dissenters' rights have been perfected, will be converted into shares of United Security common stock.

Each share of United Security common stock outstanding immediately before the merger closes will remain outstanding after the merger closes. Please read the sections entitled "The Merger -Calculation of Consideration to be Paid to Taft National Shareholders" and " Dissenters' Rights" for additional information.

United Security and Taft National have structured the merger to qualify as a tax-free reorganization from their perspectives. For more information, you are urged to read the section entitled "The Merger Certain Federal Income Tax Consequences" for additional information.

The Closing

The merger will be effective at the date and time a short-form merger agreement is filed with the DFI, after having been filed with the California Secretary of State and previously approved by the DFI. At the closing the parties will exchange various documents, including officers' certificates, as required by the merger agreement. The merger agreement provides that the timing for the closing and the completion of the merger shall be mutually agreed upon by the parties and shall be held within 30 days after the last to occur of:

- all conditions to the completion of the merger being satisfied or waived;
- the receipt of all regulatory approvals; and
- the expiration of all applicable waiting periods in connection with the regulatory approvals.

Based upon the timing for Taft National's special shareholders' meeting and the present and anticipated timing of the regulatory approvals, it is presently anticipated that the merger will be closed on or about April 30, 2004. Neither United Security nor Taft National can assure you that the merger will close on that date.

Exchange Procedures

United Security's current transfer agent, Wells Fargo Shareowner Services, will be United Security's exchange agent to effect the exchange of shares of United Security common stock for shares of Taft National common stock. A letter of transmittal will be sent to you shortly after the merger is completed. If you do not exercise dissenters' rights, you must use the letter of transmittal to receive shares of United Security common stock in exchange for your shares of Taft National common stock.

In order to promptly receive shares of United Security common stock, you must deliver to the exchange agent:

- a properly completed letter of transmittal form;
- your certificates representing former shares of Taft National common stock; and
- any other required documents described in the letter of transmittal.

Do not return your certificates representing shares of Taft National common stock with the enclosed proxy. The certificates should only be forwarded to the exchange agent with the letter of transmittal.

Following the completion of the merger and upon surrender of all of the certificates representing former shares of Taft National common stock registered in your name, or a satisfactory indemnity if any of such certificates are lost, stolen or destroyed, together with a properly completed letter of election and transmittal, the exchange agent will mail to you the United Security common stock to which you are entitled, less the amount of any required withholding taxes.

Representations and Warranties

The merger agreement contains various customary representations and warranties that United Security and Taft National make for each other's benefit. The representations and warranties relate to, among other things:

- corporate organization and similar corporate matters;
- authorization, execution, delivery, performance and enforceability of the merger agreement and related matters;
- conflicts under charter documents, required consents or approvals, and violations of any agreements or law;
- capital structure;
- the accuracy of documents filed with the Securities and Exchange Commission and bank regulatory agencies;
- absence of certain material adverse events, changes, effects or undisclosed liabilities;
- retirement and other employee plans and matters relating to the Employee Retirement Income Security Act of 1974, as amended;
- litigation;
- compliance with laws, including environmental laws;

- tax returns and audits;
- ownership of real property;
- regulatory actions; and
- labor matters.

The foregoing is an outline of the types of representations and warranties made by United Security and Taft National contained in the merger agreement attached as Appendix A. You should carefully review the entire merger agreement, and in particular Articles 3 and 4, containing the detailed representations and warranties of the parties.

Conduct of Business Before the Merger

The merger agreement places restrictions on and requires commitments by United Security and Taft National regarding the conduct of their respective businesses between the date of the merger agreement and the closing. Taft National has agreed to make its books and records available to United Security for ongoing review. Additionally, Taft National has agreed to allow a representative from United Security to attend the meetings of its Board of Directors and loan committees. Both United Security and Taft National have agreed to use their best efforts to prepare and file the necessary regulatory applications and to obtain the approvals from the various regulatory agencies as well as to work together for the purpose of preparing this proxy statement-prospectus. Also, both United Security and Taft National have agreed to use their best efforts to prevent any material changes to their respective representations and warranties contained in the merger agreement.

In addition, Taft National has agreed that until the closing and subject to certain exceptions, including United Security's prior approval, Taft National will not, other than in the ordinary and usual course of business:

- declare or pay any dividend;
- issue any stock options to acquire shares of Taft National common stock;

- amend its Articles of Association or Bylaws;
- authorize another acquisition proposal to acquire Taft National unless the Board of Directors of Taft National has determined that the proposal is more favorable to Taft National's shareholders and that the action is necessary for Taft National to comply with its fiduciary duties to shareholders under applicable law;
- make, renew, or extend any loan if the aggregate indebtedness of the borrower exceeds or will exceed $100,000 if unsecured and $250,000 if secured;
- make the credit underwriting policies less stringent than those in effect on December 31, 2002 or reduce the amount of the loan loss reserves;
- take into other real estate owned any commercial property without an environmental report reporting no adverse environmental condition on the property; or
- materially change its pricing practices on loans or deposit products.

Until the closing, Taft National has agreed to use its best efforts to take certain actions and to:

- maintain a reserve for loan losses at an adequate level and charge off all loans deemed uncollectible;
- provide Taft National's monthly board reports, copies of all material reports filed with or received from any governmental entity, and monthly unaudited balance sheets, statements of income and changes in shareholders' equity to United Security; and
- provide copies of each credit authorization package for credit of $250,000 or more for secured loans, $100,000 for unsecured loans, and renewals of any classified or criticized loans, concurrently with submission to Taft National's loan committee.

Until the closing, subject to certain exceptions including Taft National's prior approval, United Security has agreed that it will not, other than in the ordinary and usual course of business, declare or pay any extraordinary dividend.

The foregoing is a summary of some of the negative and affirmative covenants of the merger agreement. You are encouraged to carefully read the terms of the merger agreement attached as Appendix A, including the specific covenants contained in Articles 5 and 6.

Discussions with Third Parties

The merger agreement provides that Taft National shall not solicit or encourage third party proposals which would result in a merger, exchange offer, or other form of combination and requires that if such a proposal is received, notification must be given to United Security. Notwithstanding the prohibition on soliciting or encouraging such proposals, the merger agreement recognizes that an unsolicited third party proposal might be received. Moreover, the merger agreement permits Taft National engaging in discussions or negotiations with the third party if the proposal is determined, after consultation with counsel and a financial advisor, to be superior, from the shareholders' perspective, to the merger.

In the event the merger agreement is terminated because Taft National elects to proceed with a third party transaction, Taft National will be obligated to pay a termination fee to United Security in the amount of $500,000.

The foregoing is a summary of the provisions of the merger agreement regarding discussions with third parties. You are encouraged to read the terms of the merger agreement attached as Appendix A, including the specific provisions contained in Sections 6.2.5 and 8.5. of the merger agreement.

44

Employee Benefits

Immediately prior to the closing, Taft National shall terminate any employee benefit arrangement requested by United Security. After completion of the merger, all employees of Taft National at the date of the completion of the merger, shall be entitled to participate in all of United Security's and United Security Bank's employee benefit arrangements on the same basis as other similarly situated employees of United Security and United Security Bank. Each of these employees will be credited for eligibility, participation and vesting purposes with such employee's respective years of past service with Taft National as though they had been employees of United Security and United Security Bank, except with respect to United Security's Employee Stock Option Plan and 401(k) Plan.

Conditions to the Parties' Obligations

The obligations of United Security and Taft National to complete the merger are subject to certain mutual conditions, including, but not limited to the following:

- approval of the principal terms of the merger by holders of two-thirds of the outstanding shares of Taft National common stock entitled to vote;

receipt of the regulatory approvals, without the imposition of burdensome conditions, required in connection with the merger;

absence of any statute, rule, regulation or order, being in effect and prohibiting completion of the merger;

the registration statement having become effective regarding the shares of United Security common stock to be issued upon completion of the merger;

the receipt and continued effectiveness of all qualifications or registrations under state securities laws necessary for the issuance of the shares of United Security common stock to be issued upon completion of the merger;

receipt of a tax opinion stating, among other things, that the merger will qualify as a tax-free reorganization for federal income tax purposes;

the holders of the five $100,000 convertible subordinated notes of Taft National shall not have converted the convertible subordinated notes into shares of Taft National common stock and United Security Bank shall have paid to the holders of the five $100,000 convertible subordinated notes of Taft National, the principal and any accrued and unpaid interest due on the notes at the date of completion of the merger; and

Dennis Tishma and United Security Bank shall have entered into an employment agreement providing for Mr. Tishma's employment with United Security Bank for a period of one year following completion of the merger, and Robert Morris and United Security Bank shall have entered into an employment agreement providing for Mr. Morris' employment with United Security Bank for a period of one year following completion of the merger.

United Security's obligation to complete the merger is also subject to the fulfillment or waiver by United Security of certain conditions, including but not limited to the following:

Taft National's representations and warranties being and remaining true, accurate and correct in all material respects;

Taft National's performing, in all material respects, all of its required obligations contained in the merger agreement before the closing;

delivery of affiliate letters executed by each of Taft National's affiliates;

delivery of voting agreements executed by each of Taft National's directors, as well as other various and customary closing documents; and

the number of shares of Taft National common stock which are eligible to be dissenting shares under Section 214a of the National Bank Act shall not exceed an amount which, when combined with other cash amounts payable in connection with the merger, would result in the merger being disqualified from a tax free reorganization.

In addition, Taft National's obligation to complete the merger is also subject to the fulfillment or waiver by Taft National of certain conditions, including but not limited to the following:

United Security's representations and warranties being and remaining true, accurate and correct in all material aspects;

United Security performing, in all material respects, all of its required obligations contained in the merger agreement before the closing;

receipt of a fairness opinion to the effect that the terms of the merger are fair, from a financial standpoint, to Taft National and its shareholders; and

the fairness opinion shall not have been withdrawn prior to the Taft National meeting.

The foregoing is a summary of the conditions of the merger agreement. You are encouraged to read the terms of the merger agreement attached as Appendix A, including the specific provisions contained in Article 7 of the merger agreement.

Termination

United Security and Taft National can mutually agree to terminate the merger agreement and abandon the merger at any time.

Under certain circumstances, either United Security or Taft National can terminate the merger agreement:

if the other party materially breaches any representation, warranty, covenant, or agreement contained in the merger agreement that is not cured prior to completion of the merger; or

if the merger has not closed by June 30, 2004; or

if there is a breach or default that would be reasonably likely to have, a material adverse effect upon the consummation of the merger.

United Security can terminate the merger agreement if Taft National's Board of Directors approves a merger agreement with a party other than United Security or fails to publicly oppose an offer to acquire 25% of the outstanding shares of Taft National common stock.

If the merger agreement is terminated by United Security or Taft National due to a material breach of any representation, warranty, covenant or agreement, the breaching party will owe the other party liquidated damages of $200,000. If United Security terminates the merger agreement due to lack of shareholder approval by Taft National's shareholders, Taft National will owe United Security liquidated damages of $200,000. In addition, if Taft National's Board of Directors approves an alternative merger or similar proposal within one year of United Security's termination of the merger agreement, Taft National will owe United Security an additional $300,000. The payment of these fees shall be made as reasonable liquidated damages and not as a penalty or forfeiture.

The foregoing is a summary of the termination provisions of the merger agreement. You are encouraged to read the terms of the merger agreement attached as Appendix A, including the specific provisions contained in Article 8 of the merger agreement.

Expenses

The merger agreement provides that United Security and Taft National shall bear their own costs and expenses incurred in connection with the merger agreement and the merger, except that the costs associated with the conversion of the registration statement into electronic format for filing with the SEC, and printing and mailing this proxy statement-prospectus, shall be split by the parties. For example, United Security shall bear, among others, the expenses of:

preparation and delivery of the tax opinion from Vavrinek, Trine, Day & Co., LLP;

preparation of the registration statement, including filing fees;

filing fees and related costs of regulatory applications; and

any notifications and press releases to United Security shareholders, including printing expenses.

Taft National shall bear, among others, the expenses of:

preparation of its proxy materials;

the fairness opinion and investment banking fee; and

any notifications and press releases to Taft National shareholders, including printing expenses.

For a discussion of the effect Taft National's expenses may have on the consideration received by Taft National shareholders please read the section "The Merger Calculation of Consideration to be Paid to Taft National Shareholders."

Director Voting Agreements

United Security has entered into voting agreements with each of Taft National's directors who hold, in the aggregate, shares representing approximately 29.9% of Taft National common stock entitled to vote. The director's agreements, in the form attached as Exhibit 7.2.8 to the merger agreement, require each of Taft National's directors to vote in favor of the merger at Taft National's shareholders' meeting.

Each director's agreement also provides that the directors will not take any action that will alter or affect in any way the director's right to vote his or her shares of Taft National common stock.

The director's agreements bind the actions of the directors only in their capacity as Taft National shareholders. The directors are not and could not be contractually bound to abrogate their fiduciary duties as directors of Taft National. Accordingly, while the directors are contractually bound to vote as a Taft National shareholder in favor of the merger, their fiduciary duties as directors nevertheless require them to act in their capacities as directors in the best interests of Taft National when they consider the merger. In addition, the directors will continue to be bound by their fiduciary duties as Taft National's directors with respect to any further decisions they make in connection with the merger.

The director's agreements also provide that for a period of two years after the completion of the merger, the director agrees not to compete with United Security through the ownership of more than 1% of, or be connected as an officer, director, employee, principal, agent or consultant to any financial institution whose deposits are insured by the FDIC that has its head offices or a branch office within 50 miles of the head office of Taft National.

The director's agreements terminate at the earlier of two years following the completion of the merger or when the merger agreement terminates according to its terms.

Description of United Security

Business

General. United Security was incorporated under the laws of the State of California on February 21, 2001. United Security was organized under a plan of reorganization for the purpose of becoming the parent corporation of United Security Bank, and on June 12, 2001, the reorganization was effected and shares of United Security common stock were issued to the shareholders of United Security Bank for the common shares held by United Security Bank's shareholders. United Security is a registered bank holding company under the Bank Holding Company Act of 1956. United Security conducts its operations at the administrative offices of United Security Bank located at 1525 East Shaw Avenue, Fresno, California 93710.

United Security Bank, N.A., predecessor to United Security Bank, originally commenced business as a national banking association on December 21, 1987. On February 1, 1999, United Security Bank was incorporated under the laws of the State of California, and on February 3, 1999, following its conversion from a national banking association, was licensed by the Commissioner of Financial Institutions and commenced operations as a California state-chartered bank. United Security Bank is a member of the Federal Reserve System and its deposits are insured to the maximum amount permitted by law by the FDIC. United Security Bank's head office is located at 2151 West Shaw Avenue, Fresno, California and its branch offices are located at 1041 East Shaw Avenue, Fresno, 13356 South Henderson, Caruthers, 145 East Durran Street, Coalinga, 1067 Oliver Street, Firebaugh, 8777 Main Street, San Joaquin, and 40074 Highway 49, Oakhurst. United Security Bank does not have any affiliates or subsidiaries. United Security Bank also has its administrative offices located at 1525 East Shaw Avenue, Fresno.

Banking Services. As an independent 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 and Madera Counties.

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

United Security Bank also engages in a full complement of lending activities, including real estate mortgage, commercial and industrial, real estate construction, as well as agricultural and consumer loans, with particular emphasis on short and medium-term obligations. United Security Bank's loan portfolio is not concentrated in any one industry, although approximately 70% of United Security 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, 2003, United Security Bank had loans, net of unearned fees, outstanding of $344.8 million, which represented approximately 68% of United Security Bank's total deposits and approximately 78% 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. A substantial portion of the 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. 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 this loan category is from the cash flow of the borrower. At December 31, 2003 real estate mortgage loans, commercial and industrial loans, real estate construction loans, agricultural loans and lease financing loans constituted approximately 27.9%, 33.8%, 28.3%, 4.4% and 3.6%, respectively, of United Security Bank's total loan portfolio.

In the normal course of business, United Security Bank makes various loan commitments and incurs certain contingent liabilities. At December 31, 2003, these financial instruments included commitments to extend credit of $140.3 million, and standby letters of credit of $2.0 million. Of the $140.3 million in loan commitments outstanding at December 31, 2003, $110.3 million were on loans with maturities of one year or less. Due to the nature of the business of United Security Bank's customers, there are no seasonal patterns or absolute predictability to the utilization of unused loan commitments; therefore United Security Bank is unable to forecast the extent to which these commitments will be exercised within the current year. United Security Bank does not believe that any such utilization will constitute a material liquidity demand.

In addition to the loan and deposit services discussed above, United Security 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 cashier's checks, traveler's checks, money orders, and foreign drafts. United Security 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 United Security Bank's business originates from within Fresno and Madera Counties. Neither United Security Bank's business or liquidity is seasonal, and there has been no material effect upon United Security Bank's capital expenditures, earnings or competitive position as a result of federal, state or local environmental regulation.

Employees. At December 31, 2003, United Security and its subsidiaries employed 88 persons on a full-time equivalent basis. United Security believes its employee relations are excellent.

Properties. United Security 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 building also houses United Security Bank's administrative offices.

United Security Bank's main office branch is located at 2151 West Shaw Avenue, Fresno, California. United Security Bank owns the building and leases the land under a sublease dated December 1, 1986 between Central Bank and United Security Bank. 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 is Thomas F. Hinds. The lease expires on December 31, 2015 and United Security Bank has options to extend the term for four (4) ten-year periods and one seven (7) year period.

United Security Bank occupies the premises of approximately 3,600 square feet for its East Shaw branch under a lease expiring February 28, 2004 with extensions to August 31, 2011.

United Security Bank leases the Oakhurst branch located at 40074 Highway 49, Oakhurst, California, which consists of approximately 5,000 square feet of interior floor space in a stand alone building. United Security Bank is leasing this office from 41/49 Highway Junction Project, LTD., for an original term of 15 years beginning on April 21, 1999, with options to extend the lease for two additional five-year periods each.

United Security Bank leases the Caruthers branch located at 13356 South Henderson, Caruthers, California which consists of approximately 5,000 square feet of floor space. The Caruthers branch lease expires in January, 2006 with extensions through January, 2021.

United Security Bank leases its real estate construction offices located at 1535 East Shaw, Suite 105, Fresno, California which consists of approximately 2,100 square feet. The lease term began on March 1, 2001 and expires February 28, 2006.

United Security Bank owns the San Joaquin branch which is located at 21574 Manning Avenue, San Joaquin, California and is approximately 2,100 square feet.

United Security Bank owns the Firebaugh branch located at 1067 O Street, Firebaugh, California. The premises are comprised of approximately 6,198 square feet of interior floor space situated on land totaling approximately one-third of an acre.

United Security Bank owns the Coalinga branch located at 145 East Durian, Coalinga, California. The Coalinga branch has 6,184 square feet of interior floor space situated on approximately 0.45 acres.

Legal Proceedings. From time to time, United Security and/or United Security Bank is a party to claims and legal proceedings arising in the ordinary course of business. United Security's management is not aware of any material pending litigation proceedings to which either it or United Security Bank is a party or has recently been a party, which will have a material adverse effect on the financial condition or results of operations of United Security and United Security Bank taken as a whole.

Trust Preferred Securities Offerings. On June 26, 2001, United Security formed a Connecticut statutory business trust, USB Capital Trust I. On July 25, 2001, United Security issued USB Capital Trust I Floating Rate Junior Subordinated Deferrable Interest Debentures Due 2031 in the aggregate principal amount of $15,000,000. These debentures qualify as Tier 1 capital under Federal Reserve Board guidelines subject to limitations under Federal Reserve Board guidelines. In exchange for these debentures USB Capital Trust I paid United Security $15,000,000. USB Capital Trust I funded its purchase of debentures by issuing $15,000,000 in floating rate capital securities, which were then pooled and sold to third parties. USB Capital Trust I secured the floating rate capital securities with debentures issued by United Security. The debentures are the only asset of USB Capital Trust I. The interest rate on both instruments is the same and is computed on actual days divided by 360 times the rate. The rate is the six-month LIBOR (London Interbank Offered Rate) plus 3.75% not to exceed 12.50% adjustable semiannually. The proceeds from the debentures were used to increase the level of risk-based capital with United Security Bank and to invest in an escrow title company.

The debentures and floating rate capital securities accrue and pay distributions semi-annually based on the floating rate described above on the stated liquidation value of $1,000 per security. United Security has entered into contractual agreements which, taken collectively, fully and unconditionally guarantee payment of: (1) accrued and unpaid distributions required to be paid on the floating rate capital securities; (2) the redemption price with respect to any floating rate capital securities called for redemption by United Security Trust I, and (3) payments due upon voluntary or involuntary dissolution, winding up, or liquidation of United Security Trust I.

The floating rate capital securities are mandatorily redeemable upon maturity of the debentures on July 25, 2031, or upon earlier redemption as provided in the indenture.

Competition

The banking business in California generally, and in the market areas served by United Security specifically, are highly competitive with respect to both loans and deposits. United Security 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 much larger than United Security, operating within United Security's primary market areas in the San Joaquin Valley and Eastern Madera County. There has been increased competition for deposit and loan business over the last several years as a result of deregulation. Many of the major commercial banks operating in United Security's market areas offer certain services, such as trust and international

banking services, which United Security does not offer directly. Additionally, banks with larger capitalization have larger lending limits and are thereby able to serve larger customers.

In addition to competition from insured depository institutions, principal competitors for deposits and loans have been mortgage brokerage companies, insurance companies, brokerage houses, credit card companies and even retail establishments offering investment vehicles such as mutual funds, annuities and money market funds, as well as traditional bank-like services such as check access to money market funds, or cash advances on credit card accounts.

In order to compete with the other financial institutions in its principal marketing area, United Security relies principally upon local promotional activities, personal contacts by its officers, directors and employees, and close connections with its community.

Supervision and Regulation

United Security is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended ("BHCA"), and is registered as such with and is subject to the supervision of the FRB. Generally, a bank holding company is required to obtain the approval of the FRB before it may acquire all or substantially all of the assets of any bank, or ownership or control of the voting shares of any bank if, after giving effect to such acquisition of shares, the bank holding company would own or control more than 5% of the voting shares of such bank. The FRB's approval is also required for the merger or consolidation of bank holding companies.

United Security is required to file reports with the FRB and provide such additional information as the FRB may require. The FRB also has the authority to examine United Security and each of its subsidiaries, as well as any arrangements between United Security and any of its subsidiaries, with the cost of any such examination to be borne by United Security.

Banking subsidiaries of bank holding companies are also subject to certain restrictions imposed by federal law in dealings with their holding companies and other affiliates. Subject to certain restrictions set forth in the Federal Reserve Act, a bank can loan or extend credit to an affiliate, purchase or invest in the securities of an affiliate, purchase assets from an affiliate, or issue a guarantee, acceptance, or letter of credit on behalf of an affiliate; provided that the aggregate amount of the above transactions of the bank and its subsidiaries does not exceed 10 percent of the capital stock and surplus of the bank on a per affiliate basis or 20 percent of the capital stock and surplus of the bank on an aggregate affiliate basis. In addition, such transactions must be on terms and conditions that are consistent with safe and sound banking practices and, in particular, a bank and its subsidiaries generally may not purchase from an affiliate a low-quality asset, as that term is defined in the Federal Reserve Act. Such restrictions also prevent a bank holding company and its other affiliates from borrowing from a banking subsidiary of the bank holding company unless the loans are secured by marketable collateral of designated amounts. Further, United Security and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, sale or lease of property or furnishing of services.

A bank holding company is prohibited from itself engaging in or acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company engaged in nonbanking activities. One of the principal exceptions to the prohibition is for activities found by the FRB by order or regulation to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In making these determinations, the FRB considers whether the performance of such activities by a bank holding company would offer advantages to the public which outweigh possible adverse effects.

Federal Reserve Regulation "Y" sets out those activities which are regarded as closely related to banking or managing or controlling banks, and thus, are permissible activities that may be engaged in

by bank holding companies subject to approval in individual cases by the FRB. Most of these activities are now permitted for national banks. There has been litigation challenging the validity of certain activities authorized by the FRB for bank holding companies, and the FRB has various regulations in this regard still under consideration. The future scope of permitted activities is uncertain.

United Security Bank, as a California state-chartered member bank whose deposits are insured by the FDIC up to the maximum legal limits thereof, is subject to regulation, supervision and regular examination by the Commissioner of Financial Institutions and the Federal Reserve Board. United Security Bank is also subject to provisions of the Federal Reserve Act and their regulations. The regulations of these various agencies govern most aspects of United Security Bank's business, including required reserves on deposits, investments, loans, certain of their check clearing activities, issuance of securities, payment of dividends, branching and numerous other matters. As a consequence of the extensive regulation of commercial banking activities in California and the United States, United Security Bank's business is particularly susceptible to changes in California and federal legislation and regulations which may have the effect of increasing the cost of doing business, limiting permissible activities or increasing competition.

Summary of Earnings

The following consolidated Summary of Earnings of United Security and subsidiary for the three years ended December 31, 2003 has been derived from financial statements audited by Moss Adams LLP, independent certified public accountants, as described in their report included elsewhere in this proxy statement/prospectus. These statements should be read in conjunction with the Financial Statements and the Notes relating thereto which appear at the end of this proxy statement-prospectus.

	Year Ended December 31,				
	2003	**2002**	**2001**	**2000**	**1999**
			(in thousands, except per share data and ratios)		
Interest income	$ 26,927	$ 28,716	$ 30,063	$ 28,941	$ 21,920
Interest expense	7,260	11,516	13,411	11,544	7,925
Net interest income	19,667	17,200	16,652	17,397	13,995
Provision for loan and lease losses	1,713	1,963	1,733	1,580	1,025
Net interest income after provision for loan and lease losses	17,954	15,237	14,919	15,817	12,970
Other noninterest income	6,271	5,368	4,277	2,538	2,781
Noninterest expense	11,855	10,860	9,818	8,648	7,898
Earnings before income taxes	12,370	9,745	9,378	9,707	7,853
Provision for income taxes (2)	4,664	2,912	3,185	3,450	2,930
Net Income	$ 7,706	$ 6,833	$ 6,193	$ 6,257	$ 4,923
Basic earnings per share	$ 1.41	$ 1.27	$ 1.14	$ 1.16	$ 0.95
Number of shares used in basic earnings per share calculation (3)	5,459,926	5,400,751	5,443,734	5,374,734	5,202,324
Diluted earnings per share	$ 1.40	$ 1.25	$ 1.11	$ 1.12	$ 0.89
	5,511,670	5,487,038	5,563,855	5,587,292	5,514,544

	Year Ended December 31,
Number of shares used in diluted earnings per share calculation (4)	

(1) See Notes to Financial Statements for a summary of significant accounting policies and other related data.

(2) See Notes to Financial Statements for an explanation of income taxes.

(3) Basic earnings per share information is based on the weighted average number of shares of common stock outstanding during each period.

(4) Diluted earnings per share information is based on the weighted average number of shares of common stock and common stock equivalents outstanding during each period.

The following table sets forth selected ratios for the periods indicated:

	Year Ended December 31,		
	2003	2002	2001
		(Unaudited)	
Net earnings to average shareholders' equity	17.80%	17.64%	17.25%
Net earnings to average total assets	1.51%	1.37%	1.55%
Total interest expense to total interest income	26.96%	40.10%	44.61%
Other operating income to other operating expense	52.90%	49.43%	43.57%
Allowance for credit losses to total loans	1.76%	1.59%	1.33%
Net loan charge-offs to total loans	0.34%	0.25%	0.31%

The following is United Security's management's discussion and analysis of the significant changes in income and expense accounts presented in the Summary of Earnings for the years ended December 31, 2003, 2002 and 2001.

Management's Discussion and Analysis of Financial Condition and Results Of Operations

Overview

On June 12, 2001, the United Security Bank became the subsidiary of United Security 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 United Security Bank stock was exchanged for a share of United Security stock on a one-to-one basis. No additional equity was issued as part of this transaction. In the following discussion, references to United Security are references to United Security Bancshares, including United Security Bank, except for periods prior to June 12, 2001, in which case, references to United Security are references to United Security 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 United Security. United Security contributed $13.7 million of the $14.5 million in net proceeds received from the Trust to United Security Bank to increase its regulatory capital and used the rest for United Security's business.

United Security currently has seven banking branches and one construction lending office, which provide financial services in Fresno and Madera counties. As a community-oriented bank, United Security 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. United Security'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.

On December 11, 2003, United Security announced that it has entered into a definitive agreement with Taft National under which Taft National will merge into United Security Bank. Taft National operates branch offices in Taft and Bakersfield serving small business and retail banking clients. As of September 30, 2003, Taft National had total assets of $52 million and deposits of $47 million. Upon completion of the merger, Taft National branches will operate as branches of United Security Bank.

In the merger, United Security will issue shares of its stock in a tax free exchange for all of the Taft National shares. The value of the merger will vary depending on the market price of United Security stock at the time of the merger closing. The merger, which will be accounted for as a purchase transaction, is expected to be completed late in the first quarter or early in the second quarter of 2004. The merger is subject to certain conditions, including the approval of the shareholders of Taft National and regulatory approval. Upon consummation of the merger, former Taft National shareholders will own approximately 4.2% of United Security outstanding shares.

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 United Security 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 announced certain tax transactions related to real estate investment trusts and regulated investment companies will be disallowed under the provisions of Senate Bill 614 and Assembly Bill 1601, which were signed into law in the 4th quarter of 2003.

As a result, United Security reversed $638,000 in related net state tax benefits recorded in the first three quarters of 2003 and took no such benefit in the 4th quarter. The quarterly effects of the reversals amounted to $272,000, $248.000, and $118,000 for the quarters ended September 30, 2003, June 30, 2003, and March 31, 2003, respectively. United Security has recorded no state liability for 2002. United Security and its financial advisors believe that United Security's position has merit and United Security will pursue its tax claims and defend its use of these entities and transactions. United Security cannot predict at this time what the ultimate outcome will be.

Trends Affecting Results of Operations and Financial Position

United Security'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 United Security's balance sheet. One of the primary strategic goals of United Security 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 12/31/03	YTD Average 12/31/02	YTD Average 12/31/01
Loans	75.39%	76.08%	81.76%
Investment securities	19.88%	19.24%	16.11%
Interest-bearing deposits in other banks	1.81%	0.67%	0.00%
Federal funds sold	2.92%	4.01%	2.13%
Total earnings assets	100.00%	100.00%	100.00%
NOW accounts	8.25%	7.22%	8.11%
Money market accounts	20.08%	16.03%	15.78%
Savings accounts	6.34%	5.32%	6.10%
Time deposits	57.79%	58.60%	56.47%
Other borrowings	3.53%	8.86%	11.23%
Trust Preferred Securities	4.01%	3.97%	2.31%

	YTD Average 12/31/03	YTD Average 12/31/02	YTD Average 12/31/01
Total interest-bearing liabilities	100.00%	100.00%	100.00%

54

United Security 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 United Security, as well as economic and other market factors that may affect future operations and anticipated growth.

After experiencing significant growth during 2001 and 2002, United Security reduced overall asset growth in 2003 while focusing efforts on strengthening the balance sheet to improve asset quality and enhance liquidity. During 2003, loan growth was curtailed in out-of-market-area participations, and certain liabilities including FHLB borrowings totaling $35 million, were paid off. As a result, loans declined during 2003 by approximately $3.3 million and excess funds obtained from deposit growth were used to pay down borrowings or were invested in short-term overnight investments to enhance liquidity.

United Security continues to emphasize relationship banking and core deposit growth. As local economies began to improve during 2003, United Security focused greater attention on its market area of Fresno and Madera Counties. While overall loans increased $9.4 million between December 31, 2001 and December 31, 2003, the level of loan participations declined by more than $36.7 million during that two-year period, as participations matured and were not replaced. United Security does not anticipate the decline in participations to be a trend and currently believes that loan participation levels are reasonable given United Security's desired risk profile and diversification strategy. United Security will continue to review potential loan participations on a case-by-case basis as part of its overall loan portfolio strategy, and will seek participations with similar terms and risk profiles to loans obtained in its immediate market area. As a result, the overall level of participations in the loan portfolio will not materially impact United Security's results of operations, as terms for such participations are similar to terms for loans obtained within United Security's market area.

United Security also concentrated its resources during 2003 on asset improvement and developing a business culture that will enable United Security to better compete and expand in its market area. In the future, United Security will continue to emphasize its core lending strengths of commercial real estate and construction lending, as well as small business financing.

Deposit growth totaled $16.5 million during 2003, as compared to $55.3 million during 2002. During those two years, steady increases were experienced in demand and savings deposits, which include NOW and money market accounts, savings accounts, and noninterest-bearing checking accounts. Growth in these deposit categories has been consistent during 2002 and 2003 as United Security continues to emphasize core deposit growth as part of it s relationship banking strategy. Growth in demand and savings deposits included increases in the total number of accounts during 2002 and 2003, as well as the average balances in certain categories such as money market accounts. Increases in demand and savings deposits were experienced in all branches during 2003, although approximately 54% of the growth was achieved in the immediate Fresno area. United Security will continue to emphasize these deposit categories throughout its market area during 2004 and beyond.

Growth in time deposits has fluctuated over the past several years, as United Security 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 were allowed to grow during 2002 as the funds were needed for loan growth, but then allowed to run-off as they matured during 2003 as the need for such deposits diminished. United Security will continue to use pricing strategies to control the overall level of time deposits as part of its growth and liquidity planning process.

United Security 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 2004 as United Security opens a new branch in Downtown Fresno, and completes the merger with Taft National Bank in Kern County, California.

55

Results of Operations

For the year ended December 31, 2003, United Security reported net income of $7.7 million or $1.41 per share ($1.40 diluted) as compared to $6.8 million or $1.27 per share ($1.25 diluted) for the year ended December 31, 2002, and $6.2 million or $1.14 per share ($1.11 diluted) for the year ended December 31, 2001. Net income for 2003 increased $873,000 from the previous year primarily as the result of increased volumes in earning assets combined with a substantial decrease in the cost of interest-bearing liabilities, which was reflected in an increase in United Security's net margin.

United Security's return on average assets was 1.51% for the year ended December 31, 2003 as compared to 1.37% and 1.55% for the same twelve-month periods of 2002 and 2001, respectively. United Security's return on average equity was 17.80% for the year ended December 31, 2003 as compared to 17.64% and 17.25% for the same twelve-month periods of 2002 and 2001, 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 $19.7 million for the year ended December 31, 2003 as compared to $17.2 million for the year ended December 31, 2002. This represents an increase of $2.5 million or 14.3% between the years ended December 31, 2002 and 2003, as compared to an increase of $548,000 or 3.3% between 2001 and 2002. The increase in net interest income between 2002 and 2003 is primarily the result of substantial growth in net average earning assets, combined with a decline in average interest-bearing liabilities, which more than offset the decline in average market rates of interest between those two twelve-month periods. Average interest-bearing liabilities declined during 2003 as the result of reductions in other borrowings, which were not renewed as they matured. This was part of United Security's strategic plan to slow asset growth to allow reengineering of United Security's infrastructure to better prepare for growth in the future. This included reducing the total amounts of loan participations outside of United Security's market area and to focus on reducing the amount of nonperforming assets. For further discussion on changes in assets and liabilities, refer to the section entitled "Financial Condition". The increase in net interest income between 2001 and 2002 is primarily the result of substantial growth in net average earning assets and liabilities, which more than offset the decline in average market rates of interest between those two twelve-month periods.

56

Distribution of Average Assets, Liabilities and Shareholders' Equity:
Interest rates and interest differentials
Years Ended December 31, 2003, 2002, and 2001

	2003			2002			2001		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in thousands)								
Assets:									
Interest-earning assets:									
Loans(1)	$ 353,562	$ 23,134	6.54%	$ 347,192	$ 24,521	7.06%	$ 297,653	$ 26,412	8.87%
Investment Securities taxable	90,608	3,169	3.50%	84,904	3,617	4.26%	55,285	3,218	5.82%
Investment Securities nontaxable(2)	2,613	132	5.05%	2,889	139	4.81%	3,357	155	4.62%
Interest on deposits in other banks	8,496	345	4.06%	3,048	138	4.53%	0	0	0.00%
Federal funds sold and reverse repos	13,714	147	1.07%	18,322	301	1.64%	7,766	278	3.58%
Total interest-earning assets	468,993	$ 26,927	5.74%	456,355	$ 28,716	6.29%	364,061	$ 30,063	8.26%
Allowance for possible loan losses	(5,375)			(5,372)			(4,114)		
Noninterest-bearing assets:									
Cash and due from banks	18,449			17,728			14,154		
Premises and equipment, net	3,960			2,839			3,265		
Accrued interest receivable	2,226			2,891			3,352		
Other real estate owned	4,348			9,186			4,179		
Other assets	17,690			15,580			13,863		

	2003			2002			2001		
Total average assets	$ 510,291			$ 499,207			$ 398,760		
Liabilities and Shareholders' Equity:									
Interest-bearing liabilities:									
NOW accounts	$ 30,840	$ 146	0.47%	$ 27,275	$ 208	0.76%	$ 24,382	$ 360	1.48%
Money market accounts	75,111	1,103	1.47%	60,573	1,131	1.87%	47,440	1,604	3.38%
Savings accounts	23,705	124	0.52%	20,106	165	0.82%	18,337	322	1.76%
Time deposits	216,127	4,563	2.11%	221,387	7,686	3.47%	169,720	8,917	5.25%
Other borrowings	13,206	540	4.09%	33,476	1,427	4.26%	33,752	1,667	4.94%
Trust Preferred securities	15,000	784	5.23%	15,000	899	5.99%	6,945	541	7.79%
Total interest-bearing liabilities	373,989	$ 7,260	1.94%	377,817	$ 11,516	3.05%	300,576	$ 13,411	4.46%
Noninterest-bearing liabilities:									
Noninterest-bearing checking	89,713			79,974			59,389		
Accrued interest payable	756			1,141			1,388		
Other liabilities	2,539			1,544			1,504		
Total average liabilities	466,997			460,476			362,857		
Total average shareholders' equity	43,294			38,731			35,903		
Total average liabilities and Shareholders' equity	$ 510,291			$ 499,207			$ 398,760		
Interest income as a percentage of average earning assets			5.74%			6.29%			8.26%
Interest expense as a percentage of average earning assets			1.55%			2.52%			3.68%
Net interest margin			4.19%			3.77%			4.58%

(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 $1,889,000, $1,352,000, and $1,468,000 for the years ended December 31, 2003, 2002, and 2001, respectively.

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

As summarized in the following table, the increase in net interest income between the two twelve-month periods ended December 31, 2003 and 2002 is comprised of a decrease in total interest income of approximately $1.8 million, which was more than offset by a decrease in total interest expense of approximately $4.3 million. United Security Bank's net interest margin, as shown in the foregoing table, increased to 4.19% at December 31, 2003 from 3.77% at December 31, 2002, an increase of 42 basis points (100 basis points = 1%) between the two periods. Contrarily, the net margin reported during 2002 represents a decrease of 81 basis points from the 4.58% net margin realized by United Security during 2001. 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 significantly between the years ended

December 31, 2000 and 2001, and then rates remained stable throughout much of 2002 and 2003. During 2002 and 2003, United Security's liabilities continued to reprice. The prime rate, the rate to which most of United Security's floating-rate loans are tied, for example increased by 100 basis point during 2000, but declined by an unprecedented 475 basis points between December 31, 2000 and December 31, 2001, then only decreased 50 basis points during the fourth quarter of 2002, and another 25 basis points during June 2003. As a result of the Federal Reserve's actions, the prime rate averaged 4.12% for the year ended December 31, 2003 as compared to 4.63% and 6.93% for the years ended December 31, 2002 and 2001, respectively.

Both United Security'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.

Rate and Volume Analysis

	2003 compared to 2002			2002 compared to 2001		
	Total	**Rate**	**Volume**	**Total**	**Rate**	**Volume**
	(In thousands)					
(Decrease) increase in interest income:						
Loans	$ (1,387)	$ (1,830)	$ 443	$ (1,891)	$ (5,884)	$ 3,993
Investment securities	(455)	(677)	222	383	(1,010)	1,393
Interest-bearing deposits in other banks	207	10	197	138	0	138
Federal funds sold and securities purchased under agreements to resell	(154)	(89)	(65)	23	(209)	232
Total interest income	(1,789)	(2,586)	797	(1,347)	(7,103)	5,756
(Decrease) increase in interest expense:						
Interest-bearing demand accounts	(90)	(336)	246	(625)	(998)	373
Savings accounts	(41)	(67)	26	(157)	(186)	29
Time deposits	(3,123)	(2,944)	(179)	(1,231)	(3,510)	2,279
Other borrowings	(887)	(56)	(831)	(240)	(226)	(14)
Trust Preferred securities	(115)	(115)	0	358	(149)	507
Total interest expense	(4,256)	(3,518)	(738)	(1,895)	(5,069)	3,174
Increase (decrease) in net interest income	$ 2,467	$ 932	$ 1,535	$ 548	$ (2,034)	$ 2,582

58

Total interest income decreased approximately $1.8 million or 6.2% for the year ended December 31, 2003 as compared to the previous year. The change is attributable primarily to an increase in the overall volume of earning assets, which was more than offset by a decrease in market rates of interest. Earning asset growth was mainly in loans, which are traditionally United Security's highest earning asset and, to a smaller degree, in investment securities and interest-bearing deposits. On average, loan growth totaled nearly $6.4 million or 1.8% during 2003. United Security continues to maintain a high percentage of loans in its earning asset mix with loans averaging 75.4% of total earning assets for the year ended December 31, 2003, as compared to 76.1% and 81.8% for the years ended December 31, 2002 and 2001, respectively.

For the year ended December 31, 2002, total interest income decreased approximately $1.3 million or 4.5% as compared to the year ended December 31, 2001. As with 2003, this decrease is also attributable to an increase in the overall volume of earning assets, which was more than offset by a decrease in market rates of interest between 2001 and 2002. Earning asset growth was mainly in loans, which are traditionally United Security's highest earning asset and, to a smaller degree, in investment securities, interest-bearing deposits and federal funds sold. On average, loan growth totaled nearly $49.5 million or 16.6% during 2002.

Total interest expense decreased approximately $4.3 million or 37.0% for the year ended December 31, 2003 as compared to the year ended December 31, 2002. As with the previous year, 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 $5.3 million and average balances on other borrowings decreased $20.3 million during 2003, and the average rate paid on time deposits and other borrowings declined 136 and 17 basis points, respectively, when compared to the year ended December 31, 2001. All other interest bearing-liability categories experienced increases in average volumes during 2003, which were more than offset by the average rates paid on those liabilities.

For the year ended December 31, 2002, total interest expense of $11.5 million represents a decrease of approximately $1.9 million or 14.1% as compared to the year ended December 31, 2001. 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 more than offset the $77.2 million total increase in average balances during the year. Rate declines were the result of general declines in market rates of interest over that period. While average time deposit balances increased $51.7 million during 2002, the total cost of those time deposits declined $1.2 million and the average rate paid declined 178 basis points, when compared to the year ended December 31, 2001. All other interest bearing-liability categories experienced increases in average volumes during 2002, while realizing declines in interest expense and the average rates paid on those liabilities.

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, 2003 the provision to the allowance for credit losses amounted to $1.7 million as compared to $2.0 and $1.7 million for the years ended December 31, 2002 and 2001, respectively. The provision made during the fourth quarter of 2003 totaled $841,000, or approximately 49.1% of the total provision made during 2003, while the provision made during the fourth quarter of 2002 totaled $744,000, or approximately 39.4% of the total provision made during that year. Specifically, additional provisions for credit losses

taken during the fourth quarter of 2003 are primarily the result of a nonperforming lease portfolio totaling approximately $5.5 million. United Security is suing the surety, American Motors Insurance Company ("AMICO") for payments due United Security under surety bonds issued by AMICO that guarantee the lease payments. In October 2003 United Security was informed by the court that the judge would rule prior to year end on a Motion for Judgment Pleading that stated AMICO could not use the defense of fraud under existing law in the case of United Security Bank vs. American Motors Insurance Company. The judge did not rule prior to year-end and on January 29, 2004, United Security received notice that the judge would rule in the future but the judge had stated there was a fair debate amongst the parties and because there was "not enough money to make everyone whole", the parties should attempt to reach an agreed-upon resolution. In response to this new information, utilizing FASB 114 accounting treatment, United Security adjusted the amount of future cash flows to 67% from 100%. As a result of this change, additional provision expense was accrued during the fourth quarter 2003. 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 2003 brought the allowance to 1.76% of net outstanding loan balances at December 31, 2003, as compared to 1.59% of net outstanding loan balances at December 31, 2002, and 1.33% at December 31, 2001.

Noninterest Income

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

	Years Ended December 31,			Increase (decrease) during Year	
	2003	**2002**	**2001**	**2003**	**2002**
			(In thousands)		
Customer service fees	$ 3,789	$ 3,895	$ 3,086	$ (106)	$ 809

	Years Ended December 31,			Increase (decrease) during Year	
(Loss) gain on sale of securities	(58)	485	770	(543)	(285)
Gain on sale of loans	21	103	0	(82)	103
Gain on sale of OREO	80	4	34	76	(30)
Gain on sale of interest-bearing deposits in other banks	186	0	0	186	0
Shared appreciation income	1,813	267	112	1,546	155
Other	440	614	275	(174)	339
Total	$ 6,271	$ 5,368	$ 4,277	$ 903	$ 1,091

Noninterest income consists primarily of fees and commissions earned on services that are provided to United Security's banking customers and, to a lesser extent, gains on sales of United Security assets and other miscellaneous income. Noninterest income for the year ended December 31, 2003 increased $900,000 when compared to the previous year, and increased $2.0 million when compared to the year ended December 31, 2001. Shared appreciation income on real estate construction loans increased $1.5 million between the two years ended December 31, 2003 and 2002, and was a major contributing factor to the overall increase in noninterest income during 2003. The 2003 income resulted from completion of two successful projects. Management does not consider the higher level of shared appreciation income realized in 2003 to represent a trend; to the contrary, shared appreciation income for 2004 is projected to be minimal.

Shared appreciation income results from agreements between United Security and borrowers on certain real estate construction loans where United Security agrees to receive interest on the loan at maturity rather than monthly and the borrower in return agrees to share a portion of any profits of the project. The characteristics of shared appreciation income are dependent upon the ability of a borrower

to secure signed leases from future tenants or upon executed commitments of buyers to purchase significant portions of a project. The values of a total project are primarily determined from the terms of future lease payments or upon the sale prices of properties within a project. These factors are significantly dependent upon the economic environment at the time a project nears completion as well as several other factors. Shared appreciation income can result in zero value or result in a significant value depending on the many variables at the time the project nears completion. Because shared appreciation income cannot be reasonably estimated prior to the completion of the project, such income is recognized when received.

Customer service fees declined by $106,000 during the year ended December 31, 2003, which is attributable to modest declines in checking service charges and overdraft fee income. Gain on sale of interest-bearing deposits in other banks totaled $186,000 during 2003, and resulted from the sale of investment CD's. In addition, and in contrast to previous years, losses on sales of securities were experienced during 2003 as securities were called prior to maturity.

Total noninterest income for the year ended December 31, 2002 increased $1.1 million or 25.5% when compared to the year ended December 31, 2001. Increases in customer service fees accounted for $809,000 or 74.2% of the total increase in noninterest income between those two periods. Increases in customer service fees were attributable to growth in ATM fee income, as well as checking service charges and overdraft charges. United Security has not only increased its number of ATM's, but has also experienced an increase in transaction volume over the past several years. Gains from sales of available-for-sale securities accounted for $485,000 of the total noninterest income for the year ended December 31, 2002. Increases of $339,000 in other noninterest income were largely comprised of OREO income, and dividends paid from United Security's equity investment in a title company.

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, 2003, 2002 and 2001:

	2003		2002		2001	
	Amount	% of Average Earning Assets	Amount	% of Average Earning Assets	Amount	% of Average Earning Assets

	2003		2002		2001	
	(Dollars in thousands)					
Salaries and employee benefits	$ 5,089	1.09%	$ 4,895	1.07%	$ 4,525	1.24%
Occupancy expense	1,658	0.35%	1,730	0.38%	1,731	0.48%
Data processing	515	0.11%	553	0.12%	544	0.15%
Professional fees	991	0.21%	965	0.21%	591	0.15%
Directors fees	184	0.04%	201	0.04%	202	0.06%
Amortization of intangibles	353	0.08%	360	0.08%	360	0.10%
Correspondent bank service charges	281	0.06%	289	0.06%	218	0.06%
Writedowns on OREO	403	0.09%	132	0.03%	19	0.01%
Other	2,381	0.51%	1,735	0.38%	1,628	0.45%
Total	$ 11,855	2.53%	$ 10,860	2.38%	$ 9,818	2.70%

61

Noninterest expense, excluding provision for credit losses and income tax expense, totaled $11.9 million for the year ended December 31, 2003 as compared to $10.9 million and $9.8 million for the years ended December 31, 2002 and 2001, respectively. These figures represent an increase of $1.0 million or 9.2% between the years ended December 31, 2003 and 2002 and an increase of $1.0 million or 10.6% between the years ended December 31, 2002 and 2001. Expense increases between the three years presented are associated primarily with normal, anticipated growth of United Security. As a percentage of average earning assets, total noninterest expense has only experienced minor changes over the past three years as United Security has controlled overhead expenses while experiencing profitable growth. Noninterest expense amounted to 2.53% of average earning assets for the year ended December 31, 2002 as compared to 2.38% at December 31, 2002 and 2.70% at December 31, 2001.

Increases in salaries and employee benefits over the three years presented were the result of additional staff to support United Security's strategic long-term growth objectives, as well as normal wage and benefit increases combined with increased medical insurance costs incurred. Professional fees increased over the three years presented as the result of additional legal expenses associated with impaired loans, increased audit fees, and the formation of United Security Bank's subsidiary REIT during 2002. 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. Increases in other noninterest expense during 2003 included an additional $164,000 in expenses to maintain OREO properties.

Financial Condition

Total assets decreased by $12.7 million or 2.5% during the year to $506.6 million at December 31, 2003, down from $519.3 million at the end of the same period last year, but up from the balance of $450.9 million at December 31, 2001. The asset decline experienced during 2003 was primarily the result of a decrease in funding sources. Maturing securities were utilized to fund loan growth and growth in federal funds sold, as well as the overall decline in liabilities, thus enhancing United Security's overall liquidity position. During the year ended December 31, 2003, net loans decreased $4.3 million, investment securities decreased $20.8 million, while federal funds sold and interest-bearing deposits in other banks increased $9.1 million. Total deposits of $444.4 million at December 31, 2003 increased $16.5 million or 3.9% from the balance reported at December 31, 2002, and increased $71.8 million or 19.5% from the balance of $368.7 million reported at December 31, 2001.

Earning assets averaged approximately $469.0 million during the year ended December 31, 2003, as compared to $456.4 million and $364.1 million for the years ended December 31 2002 and 2001, respectively. Average interest-bearing liabilities decreased to $374.0 million for the year ended December 31, 2003, as compared to $377.8 million for the year ended December 31, 2002, but increased compared to $300.6 million for the year ended December 31, 2001.

Loans

United Security'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 $345.7 million at December 31, 2003, a decrease of $3.4 million or 1.0% when compared to the balance of $349.1 million at December 31, 2002, but an increase of $9.4 million or 2.8% when compared to the balance of $336.3 million reported at December 31, 2001. Average loans totaled $353.6 million, $347.2 million, and $297.7 million for the years ended December 31, 2003, 2002 and 2001, respectively. During 2003 average loans increased 1.8% when compared to the year ended December 31, 2002 and increased 18.8% compared to the year ended December 31, 2001.

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

	2003		2002		2001		2000		1999	
	Dollar Amount	% of Loans	Dollar Amount	% of Loans	Dollar Amount	% of Loans	Dollar Amount	% of Loans	Dollar Amount	% of Loans
	(In thousands)									
Commercial and industrial	$ 116,991	33.9%	$ 117,293	33.6%	$ 102,280	30.4%	$ 66,435	25.4%	$ 52,275	26.4%
Real estate mortgage	96,381	27.9	100,417	28.9	111,425	33.1	113,140	43.3	77,694	39.2
Real estate construction	97,930	28.3	95,024	27.2	92,764	27.6	61,038	23.4	55,574	28.0
Agricultural	15,162	4.4	16,877	4.8	12,987	3.9	7,240	2.8	7,003	3.5
Installment/other	6,617	1.9	7,811	2.2	6,647	2.0	10,291	3.9	5,723	2.9
Lease financing	12,581	3.6	11,632	3.3	10,184	3.0	3,225	1.2	0	0.0
Total Loans	$ 345,662	100.0%	$ 349,054	100.0%	$ 336,287	100.0%	$ 261,369	100.0%	$ 198,269	100.0%

Loans declined during 2003 as part of United Security's plan to slow overall asset growth and better position itself for sustained and stable growth in the future. During this time loan participations in other market areas were curtailed and United Security began to focus more on its market area of Fresno and Madera Counties as local economies began to improve. Total loan participations declined from $79.5 million at December 31, 2001 to $63.8 million and $42.7 million at December 31, 2002 and 2003, respectively. As a result, commercial and industrial, real estate mortgage, and construction loans showed only minor changes between December 31, 2002 and December 31, 2003. In addition, United Security concentrated its resources on asset improvement and developing a business culture that will enable United Security to better compete in its market area. In the future, United Security will continue to focus on its core lending emphasis of commercial real estate and construction lending, as well as small business financing.

Loan volume continues to be greatest in what has historically been United Security Bank's primary lending emphasis: commercial, real estate mortgage, and construction lending. The only loan growth experienced during 2003 occurred in real estate construction and lease financing loans, which increased by $3.0 million or 3.1%, and $949,000 or 8.2%, respectively, during the year. Modest decreases were experienced in all other loan categories during 2003. Much of the loan growth experienced during 2002 occurred in commercial and industrial loans, which increased by $15.0 million or 14.7% during that year. At December 31, 2003, approximately 77% 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 United Security and increased $3.0 million or 3.1% during 2003, increased $2.3 million or 2.4% during 2002, and increased $31.7 million or 52.0% during 2001. 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, decreased $1.7 million or 10.2% between December 31, 2002 and December 31, 2003, while installment loans decreased $1.2 million or 15.3% during that same period. Since 2000, United Security has done lease financing, with growth of $1.0 million or 8.2% experienced during 2003, as compared to $1.4 million or 14.5% and $7.0 million or 215.8% during the years ended December 31, 2002 and 2001, respectively.

The real estate mortgage loan portfolio totaling $96.4 million at December 31, 2003 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 $86.1 million, $82.6 million, and $83.3 million at December 31, 2003, 2002, and 2001, 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. United Security does not currently offer residential mortgage loans and, as a result, that portion of the portfolio generally has declined over time with balances of

$5.2 million, $7.8 million, and $13.4 million at December 31, 2003, 2002 and 2001, respectively. United Security purchased a portfolio of fixed-rate jumbo mortgages during 2001, which accounted for $8.7 million of the outstanding mortgage loans at December 31, 2001. With substantial prepayments experienced during 2002, that jumbo mortgage portfolio declined during the year to a balance of $1.9 million at December 31, 2002. United Security began offering short to medium-term, fixed-rate, home equity loans early in 1997 and during the last three years balances have declined moderately, with $5.0 million at December 31, 2003, $10.0 million at December 31, 2002, and $14.8 million at December 31, 2001.

The following table sets forth the maturities of United Security Bank's loan portfolio at December 31, 2003. Amounts presented are shown by maturity dates rather than repricing periods:

	Due in one year or less	Due after one Year through Five years	Due after Five years	Total
	(In thousands)			
Commercial and agricultural	$ 59,433	$ 57,151	$ 15,569	$ 132,153
Real estate construction	67,712	30,218	0	97,930
	127,145	87,369	15,569	230,083
Real estate mortgage	5,941	63,291	27,149	96,381
All other loans	4,417	13,433	1,348	19,198
Total Loans	$ 137,503	$ 164,093	$ 44,066	$ 345,662

The average yield on loans was 6.54% for the year ended December 31, 2003, representing a decrease of 52 basis points when compared to the year ended December 31, 2002 and was a result of a general decline in average market rates of interest between those two periods. For the year ended December 31, 2002, the overall average yield on the loan portfolio was 7.06%, representing a decrease of 181 basis points when compared to 8.87% for the same twelve-month period of 2001 and again was a result of a significant decrease in average market rates of interest during 2002. United Security 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, 2003, 2002 and 2001, approximately 66.5%, 68.7% and 65.2% of United Security 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 United Security Bank's fixed and floating rate loans at December 31, 2003. Amounts presented are shown by maturity dates rather than repricing periods, and do not consider renewals or prepayments of loans:

	Due in one year or less	Due after one Year through Five years	Due after Five years	Total
	(In thousands)			
Accruing loans:				
Fixed rate loans	$ 38,440	$ 49,035	$ 14,080	$ 101,555
Floating rate loans	95,031	100,634	29,786	225,451
Total accruing loans	133,471	149,669	43,866	327,006
Nonaccrual loans:				
Fixed rate loans	306	8,029	0	8,335
Floating rate loans	3,726	6,395	200	10,321
Total nonaccrual loans	4,032	14,424	200	18,656
Total Loans	$ 137,503	$ 164,093	$ 44,066	$ 345,662

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, 2003				December 31, 2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Amount)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Amount)
	(In thousands)							
Available-for-sale:								
U.S. Government agencies	$ 58,666	$ 613	$ (354)	$ 58,925	$ 63,794	$ 1,570	$ 0	$ 65,364
U.S. Government agency collateralized mortgage obligations	54	0	0	54	84	4	0	88
Obligations of state and political subdivisions	2,613	201	0	2,814	2,795	178	0	2,973
Other investment securities	21,646	421	(125)	21,942	36,158	5	(21)	36,142
Total available-for-sale	$ 82,979	$ 1,235	$ (479)	$ 83,735	$ 102,831	$ 1,757	$ (21)	$ 104,567

	December 31, 2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Available-for-sale:				
U.S. Government agencies	$ 42,341	$ 360	$ (74)	$ 42,627
U.S. Government agency collateralized mortgage obligations	211	1	(2)	210
Obligations of state and political subdivisions	3,464	72	(4)	3,532
Other investment securities	17,164	0	(168)	16,996
Total available-for-sale	$ 63,180	$ 433	$ (248)	$ 63,365

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. Included in other debt securities at December 31, 2002 is a short-term government securities mutual fund totaling $10.0 million, a money market mutual fund totaling $23.0 million, and a Trust Preferred securities pool totaling $3.1 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 $11,000 during 2003, $509,000 during 2002, and $769,000 during 2001. Realized losses on securities available-for-sale totaled $69,000 during 2003 and $24,000 during 2002. There were no realized losses for such securities during 2001.

Investment securities decreased $20.82 million between December 2002 and December 2003, as maturing securities were utilized to fund borrowing runoff. Excess funds were temporarily invested in overnight funds to enhance United Security's liquidity position. The decrease in securities during 2003 was primarily in other investment securities, and included the sale of a short-term money market mutual fund with Janus Investments totaling $23.0 million.

Investment securities increased $41.2 million between December 2001 and December 2002, as deposits and borrowings grew faster than loans, and excess funds were utilized to enhance United Security's liquidity position. The increase was divided almost evenly between U.S. Government-sponsored agencies and other investment securities. Included in the increase in other investment securities was a short-term money market mutual fund with Janus Investments totaling $23.0 million, which can be liquidated as needed for loan growth or deposit runoff.

The contractual maturities of investment securities as well as yields based on amortized cost of those securities at December 31, 2003 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	**Amount**	**Yield(1)**	**Amount**	**Yield(1)**	**Amount**	**Yield(1)**	**Amount**	**Yield(1)**	**Amount**	**Yield(1)**
					(Dollars in thousands)					
Available-for-sale:										
U.S. Government agencies	$	%	$ 49,522	3.41%	$	%	$ 9,403	5.24%	$ 58,925	3.70%
U.S. Government agency collateralized mortgage obligations							54	5.15%	54	5.15%
Obligations of state and political subdivisions	377	4.36%	402	4.45%	284	4.43%	1,751	4.91%	2,814	5.09%
Other investment securities	7,926	3.43%	4,950	2.53%			9,066	6.59%	21,942	4.59%
Total estimated fair value	$ 8,303	3.47%	$ 54,874	3.34%	$ 284	4.43%	$ 20,274	5.81%	$ 83,735	3.98%

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

At December 31, 2003 and 2002, available-for-sale securities with an amortized cost of approximately $61.3 million and $65.0 million, respectively, and fair value of $61.7 million and $66.7 million, respectively, were pledged as collateral for public funds, FHLB borrowings, and treasury tax and loan balances.

Deposits

United Security Bank attracts commercial deposits primarily from local businesses and professionals, as well as retail checking accounts, savings accounts and time deposits. Total deposits increased $16.5 million or 3.9% during the year to a balance of $440.4 million at December 31, 2003 and increased $55.3 million or 15.0% between December 31, 2001 and December 31, 2002. Core deposits, consisting of all deposits other than time deposits of $100,000 or more and brokered deposits, continue to provide the foundation for United Security Bank's principal sources of funding and liquidity. These core deposits amounted to 70.1%, 69.4% and 65.5% of the total deposit portfolio at December 31, 2003, 2002 and 2001, 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	
	2003	**2002**	**2001**	**2003**	**2002**
			(In thousands)		
Noninterest-bearing deposits	$ 94,597	$ 89,000	$ 72,413	$ 5,597	$ 16,587
Interest-bearing deposits:					
NOW and money market accounts	120,375	100,199	83,316	20,176	16,883
Savings accounts	23,691	21,138	19,883	2,553	1,255
Time deposits:					
Under $100,000	75,640	85,564	68,414	(9,924)	17,150
$100,000 and over	126,141	128,086	124,625	(1,945)	3,461
Total interest-bearing deposits	345,847	334,987	296,238	10,860	38,749
Total deposits	$ 440,444	$ 423,987	$ 368,651	$ 16,457	$ 55,336

United Security continues to emphasize core deposits as part of its relationship banking strategy. As a result, deposits continue to grow in United Security's deposit categories of NOW and money market accounts, savings accounts, as well as noninterest-bearing checking accounts. Substantial increases have been experienced in these deposit categories during 2002 and 2003 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. With market rates of interest at historical lows, money market accounts, with their tiered interest-rate features, have become increasingly attractive to depositors. During 2003 total NOW, money market accounts, and noninterest-bearing checking accounts increased in all branches, with about 54% of that increase taking place in the immediate Fresno area.

Deposit accounts of $100,000 or more, NOW and money market accounts, as well as noninterest-bearing checking accounts, increased approximately $33.7 million between December 31, 2001 and December 31, 2002, and increased $21.1 million between December 31, 2002 and December 31, 2003. On average, total NOW, money market accounts, and noninterest-bearing checking accounts of $100,000 or more increased $27.3 million during 2003 and increased $29.0 million during 2002.

As mentioned previously, growth in time deposits has fluctuated over the past several years, as United Security 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 were allowed to grow during 2002 as the funds were needed for loan growth, but then allowed to run-off as they matured during 2003 as the need for such deposits diminished. United Security will continue to use pricing strategies to control the overall level of time deposits as part of its growth and liquidity planning process.

During the year ended December 31, 2003, increases were experienced in all deposit categories, except in time deposits, with the majority of the increase being in interest-bearing checking accounts. During the year ended December 31, 2002, increases were experienced in all deposit categories, with substantial increases in time deposits, as well as interest-bearing and noninterest-bearing checking accounts. Much of the increase in time deposits over the years presented has been the result of wholesale and brokered deposits, as well as time deposits from the State of California. United Security has utilized brokered deposits over the past several years to enhance its deposit growth, with brokered deposits totaling $27.1 million, $26.3 million and $51.3 million at December 31, 2003, 2002 and 2001, respectively. In addition, United Security has been able to obtain time deposits from the State of California, which totaled $40.0 million, $40.0 million, and $30.0 million at December 31, 2003, 2002 and 2001, respectively. The time deposits of the State of California are collateralized by pledged securities in United Security's investment portfolio.

United Security'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 increased $10.9 million or 3.2% between December 31, 2002 and December 31, 2003, while noninterest-bearing deposits increased

$5.6 million or 6.3% between the same two periods presented. Between December 31, 2001 and December 31, 2002, total interest-bearing deposits increased $38.7 million or 13.1%, while noninterest-bearing deposits increased $16.6 million or 22.9%.

On a year-to-date average, United Security experienced an increase of $26.2 million or 6.4% in total deposits between the years ended December 31, 2002 and December 31, 2003. Between these two periods, average interest-bearing deposits increased $16.4 million or 5.0%, while total noninterest-bearing checking increased $9.7 million or 12.2% on a year-to-date average basis. On average, United Security experienced increases in all deposit categories between the years ended December 31, 2002 and December 31, 2003, except time deposits, which decreased $5.3 million on average during 2003. On a year-to-date average basis, total deposits increased $90.0 million or 28.2% between the years ended December 31, 2001 and December 31, 2002. Of that total, interest-bearing deposits increased by $69.5 million or 26.7%, while noninterest-bearing deposits increased $20.6 million or 34.7% during 2002. The most significant increases experienced in average deposits during 2002 were in time deposits, money market accounts, and noninterest bearing accounts.

The following table sets forth the average deposits and average rates paid on those deposits for the years ended December 31, 2003, 2002 and 2001:

	2003		2002		2001	
	Average Balance	**Rate %**	**Average Balance**	**Rate %**	**Average Balance**	**Rate %**
	(Dollars in thousands)					
Interest-bearing deposits:						
Checking accounts	$ 105,951	1.18%	$ 87,848	1.52%	$ 71,822	2.73%
Savings	23,705	0.52%	20,106	0.82%	18,337	1.76%
Time deposits(1)	216,127	2.11%	221,387	3.47%	169,720	5.25%
Noninterest-bearing deposits	89,713		79,974		59,389	

(1) Included at December 31, 2003, are $126.1 million in time certificates of deposit of $100,000 or more, of which $65.7 million matures in three months or less, $13.1 million matures in 3 to 6 months, $29.1 million matures in 6 to 12 months, and $18.2 million matures in more than 12 months.

Short-term Borrowings

United Security 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. United Security 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. United Security 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 United Security 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 United Security's asset/liability management strategy. FHLB advances are collateralized by United Security's stock in the FHLB, securities, and certain qualifying mortgage loans. In addition, United Security has the ability to obtain borrowings from the Federal Reserve Bank of San Francisco,

which would be collateralized by certain pledged loans in United Security's loan portfolio. The lines of credit are subject to periodic review of United Security'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 United Security's financial position.

United Security had collateralized and uncollateralized lines of credit aggregating $130.6 million and $157.5 million, as well as FHLB lines of credit totaling $31.8 million and $36.7 million at December 31, 2003 and 2002, 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 United Security's federal funds purchased, repurchase agreements and FHLB advances for the years ended December 31, 2003, 2002 and 2001:

	December 31,		
	2003	**2002**	**2001**
	(Dollars in thousands)		
At period end:			
Federal funds purchased	$ 0	$ 0	$ 0
Repurchase agreements	0	0	5,300
FHLB advances	0	35,400	22,200
Total at period end	$ 0	$ 35,400	$ 27,500
Average ending interest rate total	0.00%	4.17%	4.13%
Average for the year:			
Federal funds purchased	$ 745	$ 77	$ 1,480
Repurchase agreements	0	218	12,048
FHLB advances	11,973	32,398	19,255
Total average for the year	$ 12,718	$ 32,693	$ 32,783
Average interest rate total	4.04%	4.22%	4.82%
Maximum total borrowings outstanding at any month-end during the year:			
Federal funds purchased	$ 0	$ 1,995	$ 19,870
Repurchase agreements/FHLB advances	35,400	35,400	24,350
Total	$ 35,400	$ 37,395	$ 44,220

Asset Quality and Allowance for Credit Losses

Lending money is United Security'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, United Security 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.

United Security 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 are evaluated individually for specific impairment. The eleven segments of United Security's loan portfolio are as follows (subtotals are provided as needed to allow the reader to reconcile the amounts to United Security's loan classification reported elsewhere in these financial statements):

Loan Segments for Loan Loss Reserve Analysis

		Loan Balance at December 31,				
		2003	2002	2001	2000	1999
		(dollars in 000's)				
1	Commercial and Business Loans	$ 107,068	$ 105,513	$ 88,864	$ 55,993	$ 40,831
2	Government Program Loans	9,923	11,780	13,416	10,442	11,444
	Total Commercial and Industrial	116,991	117,293	102,280	66,435	52,275
3	Commercial Real Estate Term Loans	86,142	82,600	83,328	89,504	56,154
4	Single Family Residential Loans	5,240	7,827	13,363	6,147	7,764
5	Home Improvement/Home Equity Loans	4,999	9,990	14,734	17,489	13,776
	Total Real Estate Mortgage	96,381	100,417	111,425	113,140	77,694
6	Total Real Estate Construction Loans	97,930	95,024	92,764	61,038	55,574
7	Total Agricultural Loans	15,162	16,877	12,987	7,240	7,003
8	Consumer Loans	6,134	7,423	6,131	9,814	5,086
9	Overdraft protection Lines	341	221	341	289	412
10	Overdrafts	142	167	175	188	225
	Total Installment/other	6,617	7,811	6,647	10,291	5,723
11	Total Lease Financing	12,581	11,632	10,184	3,225	0
	Total Loans	$ 345,662	$ 349,054	$ 336,287	$ 261,369	$ 198,269

United Security'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 United Security'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.

The above qualitative factors may impact the collectibility of the loan portfolio if current trends in those factors differ from historical trends. United Security quantifies these qualitative factors to differentiate between current conditions and the historical loss factors used in migration analysis. United Security applies a range of between minus 5 basis points and plus 10 basis points for each qualitative factor to reflect current changes in the economic and business cycle and changes in United Security's loan portfolio. The historical loss factors based on migration analysis are then adjusted for the total of these qualitative factors to reflect current and anticipated conditions, and the result is applied to the various segments of the loan portfolio. The result of the adjustment for qualitative factors was to increase the overall formula allowance by $602,000 and $867,000 for December 31, 2003 and 2002, respectively.

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 or three years and loss factors are adjusted to recognize and quantify the loss exposure from changes in market conditions and trends in United Security'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 United Security, include loans categorized as substandard, doubtful, and loss.

Loan participations are reviewed for allowance adequacy under the same guidelines as other loans in United Security'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

United Security, and are reviewed for geographic location as well as the well-being of the underlying agent bank. The formula allowance for loan participations totaled $420,000, $919,000, and $768,000 at year-end December 31, 2003, 2002, and 2001, respectively. There were no specific allowance amounts allocated to participation loans during those three year-end periods. The impact of the additional participation factor for risks associated with those loans was an increase in the formula allowance of $83,000, $132,000, and $109,000 at December 31, 2003, 2002, and 2001, respectively.

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 United Security's historical loss experience and other loss factors, rather than specific loss contingencies. The reserves for these off-balance sheet commitments are included in United Security'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, 2003, 2002 and 2001 the formula reserve allocated to undisbursed commitments totaled $399,000, $224,000 and $181,000, respectively.

Specific allowances are established based on management's periodic evaluation of loss exposure associated with 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 United Security, credit quality trends, collateral values, loan volumes and concentrations, and other business conditions.

United Security'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 formula 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 United Security'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. The ninth factor above for high balance loan concentration was added during 2002, and as a result, the impact to the allowance for credit losses for the inclusion of that factor amounted to approximately $183,000 and $132,000 for 2003 and 2002, respectively. Other than the added factor just mentioned, there were no changes in estimation methods or assumptions during 2003 that affected the methodology for assessing the overall adequacy of the allowance for credit losses.

Management and United Security'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. United Security's Loan Committee meets weekly and serves as a forum to discuss specific problem assets that pose significant concerns to United Security, 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.

United Security considers a loan to be impaired when, based upon current information and events, it believes it is probable United Security 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, 2003 and 2002, United Security's recorded investment in loans for which impairment has been recognized totaled $18.7 million and $15.3 million, respectively. Included in total impaired loans at December 31, 2003, is $7.3 million of impaired loans for which the related specific allowance is $2.3 million, as well as $11.4 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, 2002 included $8.4 million of impaired loans for which the related specific allowance is $1.3 million, as well as $6.9 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 $18.1 million, $11.3 million and $5.7 million during the years ended December 31, 2003, 2002 and 2001, respectively. In most cases, United Security 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, 2003, United Security recognized no income on such loans. For the years ended December 31, 2002 and 2001, United Security recognized $3,000 and $23,000, respectively, of income on such loans.

United Security focuses on competition and other economic conditions within its market area, which may ultimately affect the risk assessment of the portfolio. United Security continues to experience increased competition from major banks, local independents and non-bank institutions creating pressure on loan pricing. With interest rates at historical lows, the economic recovery has been slow in coming, however the recovery began to gain momentum during the last half of 2003. Both business and consumer spending improved during the third quarter of 2003, with GDP of more than 8.0% being reported during the quarter. GDP during the fourth quarter of 2003 was 4.0% and is expected to remain at that level throughout 2004. It is difficult to determine whether the Federal Reserve will adjust interest rates in an effort to control the economy, however interest rate increases are anticipated during the later part of 2004. 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 current year while the rest of the state and the nation has experienced slowed economic growth. The local area market has not been as volatile as those of San Francisco and other areas, which should bode well for sustained growth in United Security's market areas of Fresno and Madera Counties. Local unemployment rates remain high primarily as a result of the areas' agricultural dynamics, however unemployment rates are expected to improve nationally during 2004. It is difficult to predict what impact this will have on the local economy. United Security 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 United Security'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 United Security'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,				
	2003	**2002**	**2001**	**2000**	**1999**
	(Dollars in thousands)				
Total loans outstanding at end of period before Deducting allowances for credit losses	$ 344,797	$ 348,598	$ 335,620	$ 260,575	$ 197,876
Average net loans outstanding during period	$ 353,562	$ 347,192	$ 297,653	$ 230,305	$ 175,324
Balance of allowance at beginning of period	$ 5,556	$ 4,457	$ 3,773	$ 2,642	$ 1,907

	December 31,				
Loans charged off:					
Real estate	0	0	0	0	0
Commercial and industrial	(1,080)	(659)	(874)	(430)	(285)
Lease financing	(161)	(238)	(162)	(0)	(0)
Installment and other	(33)	(36)	(40)	(44)	(27)
Total loans charged off	(1,274)	(933)	(1,076)	(474)	(312)
Recoveries of loans previously charged off:					
Real estate	0	0	0	0	0
Commercial and industrial	61	37	23	11	19
Lease financing	25	31	4	0	0
Installment and other	0	1	0	14	3
Total loan recoveries	86	69	27	25	22
Net loans charged off	(1,188)	(864)	(1,049)	(449)	(290)
Provision charged to operating expense	1,713	1,963	1,733	1,580	1,025
Balance of allowance for credit losses at end of period	$ 6,081	$ 5,556	$ 4,457	$ 3,773	$ 2,642
Net loan charge-offs to total average loans	0.34%	0.25%	0.35%	0.19%	0.17%
Net loan charge-offs to loans at end of period	0.34%	0.25%	0.31%	0.17%	0.15%
Allowance for credit losses to total loans at end of period	1.76%	1.59%	1.33%	1.45%	1.34%
Net loan charge-offs to allowance for credit losses	19.54%	15.55%	23.54%	11.90%	10.98%
Net loan charge-offs to provision for credit losses	69.35%	44.01%	60.53%	28.42%	28.29%

74

Management believes that the 1.76% credit loss allowance to total loans at December 31, 2003 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 United Security'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 United Security's loan portfolio.

Although United Security 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.

	2003		2002		2001		2000		1999	
	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
	(Dollars in thousands)									
Commercial and industrial	$ 1,755	33.9%	$ 3,080	33.6%	$ 1,951	30.4%	$ 1,328	25.4%	$ 1,028	26.4%
Real estate mortgage	508	27.9%	803	28.9%	899	33.1%	1,141	43.3%	1,061	39.2%
Real estate construction	1,067	28.3%	1,046	27.2%	893	27.6%	606	23.4%	436	28.0%
Agricultural	188	4.4%	229	4.8%	123	3.9%	65	2.8%	54	3.5%
Installment/other	97	1.9%	99	2.2%	102	2.0%	72	3.9%	63	2.9%
Lease financing	2,466	3.6%	298	3.3%	120	3.0%	82	1.2%	0	
Not allocated	0		1		369		479		0	

2003		2002		2001		2000		1999	
$ 6,081	100.0%	$ 5,556	100.0%	$ 4,457	100.0%	$ 3,773	100.0%	$ 2,642	100.0%

The increase in reserve allocations for lease financing loans between 2002 and 2003 is the result of the nonperformance of a purchased lease portfolio totaling $5.5 million. This lease portfolio is an impaired credit on non-accrual and has a specific allowance of $1.9 million allocated to it at December 31, 2003. The specific allowance was determined based on an estimate of expected future cash flows. The guarantor of those leases has entered court proceedings to discharge their guarantee based on the fact that many of the underlying leases were fraudulent. United Security, based upon advice from their counsel, does not believe it is probable the guarantors' fraud defense will prevail and intends to vigorously pursue the guarantee. United Security believes the specific allowance as determined under SFAS No. 114 is adequate to cover probable losses for this lease portfolio.

During a recent regulatory examination, the lease portfolio in question was classified as doubtful by United Security 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, is not well secured and not in the process of collection be charged off. The regulators have requested that United Security Bank charge-off the principle balance in the first or second quarter of 2004 for regulatory purposes if the judge has not made a ruling or no principle payments have been made by these dates. United Security believes that under generally accepted accounting principles, a total loss of principal is not probable and the allowance calculated under SFAS No. 114 is adequate. At this time it is uncertain how much United Security will collect, however management believes United Security will collect part, if not all, of the amounts due.

The allowance allocation attributable to commercial and industrial loans increased approximately $1.1 million between 2001 and 2002 primarily as the result of a single commercial loan totaling $700,000, which was classified as doubtful at December 31, 2002. The loan was subsequently charged-off during the first quarter of 2003, and a result the allowance allocation for that loan category declined during 2003.

75

During 2003, United Security 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, United Security 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 United Security's evaluation of the adequacy of the allowance for credit losses, rather than a combination of formula allowance and specific allowance.

The following summarizes United Security'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,				
	2003	2002	2001	2000	1999
	(Dollars in 000's)				
Formula allowance	$ 3,737	$ 4,216	$ 3,973	$ 3,160	$ 2,459
Specific allowance	2,344	1,339	115	134	104
Unallocated allowance	0	1	369	479	0
Total allowance	$ 6,081	$ 5,556	$ 4,457	$ 3,773	$ 2,642

	December 31,				

At December 31, 2003, United Security'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. At December 31, 2002, United Security's allowance for credit losses was $5.6 million, consisting of $4.2 million in formula allowance, $1.3 million in specific allowance, and $1,000 in unallocated allowance. At December 31, 2002, $1.1 million of the specific allowance was allocated entirely to commercial and industrial loans, and the remaining $108,000 and $165,000 were allocated to real estate mortgage and lease financing loans, respectively.

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, respectively. During 2003, United Security 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.

The formula allowance increased in all loan categories except mortgage and installment loans during 2002 as the result of increases in loan balances during the year, as well as increases in the level of classified loans. The formula allowance increased by approximately $243,000 between December 31, 2001 and December 31, 2002. The increase in the formula allowance during 2002 was the result of several factors including, an increase of $5.7 million in substandard loans, an increase of $677,000 in doubtful loans, and an increase of approximately $13.6 million in "pass" loans during 2002. Special mention loans decreased by about $506,000 between December 31, 2001 and December 31, 2002.

Although in some instances, the downgrading of a loan resulting from the factors used by United Security 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, United Security's evaluation of probable losses related to these factors may be reflected in the unallocated allowance. The evaluation of the losses associated with these factors involve a higher degree of uncertainty because they are not identified with specific problem credits, and therefore United Security does not spread the unallocated allowance among segments of the portfolio. At December 31, 2003 United Security had no unallocated allowance, reflecting a decrease from the balance of $1,000 at December 31, 2002, and $369,000 at December 31, 2001. 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 United Security'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 United Security's lending limit, any one if which were not to perform to contractual terms, would have a material impact on the allowance.

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

It is United Security'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 United Security's nonperforming assets as of the dates indicated:

	December 31,				
	2003	2002	2001	2000	1999
	(Dollars in thousands, except footnote)				
Nonaccrual loans(1)	$ 18,656	$ 15,432	$ 13,019	$ 2,810	$ 4,373

	December 31,				
Restructured loans	9	0	0	0	2,401
Total nonperforming loans	18,665	15,432	13,019	2,810	6,774
Other real estate owned	2,718	9,685	5,390	2,959	663
Total nonperforming assets	$ 21,383	$ 25,117	$ 18,409	$ 5,769	$ 7,437
Loans, past due 90 days or more, still accruing	$ 0	$ 0	$ 0	$ 595	$ 0
Nonperforming loans to total gross loans	5.40%	4.42%	3.87%	1.08%	3.42%
Nonperforming assets to total gross loans	6.19%	7.20%	5.47%	2.21%	3.75%

(1) There are no nonaccrual loans at December 31, 2003 which are restructured. Included in nonaccrual loans at December 31, 2002 and 2001 and 2000 are restructured loans totaling $21,400 and $37,600, respectively. The interest income that would have been earned on nonaccrual loans outstanding at December 31, 2003 in accordance with their original terms is approximately $1.6 million.

The overall level of nonperforming assets has increased since 2000, 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. Aside from the small number of large nonperforming relationships just discussed, United Security does not foresee an overall increase in nonperforming assets as a result of the condition of the loan portfolio, and in fact nonperforming levels have begun to decline. Continued high levels of nonperforming assets have the potential to impact the future earnings growth of United Security, however Management believes that with declining nonperforming balances combined with prudent lending policies, United Security will not experience any significant impact on earnings.

The overall level of nonaccrual loans has increased between December 31, 2002 and December 31, 2003 as commercial and commercial real estate delinquencies have increased. A substantial portion of the nonaccrual loans at December 31, 2003 are collateralized by real estate. Other real estate owned through foreclosure has been reduced 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 United Security's ongoing operations (see Note 4 to United Security's financial statements).

Loans past due more than 30 days are receiving increased management attention and are monitored for increased risk. United Security 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, 2003 where the known credit problems of a borrower caused United Security 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.

Application of Critical Accounting Policies

United Security'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 United Security are presented in Note 1 to United Security's consolidated financial statements included in this proxy statement-prospectus. 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.

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 associated with the loan portfolio.

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 and commitments to extend credit, 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. United Security'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. Loss factors are based on United Security'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. United Security 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 United Security's losses over the past twelve quarters or 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 United Security, 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 United Security, 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 United Security 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.

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, 2003, would be approximately $373,000 pretax or $220,000 net of tax. This includes an additional $80,000 or $47,000 net of tax, for criticized loans which are those classified as special mention or worse and excluding those considered impaired under SFAS No. 114, and an additional $293,000 or $172,000 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 United Security.

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 United Security's market area, or general economic trends, change.

Income Taxes

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of United Security'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 United Security'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 United Security'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 under the provisions of Senate Bill 614 and Assembly Bill 1601, which were signed into law in the 4th quarter of 2003. As a result, United Security reversed $638,000 in related net state tax benefits recorded in the first three quarters of 2003 and took no such benefit in the 4th quarter. The quarterly effects of the reversals amounted to $272,000, $248,000, and $118,000 for the quarters ended September 30, 2003, June 30, 2003, and March 31, 2003, respectively. United Security continues to review the information available from the FTB and its financial advisors and believe that United Security's position has merit. United Security will pursue its tax claims and defend its use of these entities and transactions. At this time, United Security cannot predict what the ultimate outcome will be; however, management believes it is not probable that these benefits will be reversed for the year ended December 31, 2002. If the FTB were to prevail against United Security in its defense of tax benefits taken during 2002, the negative effect to net income would be approximately $624,000.

Stock-Based Compensation

For all years presented in the Consolidated Financial Statements, United Security 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. The following table illustrates the pro forma effect on net income and earnings per share if United Security 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":

	Years Ended December 31,		
	2003	**2002**	**2001**
	(In thousands, except earnings per share)		
Net income, as reported	$ 7,706	$ 6,833	$ 6,193
Deduct: Total stock based employee Compensation expense determined under Value based method for all awards, net of Related tax effects	(12)	(27)	(53)
Pro forma net income	$ 7,694	$ 6,806	$ 6,140
Earnings per share:			
Basic as reported	$ 1.41	$ 1.27	$ 1.14
Basic pro forma	$ 1.41	$ 1.26	$ 1.13
Diluted as reported	$ 1.40	$ 1.25	$ 1.11
Diluted pro forma	$ 1.40	$ 1.24	$ 1.10

The pro forma amounts are calculated pursuant to SFAS No. 148 on the estimated fair value of the options at the date of the grant, based on assumptions made during the year of the grant. 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 United Security'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. United Security's calculations were made using the Black-Scholes option pricing model with the following weighted average

assumptions for expected life: 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 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 5.1% 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.

Revenue recognition

United Security'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.

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 United Security's equity structure. To maintain an adequate liquidity position, United Security 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. United Security'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, 2003 include unused collateralized and uncollateralized lines of credit from other banks, the Federal Home Loan Bank, and from the Federal Reserve Bank totaling $162.0 million.

Liquidity risk arises from the possibility United Security may not be able to satisfy current or future financial commitments, or United Security may become unduly reliant on alternative funding sources. United Security 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 $162.0 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. United Security

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) United Security 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 United Security Bank.

4) United Security 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. Banks 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 bank's total deposits for extended periods beyond 90 days without board approval.

8) Should United Security 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 United Security Bank totally curtail lending activities to credit worthy customers.

United Security continues to emphasize liability management as part of its overall asset/liability management strategy. Through the discretionary acquisition of short term borrowings, United Security 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 66.5% of United Security's loan portfolio at December 31, 2003. This does not preclude United Security from selling assets such as investment securities to fund liquidity needs but, with favorable borrowing rates, United Security has maintained a positive yield spread between borrowed liabilities and the assets which those liabilities fund. If, at some time, rate spreads become unfavorable, United Security 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.

United Security'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 United Security's highest yielding asset. At December 31, 2003, United Security Bank had 66.9% of total assets in the loan portfolio and a loan to

deposit ratio of 78.2%. Liquid assets at December 31, 2003 include cash and cash equivalents totaling $48.6 million as compared to $31.5 million at December 31, 2002.

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