FIRST NORTHERN COMMUNITY BANCORP
Form 10-K
March 22, 2011

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2010
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to __________.Commission File Number 000-30707
First Northern Community Bancorp
(Exact name of Registrant as specified in its charter)

California	68-0450397
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
195 N. First St., Dixon, CA	95620
(Address of principal executive offices)	(Zip Code)

707-678-3041
(Registrant’s telephone number including area code)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o Non-accelerated filer o (Do not check if smaller reporting company) Smaller reporting company x

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant on June 30, 2010 (based upon the last reported sales price of such stock on the OTC Bulletin Board on June 30, 2010) was $37,291,695.

The number of shares of Common Stock outstanding as of March 21, 2011 was 9,116,316.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10, 11, 12 (as to security ownership of certain beneficial owners and management), 13 and 14 of Part III incorporate by reference information from the registrant's proxy statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the registrant's 2011 Annual Meeting of Shareholders.

TABLE OF CONTENTS

PART I		Page
Item 1	Business	4
Item 1A	Risk Factors	14
Item 2	Properties	22
Item 3	Legal Proceedings	22
Item 4	(Removed and Reserved)	22
PART II		
Item 5	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	23
Item 6	Selected Financial Data	24
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operation	25
Item 8	Financial Statements and Supplementary Data	52
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	98
Item 9A (T)	Controls and Procedures	98
Item 9B	Other Information	98
PART III		
Item 10	Directors, Executive Officers and Corporate Governance	99
Item 11	Executive Compensation	99
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	100
Item 13	Certain Relationships and Related Transactions and Director Independence	100
Item 14	Principal Accountant Fees and Services	100
PART IV		

Item 15	Exhibits and Financial Statement Schedules	101
Signatures		104

This report includes forward-looking statements, which include forecasts of our financial results and condition, expectations for our operations and business, and our assumptions for those forecasts and expectations. Do not rely unduly on forward-looking statements. Actual results might differ significantly compared to our forecasts and expectations. See Part I, Item 1A. "Risk Factors," and the other risks described in this report for factors to be considered when reading any forward-looking statements in this filing.

This report includes forward-looking statements, which are subject to the "safe harbor" created by section 27A of the Securities Act of 1933, as amended, and section 21E of the Securities Exchange Act of 1934, as amended. We may make forward-looking statements in our Securities and Exchange Commission ("SEC") filings, press releases, news articles and when we are speaking on behalf of the Company. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. Often, they include the words "believe," "expect," "target," "anticipate," "intend," "plan," "seek," "estimate," "potential," "project," or words of similar meaning, or future or conditiona such as "will," "would," "should," "could," "might," or "may." These forward-looking statements are intended to provide inve with additional information with which they may assess our future potential. All of these forward-looking statements are based on assumptions about an uncertain future and are based on information available to us at the date of these statements. We do not undertake to update forward-looking statements to reflect facts, circumstances, assumptions or events that occur after the date the forward-looking statements are made.

In this document, for example, we make forward-looking statements, which discuss our expectations about:

- Our business objectives, strategies and initiatives, our organizational structure, the growth of our business and our competitive position
- Our assessment of significant factors and developments that have affected or may affect our results
- Pending and recent legal and regulatory actions, and future legislative and regulatory developments, including the effects of the Dodd-Frank Wall Street Reform and Protection Act (the "Dodd-Frank Act") and other legislation and governmental measures introduced in response to the financial crises affecting the banking system, financial markets and the U.S. economy
- Regulatory controls and processes and their impact on our business
- The costs and effects of legal actions
- We do not expect draws on performance letters of credit
- Our regulatory capital requirements
- We do not anticipate paying a cash dividend in the foreseeable future
- Credit quality and provision for credit losses
- Our allowances for credit losses, including the conditions we consider in determining the unallocated allowance and our portfolio credit quality, underwriting standards, and risk grade
- Our assessment of economic conditions and trends and credit cycles and their impact on our business
- The seasonal nature of our business
- The impact of changes in interest rates and our strategy to manage our interest rate risk profile

- Loan portfolio composition and risk grade trends, expected charge offs, delinquency rates and our underwriting standards
- Our deposit base including renewal of time deposits
- Our belief that net interest income and net interest margin will continue to fluctuate due to the unstable rate environment

- The Company does not anticipate any significant increase or decrease in unrecognized tax benefits
- Our pension and retirement plan costs
- Our liquidity position
- Critical accounting policies and estimates, the impact or anticipated impact of recent accounting pronouncements or change in accounting principles
- Expected rates of return, yields and projected results

There are numerous risks and uncertainties that could and will cause actual results to differ materially from those discussed in our forward-looking statements. Many of these factors are beyond our ability to control or predict and could have a material adverse effect on our financial condition and results of operations or prospects. Such risks and uncertainties include, but are not limited to those listed in Part I, Item 1A "Risk Factors" and Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Readers of this document should not rely unduly on forward-looking information and should consider all uncertainties and risks disclosed throughout this document and in our other reports to the SEC, including, but not limited to, those discussed below. Any factor described in this report could by itself, or together with one or more other factors, adversely affect our business, future prospects, results of operations or financial condition.

PART I

ITEM 1 - BUSINESS

Unless otherwise indicated, all information herein has been adjusted to give effect to our two-for-one stock split in 2005 and stock dividends.

First Northern Bank of Dixon ("First Northern" or "Bank") was established in 1910 under a California state charter as Northern Solano Bank, and opened for business on February 1st of that year. On January 2, 1912, the First National Bank of Dixon was established under a federal charter, and until 1955, the two entities operated side by side under the same roof and with the same management. In an effort to increase efficiency of operation, reduce operating expense, and improve lending capacity, the two banks were consolidated on April 8, 1955, with the First National Bank of Dixon as the surviving entity.

On January 1, 1980, the Bank's federal charter was relinquished in favor of a California state charter, and the Bank's name was changed to First Northern Bank of Dixon.

In April of 2000, the shareholders of First Northern approved a corporate reorganization, which provided for the creation of a bank holding company, First Northern Community Bancorp ("Company"). The objective of this reorganization, which was effected May 19, 2000, was to enable the Bank to better compete and grow in its competitive and rapidly changing marketplace. As a result of the reorganization, the Bank is a wholly owned and principal operating subsidiary of the Company.

First Northern engages in the general commercial banking business throughout the California Counties of Solano, Yolo, Placer, and Sacramento.

The Company's and the Bank's Administrative Offices are located in Dixon, California. Also located in Dixon are the back office functions of the Information Services/Central Operations Department and the Central Loan Department.

The Bank has eleven full service branches. Four are located in the Solano County cities of Dixon, Fairfield, and Vacaville (2). Four branches are located in the Yolo County cities of Winters, Davis, West Sacramento, and Woodland. One branch is located in Downtown Sacramento in Sacramento County, and one branch is located in the city of Roseville in Placer County. The Bank also has one satellite banking office inside a retirement community in the city of Davis. In addition, the Bank has real estate loan offices in Davis, Folsom and Roseville that originate residential mortgages and construction loans. The Bank also has a Small Business Administration ("SBA") Loan Department located in Roseville and an Asset Management & Trust Department in Downtown Sacramento that serve the Bank's entire market area.

First Northern is in the commercial banking business, which includes accepting demand, interest bearing transaction, savings, and time deposits, and making commercial, consumer, and real estate related loans. It also offers installment note collection, issues cashier's checks, sells travelers' checks, rents safe deposit boxes, and provides other customary banking services. The Bank is a member of the Federal Deposit Insurance Corporation ("FDIC") and effective July 21, 2010, the standard maximum deposit insurance amount was permanently raised to $250,000. Prior to this date, the standard maximum insurance amount of $100,000 had been temporarily raised to $250,000 until December 31, 2013.

First Northern also offers a broad range of alternative investment products and services, equipment leasing and limited international banking services through third parties.

The operating policy of the Bank since its inception has emphasized serving the banking needs of individuals and small- to medium-sized businesses. In Dixon, this has included businesses involved in crop and livestock production. Historically, the economy of the Dixon area has been primarily dependent upon agricultural related sources of income and most employment opportunities have also been related to agriculture. Since 2000, Dixon has been becoming more diverse with noticeable expansion in the areas of industrial, commercial, retail, and residential housing projects.

The Davis economy is supported significantly by the University of California, Davis. In 1981, a branch was opened in South Davis, and was consolidated into the main Davis Branch in 1986.

In 1983, the West Sacramento Branch was opened. The West Sacramento economy is built primarily around transportation and distribution related business.

In order to accommodate the demand of the Bank's customers for long-term residential real estate loans, a Real Estate Loan Office was opened in 1983. This office is centrally located in Davis, and has enabled the Bank to access the secondary real estate market.

The Vacaville Branch was opened in 1985. Vacaville has a diverse economic base including a California state prison, food processing, distribution, shopping centers ("Factory Outlet Stores"), medical, biotech, and other varied industries.

In 1994, the Fairfield Branch was opened. Its diverse economic base includes military ("Travis AFB"), food processing (an Anheuser-Busch plant), retail ("Solano Mall"), manufacturing, medical, agriculture, and other varied industries. Fairfield is the county seat of Solano County. The Fairfield Branch has been expanded and remodeled to accommodate additional customers and to include an Investment & Brokerage services office.

A real estate loan production office was opened in El Dorado Hills, in April 1996, to serve the growing mortgage loan demand in the foothills area east of Sacramento. This office was moved to Folsom in 2006, a more central location for serving Folsom, Rancho Cordova, and the west slope of El Dorado County.

The SBA Loan Department was opened in April 1997 in Sacramento to serve the small business and industrial loan demand throughout the Bank's entire market area. This Department was moved to Roseville in 2010.

In June of 1997, the Bank's seventh branch was opened in Woodland, the county seat of Yolo County. Woodland's economy includes agribusiness, retail services, and an industrial sector.

The Bank's eighth branch, the Downtown Financial Center, opened in July of 2000 in Vacaville to serve the business and individual financial needs on the west side of Interstate-80.

Two satellite banking offices of the Bank's Davis Branch were opened in 2001 in the Davis senior living communities of Covell Gardens and the University Retirement Community. The Bank later consolidated the Covell Gardens location into its main branch in Davis.

In December of 2001, Roseville became the site of the Bank's fourth real estate loan production office. This office serves the residential mortgage loan needs throughout Placer County.

In October of 2002, the Bank opened its tenth branch on a prominent corner in Downtown Sacramento to serve Sacramento Metro's business center and its employees. The Bank's Asset Management & Trust Department, located on the mezzanine of the Downtown Sacramento Branch, was opened in 2002 to serve the trust and fiduciary needs of the Bank's entire market area. Fiduciary services are offered to individuals, businesses, governments, and charitable organizations in the Solano, Yolo, Sacramento, Placer and El Dorado County regions.

The Bank expanded its presence in Placer County in January 2005 by opening a full service branch on a prominent corner in the rapidly growing business district of Roseville.

In late 2007, First Northern Bank seized an opportunity in Auburn to acquire several key personnel from a highly respected local bank that had just merged with a large conglomerate bank. While First Northern scouted for a branch site, the 'Auburn team' worked from the Bank's Roseville Branch to develop business in Auburn. In June 2008, the Bank opened its Auburn Financial Center in a temporary location within a busy retail shopping center along Highway 49. The Financial Center houses a full service branch and an Investment & Brokerage Services Office. Auburn is the county seat of Placer County.

In November 2010, First Northern Bank purchased a building in the Auburn Town Center, which became the permanent location of the Auburn Financial Center in February 2011. First Northern Bank leases office space in this building to various tenants.

Through this period of change and diversification, the Bank's strategic focus, which emphasizes serving the banking needs of individuals and small-to medium-sized businesses, has not changed. The Bank takes real estate, crop proceeds, securities, savings and time deposits, automobiles, and equipment as collateral for loans.

Most of the Bank's deposits are attracted from the market of northern and central Solano County and southern and central Yolo County.

As of December 31, 2010, the Company and the Bank employed 212 full-time equivalent staff. The Company and the Bank consider their relationship with their employees to be good and have not experienced any interruptions of operations due to labor disagreements.

First Northern has historically experienced seasonal swings in both deposit and loan volumes due primarily to general economic factors and specific economic factors affecting our customers. Deposits have typically hit lows in February or March and have peaked in November or December. Loans typically peak in the late spring and hit lows in the fall as crops are harvested and sold. Since the real estate and agricultural economies generally follow the same seasonal cycle, they experience the same deposit and loan fluctuations.

Available Information

The Company's internet address is www.thatsmybank.com, and the Company makes available free of charge on this website its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the U. S. Securities and Exchange Commission ("SEC"). These filings are also accessible on the SEC's website at www.sec.gov. The information found on the Company's website shall not be deemed incorporated by reference by any general statement incorporating by reference this report into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934 and shall not otherwise be deemed filed under such Acts.

The Effect of Government Policy on Banking

The earnings and growth of the Bank are affected not only by local market area factors and general economic conditions, but also by government monetary and fiscal policies. For example, the Board of Governors of the Federal Reserve System ("FRB") influences the supply of money through its open market operations in U.S. Government securities, adjustments to the discount rates applicable to borrowings by depository institutions and others and establishment of reserve requirements against both member and non-member financial institutions' deposits. Such actions significantly affect the overall growth and distribution of loans, investments, and deposits and also affect interest rates charged on loans and paid on deposits. The nature and impact of future changes in such policies on the business and earnings of the Company cannot be predicted. Additionally, state and federal tax policies can impact banking organizations.

As a consequence of the extensive regulation of commercial banking activities in the United States, the business of the Company is particularly susceptible to being affected by the enactment of federal and state legislation which may have the effect of increasing or decreasing the cost of doing business, modifying permissible activities or enhancing the competitive position of other financial institutions. Any change in applicable laws, regulations, or policies may have a material adverse effect on the business, financial condition, or results of operations, or prospects of the Company.

Regulation and Supervision of Bank Holding Companies

The Company is a bank holding company subject to the Bank Holding Company Act of 1956, as amended ("BHCA"). The Company reports to, registers with, and may be examined by, the FRB. The FRB also has the authority to examine the Company's subsidiaries. The costs of any examination by the FRB are payable by the Company.

The FRB has significant supervisory and regulatory authority over the Company and its affiliates. The FRB requires the Company to maintain certain levels of capital. See "Capital Standards" below for more information. The FRB also has the authority to take enforcement action against any bank holding company that commits any unsafe or unsound practice, or violates certain laws, regulations, or conditions imposed in writing by the FRB. See "Prompt Corrective Action and Other Enforcement Mechanisms" below for more information. Under FRB policy and provisions of the Dodd-Frank Act, bank holding companies are expected to act as a source of financial and managerial strength to subsidiary banks, and to commit resources to support subsidiary banks. This support may be required at times when a bank holding company may not be able to provide such support.

Under the BHCA, a company generally must obtain the prior approval of the FRB before it exercises a controlling influence over a bank, or acquires, directly or indirectly, more than 5% of the voting shares or substantially all of the assets of any bank or bank holding company. Thus, the Company is required to obtain the prior approval of the FRB before it acquires, merges, or consolidates with any bank or bank holding company. Any company seeking to acquire, merge, or consolidate with the Company also would be required to obtain the prior approval of the FRB.

The Company is generally prohibited under the BHCA from acquiring ownership or control of more than 5% of the voting shares of any company that is not a bank or bank holding company and from engaging directly or indirectly in activities other than banking, managing banks, or providing services to affiliates of the holding company. However, a bank holding company, with the approval of the FRB, may engage, or acquire the voting shares of companies engaged, in activities that the FRB has determined to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. A bank holding company must demonstrate that the benefits to the public of the proposed activity will outweigh the possible adverse effects associated with such activity.

The FRB generally prohibits a bank holding company from declaring or paying a cash dividend which would impose undue pressure on the capital of subsidiary banks or would be funded only through borrowing or other arrangements that might adversely affect a bank holding company's financial position. The FRB's policy is that a bank holding company should not continue its existing rate of cash dividends on its common stock unless its net income is sufficient to fully fund each dividend and its prospective rate of earnings retention appears consistent with its capital needs, asset quality, and overall financial condition. The Company is also subject to restrictions relating to the payment of dividends under California corporate law. See "Restrictions on Dividends and Other Distributions" below for additional restrictions on the ability of the Company and the Bank to pay dividends.

Bank Regulation and Supervision

The Bank is subject to regulation, supervision and regular examination by the California Department of Financial Institutions ("DFI") and the FDIC. The regulations of these agencies affect most aspects of the Bank's business and prescribe permissible types of loans and investments, the amount of required reserves, requirements for branch offices,

the permissible scope of the Bank's activities and various other requirements. While the Bank is not a member of the FRB, it is directly subject to certain regulations of the FRB dealing with such matters as check clearing activities, establishment of banking reserves, Truth-in-Lending ("Regulation Z"), Truth-in-Savings ("Regulation DD"), and Equal Credit Opportunity ("Regulation B"). In addition, the banking industry is subject to significantly increased regulatory controls and processes regarding Bank Secrecy Act and anti-money laundering laws. In recent years, a number of banks and bank holding companies announced the imposition of regulatory sanctions, including regulatory agreements and cease and desist orders and, in some cases, fines and penalties by the bank regulators due to failures to comply with the Bank Secrecy Act and other anti-money laundering legislation. In a number of these cases, the fines and penalties have been significant. Failure to comply with these additional requirements may also adversely affect the ability to obtain regulatory approvals for future initiatives requiring regulatory approval, including acquisitions.

Under California law, the Bank is subject to various restrictions on, and requirements regarding, its operations and administration including the maintenance of branch offices and automated teller machines, capital and reserve requirements, deposits and borrowings, stockholder rights and duties, and investment and lending activities.

California law permits a state chartered bank to invest in the stock and securities of other corporations, subject to a state chartered bank receiving either general authorization or, depending on the amount of the proposed investment, specific authorization from the Commissioner. Federal banking laws, however, impose limitations on the activities and equity investments of state chartered, federally insured banks. The FDIC rules on investments prohibit a state bank from acquiring an equity investment of a type, or in an amount, not permissible for a national bank. Non-permissible investments must have been divested by state banks no later than December 19, 1996. FDIC rules also prohibit a state bank from engaging as a principal in any activity that is not permissible for a national bank, unless the bank is adequately capitalized and the FDIC approves the activity after determining that such activity does not pose a significant risk to the deposit insurance fund. The FDIC rules on activities generally permit subsidiaries of banks, without prior specific FDIC authorization, to engage in those activities that have been approved by the FRB for bank holding companies because such activities are so closely related to banking to be a proper incident thereto. Other activities generally require specific FDIC prior approval and the FDIC may impose additional restrictions on such activities on a case-by-case basis in approving applications to engage in otherwise impermissible activities.

The USA Patriot Act

Title III of the United and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“USA Patriot Act”) includes numerous provisions for fighting international money laundering and blocking terrorism access to the U.S. financial system. The USA Patriot Act requires certain additional due diligence and record keeping practices, including, but not limited to, new customers, correspondent and private banking accounts. In March 2006, President Bush signed into law a renewal of the USA Patriot Act.

Part of the USA Patriot Act is the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (“IMLAFATA”). Among its provisions, IMLAFATA requires each financial institution to: (i) establish an anti-money laundering program; (ii) establish appropriate anti-money laundering policies, procedures, and controls; (iii) appoint a Bank Secrecy Act officer responsible for day-to-day compliance; and (iv) conduct independent audits. In addition, IMLAFATA contains a provision encouraging cooperation among financial institutions, regulatory authorities, and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities. IMLAFATA expands the circumstances under which funds in a bank account may be forfeited and requires covered financial institutions to respond under certain circumstances to requests for information from federal banking agencies within 120 hours. IMLAFATA also amends the BHCA and the Bank Merger Act to require the federal banking agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing an application under these Acts.

Pursuant to IMLAFATA, the Secretary of the Treasury, in consultation with the heads of other government agencies, has adopted and proposed special measures applicable to banks, bank holding companies, and/or other financial institutions. These measures include enhanced record keeping and reporting requirements for certain financial transactions that are of primary money laundering concern, due diligence requirements concerning the beneficial ownership of certain types of accounts, and restrictions or prohibitions on certain types of accounts with foreign financial institutions.

Privacy Restrictions

The Gramm-Leach-Bliley Act (“GLBA”), in addition to the previous described changes in permissible non-banking activities permitted to banks, bank holding companies and financial holding companies, also requires financial institutions in the U.S. to provide certain privacy disclosures to customers and consumers, to comply with certain restrictions on the sharing and usage of personally identifiable information, and to implement and maintain commercially reasonable customer information safeguarding standards.

The Company believes that it complies with all provisions of GLBA and all implementing regulations, and the Bank has developed appropriate policies and procedures to meet its responsibilities in connection with the privacy provisions of GLBA.

In October 2007, the federal bank regulatory agencies adopted final rules implementing the affiliate marketing provisions of the Fair and Accurate Credit Transactions Act of 2003, which amended the Fair Credit Reporting Act ("FCRA"). The final rules, which became effective on January 1, 2008, impose a prohibition, subject to certain exceptions, on a financial institution using certain information received from an affiliate to make a solicitation to a consumer unless the consumer is given notice and a reasonable opportunity to opt out of such solicitations, and the consumer does not opt out. The final rules apply to information obtained from the consumer's transactions or account relationships with an affiliate, any application the consumer submitted to an affiliate, and third-party sources, such as credit reports, if the information is to be used to send marketing solicitations. The rules do not supersede or affect a consumer's existing right under other provisions of the FCRA to opt out of the sharing between a financial institution and its affiliates of consumer information other than information relating solely to transactions or experiences between the consumer and the financial institution or its affiliates.

California and other state legislatures have adopted privacy laws, including laws prohibiting sharing of customer information without the customer's prior permission. These laws may make it more difficult for the Company to share information with its marketing partners, reduce the effectiveness of marketing programs, and increase the cost of marketing programs.

Capital Standards

The federal banking agencies have risk-based capital adequacy guidelines intended to provide a measure of capital adequacy that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets and transactions, such as letters of credit, and recourse arrangements, which are recorded as off-balance-sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off-balance-sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain U.S. government securities, to 100% for assets with relatively higher credit risk, such as certain loans.

In determining the capital level the Bank is required to maintain, the federal banking agencies do not, in all respects, follow generally accepted accounting principles ("GAAP") and have special rules which have the effect of reducing the amount of capital that will be recognized for purposes of determining the capital adequacy of the Bank.

In addition to the risk-based guidelines, federal banking regulators require banking organizations to maintain a minimum amount of Tier 1 capital to adjusted average total assets, referred to as the leverage capital ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum lever–age ratio of Tier 1 capital to total assets must be 3%. It is improbable; however, that an institution with a 3% leverage ratio would receive the highest rating by the regulators since a strong capital position is a significant part of the regulators' rating. For all banking organizations not rated in the highest category, the minimum leverage ratio must be at least 100 to 200 basis points above the 3% minimum. Thus, the effective minimum leverage ratio, for all practical purposes, must be at least 4% or 5%. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios.

As of December 31, 2010, the Company's and the Bank's capital ratios exceeded applicable regulatory requirements.

The following tables present the capital ratios for the Company and the Bank, compared to the standards for well-capitalized bank holding companies and depository institutions, as of December 31, 2010.

	The Company		
	Actual		Adequately Capitalized
	Capital	Ratio	Ratio
Leverage	$72,867	9.8 %	4.0 %
Tier 1 Risk-Based	72,867	15.4 %	4.0 %
Total Risk-Based	78,847	16.7 %	8.0 %

	The Bank			
	Actual		Adequately Capitalized	Well Capitalized
	Capital	Ratio	Ratio	Ratio
Leverage	$71,843	9.7 %	4.0 %	5.0 %
Tier 1 Risk-Based	71,843	15.2 %	4.0 %	6.0 %
Total Risk-Based	77,823	16.5 %	8.0 %	10.0 %

The federal banking agencies must take into consideration concentrations of credit risk and risks from non-traditional activities, as well as an institution's ability to manage those risks, when determining the adequacy of an institution's capital. This evaluation will be made as a part of the institution's regular safety and soundness examination. The federal banking agencies must also consider interest rate risk (when the interest rate sensitivity of an institution's assets does not match the sensitivity of its liabilities or its off-balance-sheet position) in evaluating a Bank's capital adequacy.

Prompt Corrective Action and Other Enforcement Mechanisms

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") requires each federal banking agency to take prompt corrective action to resolve the problems of insured depository institutions, including but not limited to those that fall below one or more prescribed minimum capital ratios. The law required each federal banking agency to promulgate regulations defining the following five categories in which an insured depository institution will be placed, based on the level of its capital ratios: well capitalized, adequately capitalized, under–capitalized, significantly undercapitalized, and critically undercapitalized.

Under the prompt corrective action provisions of FDICIA, an insured depository institution generally will be classified in the following categories based on the capital measures indicated below:

"Well capitalized"	"Adequately capitalized"
Total risk-based capital of 10%;	Total risk-based capital of 8%;
Tier 1 risk-based capital of 6%; and	Tier 1 risk-based capital of 4%; and
Leverage ratio of 5%.	Leverage ratio of 4%.

"Undercapitalized"	"Significantly undercapitalized"
Total risk-based capital less than 8%;	Total risk-based capital less than 6%;
Tier 1 risk-based capital less than 4%; or	Tier 1 risk-based capital less than 3%; or
Leverage ratio less than 4%.	Leverage ratio less than 3%.

"Critically undercapitalized"
Tangible equity to total assets less than 2%.

An institution that, based upon its capital levels, is classified as "well capitalized," "adequately capitalized" or "under–capitalized" may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. Management believes that at December 31, 2010, the Company and the Bank met the requirements for "well capitalized" institutions.

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, the issuance of a cease-and-desist order that can be judicially enforced, the termination of insurance of deposits (in the case of a depository institution), the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the issuance of removal and prohibition orders against institution-affiliated parties and the enforcement of such actions through injunctions or restraining orders based upon a judicial determination that the agency would be harmed if such equitable relief was not granted. Additionally, a holding company's inability to serve as a source of strength to its subsidiary banking organizations could serve as an additional basis for a regulatory action against the holding company.

Safety and Soundness Standards

FDICIA also implemented certain specific restrictions on transactions and required federal banking regulators to adopt overall safety and soundness standards for depository institutions related to internal control, loan underwriting and documentation and asset growth. Among other things, FDICIA limits the interest rates paid on deposits by undercapitalized institutions, restricts the use of brokered deposits, limits the aggregate extensions of credit by a depository institution to an executive officer, director, principal shareholder, or related interest, and reduces deposit insurance coverage for deposits offered by undercapitalized institutions for deposits by certain employee benefits accounts.

The federal banking agencies may require an institution to submit to an acceptable compliance plan as well as have the flexibility to pursue other more appropriate or effective courses of action given the specific circumstances and severity of an institution's non-compliance with one or more standards.

Restrictions on Dividends and Other Distributions

The power of the board of directors of an insured depository institution to declare a cash dividend or other distribution with respect to capital is subject to statutory and regulatory restrictions which limit the amount available for such distribution depending upon the earnings, financial condition and cash needs of the institution, as well as general business conditions. FDICIA prohibits insured depository institutions from paying management fees to any controlling persons or, with certain limited exceptions, making capital distributions, including dividends, if, after such transaction, the institution would be undercapitalized.

The federal banking agencies also have authority to prohibit a depository institution from engaging in business practices, which are considered to be unsafe or unsound, possibly including payment of dividends or other payments under certain circumstances even if such payments are not expressly prohibited by statute.

In addition to the restrictions imposed under federal law, banks chartered under California law generally may only pay cash dividends to the extent such payments do not exceed the lesser of retained earnings of the bank's net income for its last three fiscal years (less any distributions to shareholders during such period). In the event a bank desires to pay

cash dividends in excess of such amount, the bank may pay a cash dividend with the prior approval of the Commissioner in an amount not exceeding the greatest of the bank's retained earnings, the bank's net income for its last fiscal year, or the bank's net income for its current fiscal year.

We are also subject to dividend restrictions of the U.S. Treasury due to our participation in the TARP Capital Purchase Program.

U.S. Treasury's TARP Capital Purchase Program

In 2009, pursuant to the U.S. Treasury's TARP Capital Purchase Program ("CPP") we issued and sold, and the U.S. Treasury purchased, (1) 17,390 shares (the "Preferred Shares") of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, liquidation preference of $1,000 per share, and (2) a ten-year warrant (the "Warrant") to purchase up to 352,977 shares of the Company's common stock, without par value ("Common Stock"), at an exercise price of $7.39 per share, for an aggregate purchase price of $17.39 million in cash.

The Purchase Agreement pursuant to which the Preferred Shares and the Warrant were sold contains limitations on the payment of dividends on the Common Stock, including with respect to the payment of cash dividends (but does not affect our ability to declare and pay stock dividends) and on the Company's ability to repurchase its Common Stock, and subjects the Company to certain statutory executive compensation limitations. These limitations will remain in effect so long as the Preferred Shares are outstanding and held by the U.S. Treasury.

Premiums for Deposit Insurance

The Bank is a member of the Deposit Insurance Fund ("DIF") maintained by the FDIC. Through the DIF, the FDIC insures the deposits of the Bank up to prescribed limits for each depositor. To maintain the DIF, member institutions are assessed an insurance premium based on their deposits and their institutional risk category. The FDIC determines an institution's risk category by combining its supervisory ratings with its financial ratios and other risk measures.

Amendments to the Federal Deposit Insurance Act ("FDIA") in 2005 and 2006 created a new assessment system designed to more closely tie what banks pay for deposit insurance to the risks they pose and adopted a new base schedule of rates that the FDIC can adjust up or down, depending on the revenue needs of the insurance fund. As part of the Deposit Insurance Fund Restoration Plan adopted by the FDIC in October 2008, beginning on April 1, 2009, the FDIC initial base assessment rates were set between 12 and 45 basis points. In addition, on June 30, 2009, the FDIC imposed a special assessment on banks. The Bank's special assessment totaled $320,000

In November 2009, in light of the challenge to the federal deposit insurance fund from the severe U.S. recession, the FDIC issued a rule mandating that insured depository institutions prepay their quarterly risk-based assessments to the FDIC for the fourth quarter of 2009, and all of 2010, 2011 and 2012. The Bank's prepayment totaled $3,820,000 and was paid on December 30, 2009. Under this rule, each depository institution was required to record the entire amount of its prepayment as an asset, or a prepaid expense, and is allowed to count the payments as a depreciating asset. The prepaid assessments bear a zero-percent risk weight for risk-based capital purposes. The FDIC will not refund or collect additional prepaid assessments because of a decrease or growth in deposits over the next three years. However, if the prepaid assessment is not exhausted by June 30, 2013, the remaining amount of the prepayment will be returned to the depository institution. The prepaid assessments are in lieu of additional special assessments at this time; however, there can be no assurance that the FDIC will not impose additional special assessments or increase annual assessments in the future.

The Dodd-Frank Act requires the FDIC to revise the deposit insurance assessment system to base assessments on the average total consolidated assets of the institution, rather than upon deposits payable in the U.S. as was previously the case. On October 19, 2010, the FDIC proposed a comprehensive, long-range "restoration" plan for the deposit insurance fund to ensure that the ratio of the fund's reserves to insured deposits reaches 1.35 percent by 2020, as required by the Dodd-Frank Act. Based upon updated projections for the fund, the new restoration plan would forgo the uniform 3 basis point assessment rate increase previously scheduled to go into effect on January 1, 2011, and would keep the current rate schedule in effect. The FDIC's proposal also envisions eventually building the fund's reserve ratio to 2.0 percent. Base assessment rates would adjust downward over time as the fund reached specified reserve levels. The ultimate effect of these legislative and regulatory developments cannot be predicted with any certainty.

Community Reinvestment Act and Fair Lending

The Bank is subject to certain fair lending requirements and reporting obligations involving home mortgage lending operations and Community Reinvestment Act (“CRA”) activities. The CRA generally requires the federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of the Bank’s local communities, including low- and moderate-income neighborhoods. In addition to substantive penalties and corrective measures that may be required for a violation of certain fair lending laws, the federal banking agencies may take compliance with such laws and CRA into account when regulating and supervising other activities, particularly applications involving business expansion such as acquisitions or de novo branching.

Conservatorship and Receivership of Institutions

If any insured depository institution becomes insolvent and the FDIC is appointed its conservator or receiver, the FDIC may, under federal law, disaffirm or repudiate any contract to which such institution is a party, if the FDIC determines that performance of the contract would be burdensome, and that disaffirmance or repudiation of the contract would promote the orderly administration of the institution's affairs. Such disaffirmance or repudiation would result in a claim by its holder against the receivership or conservatorship. The amount paid upon such claim would depend upon, among other factors, the amount of receivership assets available for the payment of such claim and its priority relative to the priority of others. In addition, the FDIC as conservator or receiver may enforce most contracts entered into by the institution notwithstanding any provision providing for termination, default, acceleration, or exercise of rights upon or solely by reason of insolvency of the institution, appointment of a conservator or receiver for the institution, or exercise of rights or powers by a conservator or receiver for the institution. The FDIC as conservator or receiver also may transfer any asset or liability of the institution without obtaining any approval or consent of the institution's shareholders or creditors.

The Dodd-Frank Act

Due to the recent financial crisis, there have been significant changes in the competitive landscape of the financial services industry and an overhaul of the legislative and regulatory landscape with the passage of the Dodd-Frank Act, which was signed into law on July 21, 2010. The Dodd-Frank Act provides for, among other matters, increased regulatory supervision and examination of financial institutions, the imposition of more stringent capital requirements on financial institutions and increased regulation of derivatives and hedging transactions. Implementation of the Dodd-Frank Act will require many new mandatory and discretionary rules to be made by federal regulatory agencies over the next several years. The total impact of the Dodd-Frank is difficult to predict at this time. Some of the general provisions of the Act which we expect could have a direct impact on our business include the following:

- Creation of a federal consumer protection agency;
- Revisions to the federal deposit insurance program which could increase our insurance premiums;
- Changing the capital requirements of bank holding companies and banks;
- Provides for additional regulation and oversight of compensation of bank employees;
- Allowing the payment of interest on business checking accounts; and
- Additional regulation of interchange fees on debit card transactions.

The environment in which financial institutions will operate after the recent financial crisis, including legislative and regulatory changes affecting capital, liquidity, supervision, permissible activities, corporate governance and compensation, and changes in fiscal policy may have long-term effects on the business model and profitability of financial institutions that cannot now be foreseen.

Sarbanes – Oxley Act

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") implemented a broad range of corporate governance and accounting measures to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of disclosures under federal securities laws. Among other things, Sarbanes-Oxley and its implementing regulations

have established new membership requirements and additional responsibilities for our audit committee, imposed restrictions on the relationship between us and our outside auditors (including restrictions on the types of non-audit services our auditors may provide to us), imposed additional responsibilities for our external financial statements on our chief executive officer and chief financial officer, expanded the disclosure requirements for our corporate insiders and contained new evaluation, auditing and reporting requirements relating to disclosure controls and procedures and our internal control over financial reporting.

Regulation E

In November 2009, the Federal Reserve issued amendments to Regulation E, which implemented the Electronic Fund Transfer Act ("Regulation E"). These amendments change, among other things, the way we and other banks may charge overdraft fees; by limiting our ability to charge an overdraft fee for ATM and one-time debit card transactions that overdraw a consumer's account, unless the consumer affirmatively consents to the bank's payment of overdrafts for those transactions. On December 16, 2010, the Federal Reserve Board proposed an interchange fee cap of twelve cents per transaction. Changes to our overdraft practices will likely negatively impact future service charge revenues.

Possible Future Legislation and Regulatory Initiatives

The recent economic and political environment has led to a number of proposed legislative, governmental and regulatory initiatives, described above, that may significantly impact our industry. These and other initiatives could significantly change the competitive and operating environment in which we and our subsidiaries operate. We cannot predict whether these or any other proposals will be enacted or the ultimate impact of any such initiatives on our operations, competitive situation, financial condition or results of operations.

Competition

In the past, an independent bank's principal competitors for deposits and loans have been other banks (particularly major banks), savings and loan associations, and credit unions. For agricultural loans, the Bank also competes with constituent entities with the Federal Farm Credit System. To a lesser extent, competition was also provided by thrift and loans, mortgage brokerage companies and insurance companies. Other institutions, such as brokerage houses, mutual fund companies, credit card companies, and even retail establishments have offered new investment vehicles, which also compete with banks for deposit business. The direction of federal legislation in recent years seems to favor competition among different types of financial institutions and to foster new entrants into the financial services market. For example, the Dodd-Frank Act now permits banks to establish new branches in another state to the same extent as banks chartered in the other state.

The availability of banking services over the Internet or "e-banking" has continued to expand. While the impact of these changes, and of other proposed changes, cannot be predicted with certainty, it is clear that the business of banking in California will remain highly competitive.

We also compete for deposits and loans with much larger financial institutions. Competition in our industry is likely to further intensify as a result of recent adverse economic and financial market conditions which has led to increased consolidation of financial services companies, including large consolidations of significance in our market area (such as JPMorgan Chase's acquisition of Washington Mutual and Wells Fargo Bank's acquisition of Wachovia Bank). In order to compete with major financial institutions and other competitors in its primary service areas, the Bank relies upon the experience of its executive and senior officers in serving business clients, and upon its specialized services, local promotional activities and the personal contacts made by its officers, directors and employees.

For customers whose loan demand exceeds the Bank's legal lending limit, the Bank may arrange for such loans on a participation basis with correspondent banks. The seasonal swings discussed earlier have, in the past, had some impact on the Bank's liquidity. The management of investment maturities, sale of loan participations, federal fund borrowings, qualification for funds under the Federal Reserve Bank's seasonal credit program, and the ability to sell mortgages in the secondary market is intended to allow the Bank to satisfactorily manage its liquidity.

ITEM 1A – RISK FACTORS

In addition to factors mentioned elsewhere in this Report, the factors contained below, among others, could cause our financial condition and results of operations to be materially and adversely affected. If this were to happen, the value of our common stock could decline, perhaps significantly, and you could lose all or part of your investment.

U.S. and global economies continue to experience significant challenges.

In recent years, adverse financial developments have impacted the U.S. and global economies and financial markets and present challenges for the banking and financial services industry and for us. These developments include a general recession both globally and in the U.S. and have contributed to substantial volatility in the financial markets.

In response, various significant economic and monetary stimulus measures have been enacted by the U.S. Congress. It is uncertain whether these U.S. governmental actions will result in lasting improvement in financial and economic conditions affecting the U.S. banking industry and the U.S. economy. It also cannot be predicted whether and to what extent the efforts of the U.S. government to combat the recessionary conditions will continue. If, notwithstanding the government's fiscal and monetary measures, the U.S. economy were to remain in a recessionary condition for an extended period, this would present additional significant challenges for the U.S. banking and financial services industry and for us.

The Bank is Subject to Lending Risks of Loss and Repayment Associated with Commercial Banking Activities

The Bank's business strategy is to focus on commercial business loans (which includes agricultural loans), construction loans, and commercial and multi-family real estate loans. The principal factors affecting the Bank's risk of loss in connection with commercial business loans include the borrower's ability to manage its business affairs and cash flows, general economic conditions and, with respect to agricultural loans, weather and climate conditions. Loans secured by commercial real estate are generally larger and involve a greater degree of credit and transaction risk than residential mortgage (one to four family) loans. Because payments on loans secured by commercial and multi-family real estate properties are often dependent on successful operation or management of the underlying properties, repayment of such loans may be dependent on factors other than the prevailing conditions in the real estate market or the economy. Real estate construction financing is generally considered to involve a higher degree of credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction or development compared to the estimated cost (including interest) of construction. If the estimate of value proves to be inaccurate, the Bank may be confronted with a project which, when completed, has a value which is insufficient to assure full repayment of the construction loan.

Although the Bank manages lending risks through its underwriting and credit administration policies, no assurance can be given that such risks will not materialize, in which event, the Company's financial condition, results of operations, cash flows, and business prospects could be materially adversely affected.

Increases in the Allowance for Loan Losses Would Adversely Affect the Bank's Financial Condition and Results of Operations

The Bank's allowance for estimated losses on loans was approximately $11.0 million, or 2.44% of total loans, at December 31, 2010, compared to $11.9 million, or 2.45% of total loans, at December 31, 2009, and 89.9% of total non-performing loans at December 31, 2010, compared to 67.7% of total non-performing loans at December 31, 2009. Material future additions to the allowance for estimated losses on loans may be necessary if material adverse changes in economic conditions occur and the performance of the Bank's loan portfolio deteriorates. In addition, an allowance for losses on other real estate owned may also be required in order to reflect changes in the markets for real estate in which the Bank's other real estate owned is located and other factors which may result in adjustments which are necessary to ensure that the Bank's foreclosed assets are carried at the lower of cost or fair value, less estimated costs to dispose of the properties. Moreover, the FDIC and the DFI, as an integral part of their examination process, periodically review the Bank's allowance for estimated losses on loans and the carrying value of its assets. Increases in the provisions for estimated losses on loans and foreclosed assets would adversely affect the Bank's financial condition and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Summary of Loan Loss Experience" below.

The Bank's Dependence on Real Estate Lending Increases Our Risk of Losses

At December 31, 2010, approximately 74% of the Bank's loans (excluding loans held-for-sale) were secured by real estate. The value of the Bank's real estate collateral has been, and could in the future continue to be, adversely affected by the economic recession and resulting adverse impact on the real estate market in Northern California.

The Bank's primary lending focus has historically been commercial (including agricultural), construction, and real estate mortgage. At December 31, 2010, real estate mortgage (excluding loans held-for-sale) and construction loans comprised approximately 67% and 7%, respectively, of the total loans in the Bank's portfolio. At December 31, 2010, all of the Bank's real estate mortgage and construction loans and approximately 14% of its commercial loans were secured fully or in part by deeds of trust on underlying real estate. The Company's dependence on real estate increases the risk of loss in both the Bank's loan portfolio and its holdings of other real estate owned if economic conditions in Northern California further deteriorate in the future. Further deterioration of the real estate market in Northern California would have a material adverse effect on the Company's business, financial condition, and results of operations.

See "U.S. and global economies continue to experience significant challenges" above, and "Adverse California Economic Conditions Could Adversely Affect the Bank's Business" below.

Adverse economic factors affecting certain industries the Bank serves could adversely affect our business.

We are subject to certain industry specific economic factors. For example, a portion of the Bank's total loan portfolio is related to residential and commercial real estate, especially in California. Increases in residential mortgage loan interest rates could have an adverse effect on the Bank's operations by depressing new mortgage loan originations, which in turn could negatively impact the Bank's title and escrow deposit levels. Additionally, a further downturn in the residential real estate and housing industries in California could have an adverse effect on the Bank's operations and the quality of its real estate and construction loan portfolio. Although the Bank does not engage in subprime or negative amortization lending, effects of recent subprime market challenges, combined with the ongoing challenges in the U.S. and California real estate markets, could result in further price reductions in single family home prices and a lack of liquidity in refinancing markets. These factors could adversely impact the quality of the Bank's residential construction, residential mortgage and construction related commercial portfolios in various ways, including by decreasing the value of the collateral for our loans. These factors could also negatively affect the economy in general and thereby the Bank's overall loan portfolio.

The Bank provides financing to, and receives deposits from, businesses in a number of other industries that may be particularly vulnerable to industry-specific economic factors, including the home building, commercial real estate, retail, agricultural, industrial, and commercial industries. The home building industry in California has been especially adversely impacted by the deterioration in residential real estate markets, which has lead the Bank to take additional provisions and charge-offs against credit losses in this portfolio. Continued increases in fuel prices and energy costs could adversely affect businesses in several of these industries. Industry specific risks are beyond the Bank's control and could adversely affect the Bank's portfolio of loans, potentially resulting in an increase in non-performing loans or charge-offs and a slowing of growth or reduction in our loan portfolio.

Increased Regulation could Adversely Affect Us

On July 21, 2010, President Obama signed into law the Dodd-Frank Act. The Dodd-Frank Act enacts sweeping reforms to the U.S. financial regulatory system and will likely have a significant impact on financial services companies, including the Company. While many of the specific provisions of the Dodd-Frank Act still require implementation by various federal banking agencies and will not be immediately effective, it is expected that the Dodd-Frank Act will increase our cost of doing business in various ways, as will be the case for other insured depository institutions, and increase the regulatory complexity of our business. See "Business – Supervision and Regulation" for a discussion of the Dodd-Frank Act and other laws and regulations that affect our business.

Adverse California Economic Conditions Could Adversely Affect the Bank's Business

The Bank's operations and a substantial majority of the Bank's assets and deposits are generated and concentrated primarily in Northern California, particularly the counties of Placer, Sacramento, Solano and Yolo, and are likely to remain so for the foreseeable future. At December 21, 2010, approximately 74% of the Bank's loan portfolio (excluding loans held-for-sale) consisted of real estate-related loans, all of which were secured by collateral located in Northern California. As a result, a further downturn in the economic conditions in Northern California may cause the Bank to incur losses associated with high default rates and decreased collateral values in its loan portfolio. Economic conditions in California are subject to various uncertainties at this time, including the significant deterioration in the California real estate market and housing industry.

For the past several years, the State government of California has experienced budget shortfalls or deficits which have led to protracted negotiations between the Governor and the State Legislature over how to address the budget gap. This challenging situation continues at the present time. In addition, municipalities and other governmental units within California have been experiencing budgetary difficulties. Concerns also have arisen regarding the outlook for the State of California's governmental obligations, as well as those of California municipalities and other governmental units.

The financial and economic consequences of this situation cannot be predicted with any certainty at this time. If economic conditions in California decline further it is expected that the Bank's level of problem assets would increase. California real estate is also subject to certain natural disasters, such as earthquakes, tidal waves, floods and mudslides, which are typically not covered by the standard hazard insurance policies maintained by borrowers. Uninsured disasters may make it difficult or impossible for borrowers to repay loans made by the Bank. The occurrence of natural disasters in California could have a material adverse effect on the Company's financial condition, results of operations, cash flows, and business prospects.

The Bank is Subject to Interest Rate Risk

The income of the Bank depends to a great extent on "interest rate differentials" and the resulting net interest margins (i.e., the difference between the interest rates earned on the Bank's interest-earning assets such as loans and investment securities, and the interest rates paid on the Bank's interest-bearing liabilities such as deposits and borrowings). These rates are highly sensitive to many factors, which are beyond the Bank's control, including, but not limited to, general economic conditions and the policies of various governmental and regulatory agencies, in particular, the FRB. The Bank is generally adversely affected by declining interest rates. Changes in the relationship between short-term and long-term market interest rates or between different interest rate indices can also impact our interest rate differential, possibly resulting in a decrease in our interest income relative to interest expense. In addition, changes in monetary policy, including changes in interest rates, influence the origination of loans, the purchase of investments and the generation of deposits and affect the rates received on loans and investment securities and paid on deposits, which could have a material adverse effect on the Company's business, financial condition, and results of operations.

Potential Volatility of Deposits May Increase Our Cost of Funds

At December 31, 2010, 10% of the dollar value of the Company's total deposits was represented by time certificates of deposit in excess of $100,000 (as compared with 15% at December 31, 2009). Although we have adopted a pricing strategy designed to reduce the level of time deposits, these deposits are also considered volatile and could be subject to withdrawal. Withdrawal of a material amount of such deposits could adversely impact the Company's liquidity, profitability, business prospects, results of operations and cash flows.

Time deposit accounts have decreased $43.1 million or 28.4% since December 31, 2009. This decline was the result of an explicit pricing strategy adopted by the Company during the fourth quarter of 2009 based upon the recognition that market CD rates were greater than the yields that the Company could obtain reinvesting these funds in short-term agency securities or overnight Fed Funds. As a result: (1) the Company could not effectively invest funds at a profit without incurring excessive interest rate risk; and (2) significant growth in the Company's overall balance sheet, without any resulting profit, would only place pressures on the Company's capital ratios. During 2009, non-public time deposits had increased approximately $28.2 million or 22% from December 2008, as depositors aggressively sought out the safety of banks for their funds. During 2009 management carefully reviewed time deposit customers and reduced the Company's deposit rates to customers that did not also have transaction, savings and money market balances with us (i.e., depositors who were not "relationship customers"). Given the Company's deposit growth in transaction and savings accounts, supplemented by investment portfolio maturities and sales, this time deposit decline did not result in any liquidity issues and it positively affected the Company's net interest margin and earnings.

Our Ability to Pay Dividends is Subject to Legal Restrictions

As a bank holding company, our cash flow typically comes from dividends of the Bank. Various statutory and regulatory provisions restrict the amount of dividends the Bank can pay to the Company without regulatory approval. The ability of the Company to pay cash dividends in the future also depends on the Company's profitability, growth, and capital needs. In addition, California law restricts the ability of the Company to pay dividends. No

assurance can be given that the Company will pay any dividends in the future or, if paid, such dividends will not be discontinued. See “Business - Restrictions on Dividends and Other Distributions” above.

Because Of Our Participation In The Capital Purchase Program, We Are Subject To Several Restrictions Including Restrictions On Our Ability To Declare Or Pay Dividends And Repurchase Our Shares As Well As Restrictions On Compensation Paid To Our Executive Officers.

Pursuant to the terms of the CPP, our ability to declare or pay dividends on any of our shares is limited. Specifically, we are unable to declare dividend payments on common shares, junior preferred shares or pari passu preferred shares if we are in arrears on the payment of dividends on the Preferred Shares. Further, we are not permitted to increase dividends on our common shares above the amount of the last quarterly cash dividend per share declared prior to March 13, 2009 without the U.S. Treasury's approval (but does not affect our ability to declare and pay stock dividends) unless all of the Preferred Shares have been redeemed or transferred by the U.S. Treasury to unaffiliated third parties. In addition, our ability to repurchase our shares is restricted. The consent of the U.S. Treasury generally is required for us to make any stock repurchase (other than in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice), unless all of the Preferred Shares have been redeemed or transferred by the U.S. Treasury to unaffiliated third parties. Further, common shares, junior preferred shares or pari passu preferred shares may not be repurchased if we are in arrears on the payment of Preferred Share dividends. Finally, the terms of the UST Agreement allow the U.S. Treasury to impose additional restrictions, including those on dividends and including unilateral amendments required to comply with changes in applicable federal law.

Pursuant to the terms of the CPP, we are required to adopt the U.S. Treasury's current standards for executive compensation and corporate governance for the period during which the U.S. Treasury holds the equity securities issued pursuant to the CPP, including the common shares that may be issued upon exercise of the warrant. These standards generally apply to our Chief Executive Officer, Chief Financial Officer and the three next most highly compensated Senior Executive Officers. The standards include: (i) ensuring that incentive compensation plans and arrangements for Senior Executive Officers do not encourage unnecessary and excessive risks that threaten our value; (ii) required clawback of any bonus or incentive compensation paid (or under a legally binding obligation to be paid) based on materially inaccurate financial statements or other materially inaccurate performance metric criteria; (iii) prohibition on making "golden parachute payments" to Senior Executive Officers; and (iv) agreement not to claim a deduction, for federal income tax purposes, for compensation paid to any of the Senior Executive Officers in excess of $500,000 per year.

The adoption of subsequent laws and regulations have imposed certain new executive compensation and corporate expenditure limits on all current and future CPP participants, including the Company, until the institution has repaid the U.S. Treasury. The new standards include (but are not limited to): (i) prohibitions on bonuses, retention awards and other incentive compensation, other than restricted stock grants which do not fully vest during the CPP period with a value not greater than one-third of an employee's total annual compensation; (ii) prohibitions on payments for departure from a company for any reason, except for payments for services performed or benefits accrued; (iii) an expanded clawback of bonuses, retention awards, and incentive compensation if payment is based on materially inaccurate statements of earnings, revenues, gains or other criteria; (iv) prohibitions on compensation plans that encourage manipulation of reported earnings; (v) retroactive review of bonuses, retention awards and other compensation previously provided by CPP recipients if found by the U.S. Treasury to be inconsistent with the purposes of CPP or otherwise contrary to public interest; (vi) required establishment of a company-wide policy regarding "excessive or luxury expenditures," and; (vii) inclusion in a participant's proxy statements for annual shareholder meetings of a nonbinding "Say on Pay" shareholder vote on the compensation of executives.

If we are unable to redeem the Series A preferred shares prior to March 13, 2014, the cost of this capital to us will increase substantially on that date, from 5.0% per annum to 9.0% per annum.

Depending on our financial condition at the time, this increase in the annual dividend rate on the Series A preferred shares could have a material negative effect on our earnings.

Competition Adversely Affects our Profitability

In California generally, and in the Bank's primary market area specifically, major banks dominate the commercial banking industry. By virtue of their larger capital bases, such institutions have substantially greater lending limits than those of the Bank. Competition is likely to further intensify as a result of recent adverse economic and financial market conditions which have led to increased consolidation of financial services companies, including large consolidations of significance in our market area. In obtaining deposits and making loans, the Bank competes with these larger commercial banks and other financial institutions, such as savings and loan associations, credit unions and member institutions of the Farm Credit System, which offer many services that traditionally were offered only by banks. Using the financial holding company structure, insurance companies, and securities firms may compete more directly with banks and bank holding companies. In addition, the Bank competes with other institutions such as mutual fund companies, brokerage firms, and even retail stores seeking to penetrate the financial services market. Also, technology and other changes increasingly allow parties to complete financial transactions electronically, and in many cases, without banks. For example, consumers can pay bills and transfer funds over the internet and by telephone without banks. Non-bank financial service providers may have lower overhead costs and are subject to fewer regulatory constraints. If consumers do not use banks to complete their financial transactions, we could potentially lose fee income, deposits and income generated from those deposits. During periods of declining interest rates, competitors with lower costs of capital may solicit the Bank's customers to refinance their loans. Furthermore, during periods of economic slowdown or recession, the Bank's borrowers may face financial difficulties and be more receptive to offers from the Bank's competitors to refinance their loans. No assurance can be given that the Bank will be able to compete with these lenders. See "Business - Competition" above.

Government Regulation and Legislation Could Adversely Affect Us

The Company and the Bank are subject to extensive state and federal regulation, supervision, and legislation, which govern almost all aspects of the operations of the Company and the Bank. The business of the Bank is particularly susceptible to being affected by the enactment of federal and state legislation, which may have the effect of increasing the cost of doing business, modifying permissible activities, or enhancing the competitive position of other financial institutions. Such laws are subject to change from time to time and are primarily intended for the protection of consumers, depositors and the deposit insurance fund and not for the benefit of shareholders of the Company. Regulatory authorities may also change their interpretation of these laws and regulations. The Company cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on the business and prospects of the Company, but it could be material and adverse. See "Business – Bank Regulation and Supervision" and "Increased Regulation could Adversely Affect Us" above.

We maintain systems and procedures designed to comply with applicable laws and regulations. However, some legal/regulatory frameworks provide for the imposition of criminal or civil penalties (which can be substantial) for non-compliance. In some cases, liability may attach even if the non-compliance was inadvertent or unintentional and even if compliance systems and procedures were in place at the time. There may be other negative consequences from a finding of non-compliance, including restrictions on certain activities and damage to the Company's reputation.

Our Controls and Procedures May Fail or be Circumvented

The Company maintains controls and procedures to mitigate against risks such as processing system failures and errors, and customer or employee fraud, and maintains insurance coverage for certain of these risks. Any system of controls and procedures, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Events could occur which are not prevented or detected by the Company's internal controls or are not insured against or are in excess of the Company's insurance limits. Any failure or circumvention of the Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, results of operations and financial condition.

Recent Changes in Deposit Insurance Premiums Could Adversely Affect Our Business

As discussed above in Part I under the caption "Business—Premiums for Deposit Insurance," the FDIC has taken recent steps, and the Dodd-Frank Act includes provisions, which could further increase deposit premiums and is contemplating further increases and a special assessment. Any further increases in the deposit insurance assessments the Bank pays would further increase our costs.

Negative Public Opinion Could Damage Our Reputation and Adversely Affect Our Earnings

Reputational risk, or the risk to our earnings and capital from negative public opinion, is inherent in our business. Negative public opinion can result from the actual or perceived manner in which we conduct our business activities, management of actual or potential conflicts of interest and ethical issues, and our protection of confidential client information. Negative public opinion can adversely affect our ability to keep and attract customers and employees and can expose us to litigation and regulatory action. We take steps to minimize reputation risk in the way we conduct our business activities and deal with our clients and communities.

We may not be able to hire or retain additional qualified personnel and recruiting and compensation costs may increase as a result of turnover, both of which may increase costs and reduce profitability and may adversely impact our ability to implement our business strategy.

Our success depends upon the ability to attract and retain highly motivated, well-qualified personnel. We face significant competition in the recruitment of qualified employees. Due to our CPP participation, we are subject to certain restrictions on the compensation of certain senior management positions described above under "Because Of Our Participation In The Capital Purchase Program, We Are Subject To Several Restrictions Including Restrictions On Our Ability To Declare Or Pay Dividends And Repurchase Our Shares As Well As Restrictions On Compensation Paid To Our Executive Officers." It is possible that the U.S. Treasury may, as it is permitted to do, impose further requirements on us that may inhibit our ability to hire and retain the most qualified senior personnel. In addition, if we are unable to repay our TARP funds, we will continue to be subject to significant restrictions on the payment of executive compensation and may be at a disadvantage to our competitors who have repaid TARP funds in our ability to recruit and retain the most qualified senior personnel. In addition, the FDIC has recently proposed rules regulating the compensation of bank employees which could place us at a competitive disadvantage compared to businesses not subject to these regulations. Our ability to execute the business strategy and provide high quality service may suffer if we are unable to recruit or retain a sufficient number of qualified employees or if the costs of employee compensation or benefits increase substantially.

The Continuing War on Terrorism and Foreign Hostilities Could Adversely Affect U.S. and Global Economic Conditions

Acts or threats of terrorism and actions taken by the U.S. or other governments as a result of such acts or threats and other international hostilities may result in a disruption of U.S. economic and financial conditions and could adversely affect business, economic and financial conditions in the U.S. generally and in our principal markets. Continued foreign hostilities have also generated various political and economic uncertainties affecting the global and U.S. economies.

Changes in Accounting Standards Could Materially Impact Our Financial Statements

The Company's financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The financial information contained within our financial statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability. Along with other factors, we use historical loss factors to determine the inherent loss that may be present in our loan portfolio. Actual losses could differ significantly from the historical loss factors that we use. Other estimates that we use are fair value of our securities and expected useful lives of our depreciable assets. We have not entered into derivative contracts for our customers or for ourselves, which relate to interest rate, credit, equity, commodity, energy, or weather-related indices. US GAAP itself may change from one previously acceptable method to another method. Although the economics of our transactions would be the same, the timing of events that would impact our transactions could change. Accounting standards and interpretations currently affecting the Company and its subsidiaries may change at any time, and the Company's financial condition and results of operations may be adversely affected. In some cases, we could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements.

There is a Limited Public Market for the Company's Common Stock which May Make it Difficult for Shareholders to Dispose of Their Shares

The Company's common stock is not listed on any exchange. However, trades may be reported on the OTC Bulletin Board under the symbol "FNRN". The Company is aware that Howe Barnes Hoefer & Arnett, Stone & Youngberg, Wedbush Securities, and Monroe Securities, Inc., all currently make a market in the Company's common stock. Management is aware that there are also private transactions in the Company's common stock. However, the limited trading market for the Company's common stock may make it difficult for shareholders to dispose of their shares. Also, the price of the Company's common stock may be affected by general market price movements as well as developments specifically related to the financial services sector, including interest rate movements, quarterly variations, or changes in financial estimates by securities analysts and a significant reduction in the price of the stock of another participant in the financial services industry.

Advances and Changes in Technology, and the Company’s Ability to Adapt Its Technology, could Impact Its Ability to Compete and Its Business and Operations

Advances and changes in technology can significantly impact the business and operations of the Company. The Company faces many challenges including the increased demand for providing computer access to Company accounts and the systems to perform banking transactions electronically. The Company’s merchant processing services require the use of advanced computer hardware and software technology and rapidly changing customer and regulatory requirements. The Company’s ability to compete depends on its ability to continue to adapt its technology on a timely and cost-effective basis to meet these requirements. In addition, the Company’s business and operations are susceptible to negative impacts from computer system failures, communication and energy disruption, and unethical individuals with the technological ability to cause disruptions or failures of the Company’s data processing systems.

Environmental Hazards Could Have a Material Adverse Effect on the Company’s Business, Financial Condition and Results of Operations

The Company, in its ordinary course of business, acquires real property securing loans that are in default, and there is a risk that hazardous substances or waste, contaminants or pollutants could exist on such properties. The Company may be required to remove or remediate such substances from the affected properties at its expense, and the cost of such removal or remediation may substantially exceed the value of the affected properties or the loans secured by such properties. Furthermore, the Company may not have adequate remedies against the prior owners or other responsible parties to recover its costs. Finally, the Company may find it difficult or impossible to sell the affected properties either prior to or following any such removal. In addition, the Company may be considered liable for environmental liabilities in connection with its borrowers' properties, if, among other things, it participates in the management of its borrowers' operations. The occurrence of such an event could have a material adverse effect on the Company’s business, financial condition, results of operations and cash flows.

ITEM 2 – PROPERTIES

The Company and the Bank are engaged in the banking business through 15 offices in five counties in Northern California operating out of four offices in Solano County, seven in Yolo County, two in Sacramento County, and two in Placer County. In addition, the Company owns four vacant lots, three in northern Solano County and one in eastern Sacramento County, for possible future bank sites.

The Bank owns four branch office locations and two administrative facilities and leases 11 facilities. Most of the leases contain multiple renewal options and provisions for rental increases, principally for changes in the cost of living index, property taxes and maintenance.

ITEM 3 - LEGAL PROCEEDINGS

Neither the Company nor the Bank is a party to any material pending legal proceeding, nor is any of their property the subject of any material pending legal proceeding, except ordinary routine litigation arising in the ordinary course of the Bank's business and incidental to its business, none of which is expected to have a material adverse impact upon the Company's or the Bank's business, financial position or results of operations.

ITEM 4 – (REMOVED AND RESERVED)

PART II

ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is not listed on any exchange, nor is it included on NASDAQ. However, trades may be reported on the OTC Bulletin Board under the symbol "FNRN". The Company is aware that Howe Barnes Hoefer & Arnett, Stone & Youngberg, Wedbush Securities, and Monroe Securities, Inc., all currently make a market in the Company's common stock. Management is aware that there are also private transactions in the Company's common stock, and the data set forth below may not reflect all such transactions.

The following table summarizes the range of reported high and low bid quotations of the Company's Common Stock for each quarter during the last two fiscal years and is based on information provided by Stone & Youngberg. The quotations reflect the price that would be received by the seller without retail mark-up, mark-down or commissions and may not have represented actual transactions:

QUARTER/YEAR	HIGH*	LOW*
4th Quarter 2010	$5.45	$4.00
3rd Quarter 2010	$4.95	$4.00
2nd Quarter 2010	$5.55	$4.35
1st Quarter 2010	$5.10	$4.25
4th Quarter 2009	$6.00	$4.75
3rd Quarter 2009	$6.25	$4.35
2nd Quarter 2009	$5.76	$4.60
1st Quarter 2009	$6.73	$4.00

* Price adjusted for stock dividends.

As of December 31, 2010, there were approximately 1,333 holders of record of the Company's common stock, no par value.

In the last two fiscal years the Company has declared the following stock dividends:

Shareholder Record Date	Dividend Percentage	Date Payable
February 27, 2009	4%	March 31, 2009

The Company did not declare a stock dividend in 2010. The Company does not expect to pay a cash dividend in the foreseeable future. Our ability to declare and pay dividends is affected by certain regulatory restrictions. See "Business – Restrictions on Dividends and Other Distributions" and "– Recent Events" above. The Company made no repurchases of common stock in 2010.

ITEM 6 - SELECTED FINANCIAL DATA

The selected consolidated financial data below have been derived from the Company's audited consolidated financial statements. The selected consolidated financial data set forth below as of December 31, 2007, and 2006 have been derived from the Company's historical financial statements not included in this Report. The financial information for 2010, 2009, and 2008 should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," which is in Part II (Item 7) of this Report and with the Company's audited consolidated financial statements and the notes thereto, which are included in Part II (Item 8) of this Report.

Consolidated Financial Data as of and for the years ended December 31,
(in thousands, except share and per share amounts)

	2010	2009	2008	2007	2006
Interest Income and Loan Fees	$29,927	$33,066	$38,871	$48,594	$48,070
Interest Expense	(3,606)	(4,960)	(6,375)	(11,738)	(9,426)
Net Interest Income	26,321	28,106	32,496	36,856	38,644
Provision for Loan Losses	(4,914)	(10,489)	(16,164)	(4,795)	(735)
Net Interest Income after Provision for Loan Losses	21,407	17,617	16,332	32,061	37,909
Other Operating Income	9,154	8,553	7,796	7,160	5,289
Other Operating Expense	(27,889)	(30,068)	(29,137)	(28,803)	(29,219)
Income (Loss) before Taxes	2,672	(3,898)	(5,009)	10,418	13,979
(Provision) Benefit for Taxes	(7)	2,844	3,635	(3,137)	(5,169)
Net Income (Loss)	$2,665	$(1,054)	$(1,374)	$7,281	$8,810
Preferred Stock Dividend and Accretion	(992)	(792)	—	—	—
Net Income (Loss) available to common shareholders	$1,673	$(1,846)	$(1,374)	$7,281	$8,810
Basic Income (Loss) Per Share	$0.19	$(0.21)	$(0.15)	$0.79	$0.95
Diluted Income (Loss) Per Share	$0.19	$(0.21)	$(0.15)	$0.77	$0.90
Total Assets	$737,217	$747,625	$670,802	$709,895	$685,225
Total Investments	$107,346	$75,868	$42,106	$74,849	$76,273
Total Loans, including Loans Held-for-Sale, net	$444,360	$476,018	$519,160	$499,314	$480,009
Total Deposits	$640,258	$651,426	$584,718	$622,671	$603,682
Total Equity	$79,596	$78,093	$62,029	$63,975	$61,990
Weighted Average Shares of Common Stock outstanding used for Basic	9,016,990	8,973,402	8,931,906	9,165,198	9,300,785

Income (Loss) Per Share Computation 1					
Weighted Average Shares of Common Stock outstanding used for Diluted Income (Loss) Per Share Computation 1	9,018,573	8,973,402	8,931,906	9,438,217	9,757,490
Return (Loss) on Average Total Assets	0.36 %	(0.15 %)	(0.20 %)	1.05 %	1.32 %
Net Income (Loss)/Average Equity	3.40 %	(1.40 %)	(2.17 %)	11.59 %	14.90 %
Net Income (Loss)/Average Deposits	0.41 %	(0.17 %)	(0.23 %)	1.19 %	1.49 %
Average Loans/Average Deposits	69.77 %	79.48 %	87.21 %	79.75 %	81.20 %
Average Equity to Average Total Assets	10.50 %	10.57 %	9.39 %	9.06 %	8.87 %

1. All years have been restated to give retroactive effect for stock dividends issued and stock splits.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Introduction

This overview of Management's Discussion and Analysis highlights selected information in this annual report on Form 10-K and may not contain all of the information that is important to you. For a more complete understanding of trends, events, commitments, uncertainties, liquidity, capital resources, and critical accounting estimates, you should carefully read this entire annual report on Form 10-K.

Our subsidiary, First Northern Bank of Dixon, is a California state-chartered bank that derives most of its revenues from lending and deposit taking in the Sacramento Valley region of Northern California. Interest rates, business conditions and customer confidence all affect our ability to generate revenues. In addition, the regulatory environment and competition can challenge our ability to generate those revenues.

Financial highlights for 2010 include:

The Company reported net income of $2.67 million before dividends and accretion on preferred stock of the U.S. Treasury, a 352.9% increase compared to net loss of $1.05 million for 2009. Net income available to common shareholders totaled $1.67 million, a 190.6% increase compared to net loss available to common shareholders of $1.85 million for 2009. Net income per common share after consideration of dividends and accretion on preferred stock of the U.S. Treasury for 2010 was $0.19 and resulted in an increase in the net income per common share of 190.5% compared to net loss per common share of $0.21 for 2009, and net income per common share on a fully diluted basis was $0.19 for 2010, an increase of 190.5% compared to a net loss per common share on a fully diluted basis of $0.21 for 2009.

Loans (including loans held-for-sale) decreased to $444.4 million at December 31, 2010, a 6.7% decrease from $476.0 million at December 31, 2009. Commercial loans totaled $79.0 million at December 31, 2010, down 11.5% from $89.3 million a year earlier; agriculture loans were $50.9 million, down 4.5% from $53.3 million at December 31, 2009; residential construction loans were $8.5 million, down 44.6% from $15.3 million at December 31, 2009; commercial real estate loans were $184.4 million, down 6.7% from $197.6 million at December 31, 2009; and residential mortgage loans were $51.5 million, down 3.1% from $53.1 million a year earlier.

Average deposits increased to $651.6 million during 2010, a $34.0 million or 5.5% increase from 2009.

The Company reported average total assets of $747.2 million at December 31, 2010, up 4.8% from $712.9 million a year earlier.

The provision for loan losses in 2010 totaled $4,914,000, a decrease of 53.2% from $10,489,000 in 2009. Net charge-offs were $5,791,000 in 2010 compared to $13,008,000 in 2009. The decrease in the provision for loan losses can be primarily attributed to decreased charge-offs, decreased loan volumes and increased credit quality.

Net interest income totaled $26.3 million for 2010, a decrease of 6.4% from $28.1 million in 2009, primarily due to decreased loan rates and volumes, decreased loan fees and decreased investment securities rates, which was partially offset by increased investment securities volumes and decreased deposit rates.

Other operating income totaled $9.2 million for the year ended December 31, 2010, an increase of 7.0% from $8.6 million for the year ended December 31, 2009. The increase was due primarily to increases in gains on sales of loans, gains on available for sale securities and other income, which was partially offset by decreased service charges on deposit accounts.

Other operating expenses totaled $27.9 million for 2010, down 7.3% from $30.1 million in 2009. The decrease was due primarily to decreases in OREO expenses, salaries and employee benefits and occupancy and equipment expenses.

In 2011, the Company intends to continue its long-term strategy of maintaining deposit growth to fund growth in loans and other earning assets and intends to identify opportunities for growing other operating income in areas such as Asset Management and Trust and Investment and Brokerage Services, and deposit fee income, while remaining conscious of the need to maintain appropriate expense levels.

Critical Accounting Policies and Estimates

The Company’s discussion and analysis of its financial condition and results of operations are based upon the Company’s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, income and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to the allowance for loan losses, other real estate owned, investments, and income taxes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company’s most significant estimates are approved by its senior management team. At the end of each financial reporting period, a review of these estimates is presented to the Company’s Board of Directors.

The Company believes the following critical accounting policy affects its more significant judgments and estimates used in the preparation of its consolidated financial statements. The Company believes the allowance for loan losses accounting policy is critical because the loan portfolio represents the largest asset type on the consolidated balance sheet. The Company maintains an allowance for loan losses resulting from the inability of borrowers to make required loan payments. Loan losses are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for loan losses is charged to operations based on the Company’s periodic evaluation of the factors mentioned below, as well as other pertinent factors. The allowance for loan losses consists of an allocated component and a general component. The components of the allowance for loan losses represent an estimate. The allocated component of the allowance for loan losses reflects expected losses resulting from analyses developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on regular analyses of all loans where the internal credit rating is at or below a predetermined classification. These analyses involve a high degree of judgment in estimating the amount of loss associated with specific loans, including estimating the amount and timing of future cash flows and collateral values. The historical loan loss element is determined using analysis that examines loss experience.

The allocated component of the allowance for loan losses also includes consideration of concentrations and changes in portfolio mix and volume. The general portion of the allowance reflects the Company’s estimate of probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower’s financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. Uncertainty surrounding the strength and timing of economic cycles also affects estimates of loss. There are many factors affecting the allowance for loan losses; some are quantitative while others require qualitative judgment. Although the Company believes its process for determining the allowance adequately considers all of the potential factors that could potentially result in credit losses, the process includes subjective elements and may be susceptible to significant change. To the extent actual outcomes differ from Company estimates, additional provision for credit losses could be required that could adversely affect earnings or financial position in future periods.

Other-than-temporary Impairment in Investment Securities

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

Share-Based Payment

We determine the fair value of stock options at grant date using the Black-Scholes pricing model that takes into account the stock price at the grant date, the exercise price, the expected dividend yield, stock price volatility, and the risk-free interest rate over the expected life of the option. The Black-Scholes model requires the input of highly subjective assumptions including the expected life of the stock-based award and stock price volatility. The estimates used in the model involve inherent uncertainties and the application of Management's judgment. As a result, if other assumptions had been used, our recorded stock-based compensation expense could have been materially different from that reflected in these financial statements. The fair value of non-vested restricted common shares generally equals the stock price at grant date. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those share-based awards expected to vest. If our actual forfeiture rate is materially different from the estimate, the share-based compensation expense could be materially different. For additional discussion, see Note 13 to the Consolidated Financial Statements in this Form 10-K.

Accounting for Income Taxes

Income taxes reported in the financial statements are computed based on an asset and liability approach. We recognize the amount of taxes payable or refundable for the current year, and deferred tax assets and liabilities for the expected future tax consequences that have been recognized in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. We record net deferred tax assets to the extent it is more-likely-than-not that they will be realized. In evaluating our ability to recover the deferred tax assets, Management considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In projecting future taxable income, Management develops assumptions including the amount of future state and federal pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates being used to manage the underlying business. The Company files consolidated federal and combined state income tax returns.

A "more-likely-than-not" recognition threshold that must be met before a tax benefit can be recognized in the financial statements. For tax positions that meet the more-likely-than-not threshold, an enterprise may recognize only the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement with the

taxing authority. The Company recognized a decrease for unrecognized tax benefits during 2010. To the extent tax authorities disagree with these tax positions, our effective tax rates could be materially affected in the period of settlement with the taxing authorities. For additional discussion, see Note 9 to the Consolidated Financial Statements in this Form 10-K.

Prospective Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (“FASB”) amended FASB Accounting Standards Codification (“ASC”) Topic 860, “Transfers and Servicing.” The new authoritative accounting guidance amends prior accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a “qualifying special-purpose entity” and changes the requirements for derecognizing financial assets. The new authoritative accounting guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The Company adopted the new authoritative accounting guidance under ASC Topic 860 on January 1, 2010. Adoption of the new guidance did not significantly impact the Company’s financial statements.

In January 2010, FASB amended FASB ASC Topic 820, “Fair Value Measurements and Disclosures.” This amendment requires disclosures about significant transfers in and out of Level 1 and Level 2 fair value measurements and the reasons for the transfers, and requires the reconciliation of activity in Level 3 fair value measurements be made on a gross basis. The amendment also clarifies the level of disaggregation required in disclosures and the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for Level 2 or Level 3 items. The part of the amendment related to the reconciliation of Level 3 activity is effective for interim and annual periods beginning after December 15, 2010. The remaining parts of the amendment are effective for interim and annual periods beginning after December 15, 2009. The Company adopted the remaining parts of the amendment on January 1, 2010. Adoption of the new guidance did not significantly impact the Company’s financial statements. The Company does not expect the adoption of the part of the amendment related to the reconciliation of Level 3 activity to have a significant impact on its financial statements.

In July 2010, FASB amended FASB ASC Topic 310, “Receivables.” This amendment modifies the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate, by portfolio segment or class of financing receivable, certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The disclosures are effective for interim and annual reporting periods ending on or after December 15, 2010. Adoption of the new guidance did not have a significant impact on the Company’s financial statements. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The Company does not expect the adoption of the remainder of this amendment to have a significant impact on its financial statements.

In January 2011, FASB issued Accounting Standards Update (“ASU”) 2011-01. This update temporarily delays the effective date of the disclosures about troubled debt restructurings required in FASB ASC Topic 310, “Receivables.” The effective date of the disclosures about troubled debt restructurings for public entities is currently anticipated to be effective for interim and annual periods ending after June 15, 2011.

STATISTICAL INFORMATION AND DISCUSSION

The following statistical information and discussion should be read in conjunction with the Selected Financial Data included in Part II (Item 6) and the audited consolidated financial statements and accompanying notes included in Part II (Item 8) of this Annual Report on Form 10-K.

The following tables present information regarding the consolidated average assets, liabilities and stockholders' equity, the amounts of interest income from average earning assets and the resulting yields, and the amount of interest expense paid on interest-bearing liabilities. Average loan balances include non-performing loans. Interest income includes proceeds from loans on non-accrual status only to the extent cash payments have been received and applied as interest income. Tax-exempt income is not shown on a tax equivalent basis.

Distribution of Assets, Liabilities and Stockholders' Equity;
Interest Rates and Interest Differential
(Dollars in thousands)

	2010			2009			2008		
	Average Balance	Percent		Average Balance	Percent		Average Balance	Percent	
ASSETS									
Cash and Due From Banks	$156,283	20.91	%	$69,655	9.77	%	$37,971	5.63	%
Federal Funds Sold	—	—		45,918	6.44	%	26,808	3.97	%
Investment Securities	89,890	12.03	%	64,290	9.02	%	57,123	8.46	%
Loans 1	454,584	60.84	%	490,856	68.85	%	512,987	76.02	%
Stock in Federal Home Loan Bank and									
other equity securities, at cost	2,720	0.36	%	2,443	0.34	%	2,253	0.33	%
Other Real Estate Owned	2,899	0.39	%	3,820	0.54	%	3,691	0.55	%
Other Assets	40,873	5.47	%	35,894	5.04	%	33,993	5.04	%
Total Assets	$747,249	100.00	%	$712,876	100.00	%	$674,826	100.00	%
LIABILITIES & STOCKHOLDERS' EQUITY									
Deposits:									
Demand	$181,689	24.31	%	$172,925	24.26	%	$173,332	25.69	%
Interest-Bearing Transaction Deposits	141,816	18.98	%	127,769	17.92	%	128,690	19.07	%
Savings & MMDAs	197,464	26.42	%	172,610	24.21	%	171,465	25.41	%
Time Certificates	130,592	17.48	%	144,251	20.24	%	114,742	17.00	%
Borrowed Funds	10,986	1.47	%	13,631	1.91	%	17,095	2.53	%
Other Liabilities	6,247	0.84	%	6,315	0.89	%	6,147	0.91	%
Stockholders' Equity	78,455	10.50	%	75,375	10.57	%	63,355	9.39	%
Total Liabilities & Stockholders' Equity	$747,249	100.00	%	$712,876	100.00	%	$674,826	100.00	%

1. Average balances for loans include loans held-for-sale and non-accrual loans and are net of the allowance for loan losses.

Net Interest Earnings
Average Balances, Yields and Rates
(Dollars in thousands)

	2010				2009				2008			
Assets	Average Balance	Interest Income/ Expense	Yields Earned/ Rates Paid		Average Balance	Interest Income/ Expense	Yields Earned/ Rates Paid		Average Balance	Interest Income/ Expense	Yields Earned/ Rates Paid	
Loans 1	$454,584	$26,122	5.75	%	$490,856	$28,899	5.89	%	$512,987	$33,282	6.49	%
Loan Fees	—	988	0.22	%	—	1,621	0.33	%	—	1,795	0.35	%
Total Loans, Including Loan Fees	454,584	27,110	5.96	%	490,856	30,520	6.22	%	512,987	35,077	6.84	%
Federal Funds Sold	—	—	—		45,918	58	0.13	%	26,808	519	1.94	%
Due From Banks	141,059	380	0.27	%	36,302	164	0.45	%	13,428	557	4.15	%
Investment Securities:												
Taxable	73,462	1,744	2.37	%	40,336	1,311	3.25	%	27,578	1,344	4.87	%
Non-taxable2	16,428	684	4.16	%	23,954	1,003	4.19	%	29,545	1,254	4.24	%
Total Investment Securities	89,890	2,428	2.70	%	64,290	2,314	3.60	%	57,123	2,598	4.55	%
Other Earning Assets	2,720	9	0.33	%	2,443	10	0.41	%	2,253	120	5.33	%
Total Earning Assets	688,253	$29,927	4.35	%	639,809	$33,066	5.17	%	612,599	$38,871	6.35	%
Cash and Due from Banks	15,224				33,353				24,543			
Premises and Equipment	7,207				7,761				8,355			
	2,899				3,820				3,691			

Other Real Estate Owned			
Interest Receivable and Other Assets	33,666	28,133	25,638
Total Assets	$747,249	$712,876	$674,826

1. Average balances for loans include loans held-for-sale and non-accrual loans and are net of the allowance for loan losses, but non-accrued interest thereon is excluded

2. Interest income and yields on tax-exempt securities are not presented on a tax equivalent basis.

Continuation of

Net Interest Earnings
Average Balances, Yields and Rates
(Dollars in thousands)

Liabilities and Stockholders' Equity	2010 Average Balance	2010 Interest Income/ Expense	2010 Yields Earned/ Rates Paid	2009 Average Balance	2009 Interest Income/ Expense	2009 Yields Earned/ Rates Paid	2008 Average Balance	2008 Interest Income/ Expense	2008 Yields Earned/ Rates Paid
Interest-Bearing Deposits:									
Interest-Bearing Transaction Deposits	$141,816	$390	0.28 %	$127,769	$606	0.47 %	$128,690	$930	0.72 %
Savings & MMDAs	197,464	1,167	0.59 %	172,610	1,342	0.78 %	171,465	1,726	1.01 %
Time Certificates	130,592	1,650	1.26 %	144,251	2,513	1.74 %	114,742	3,147	2.74 %
Total Interest-Bearing Deposits	469,872	3,207	0.68 %	444,630	4,461	1.00 %	414,897	5,803	1.40 %
Borrowed Funds	10,986	399	3.63 %	13,631	499	3.66 %	17,095	572	3.35 %
Total Interest-Bearing Deposits and Funds	480,858	3,606	0.75 %	458,261	4,960	1.08 %	431,992	6,375	1.48 %
Demand Deposits	181,689	—	—	172,925	—	—	173,332	—	—
Total Deposits and Borrowed Funds	662,547	$3,606	0.54 %	631,186	$4,960	0.79 %	605,324	$6,375	1.05 %
Accrued Interest and Other Liabilities	6,247			6,315			6,147		
Stockholders' Equity	78,455			75,375			63,355		

Total Liabilities and Stockholders' Equity	$747,249				$712,876				$674,826		
Net Interest Income and Net Interest Margin 1		$26,321	3.82	%		$28,106	4.39	%		$32,496	5.30	%
Net Interest Spread 2			3.60	%			4.09	%			4.87	%

1. Net interest margin is computed by dividing net interest income by total average interest-earning assets.

2. Net interest spread represents the average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

Analysis of Changes
in Interest Income and Interest Expense
(Dollars in thousands)

Following is an analysis of changes in interest income and expense (dollars in thousands) for 2010 over 2009 and 2009 over 2008. Changes not solely due to interest rate or volume have been allocated proportionately to interest rate and volume.

	2010 Over 2009			2009 Over 2008		
	Volume	Interest Rate	Change	Volume	Interest Rate	Change
Decrease in Interest Income:						
Loans	$(2,101)	$(676)	$(2,777)	$(1,394)	$(2,989)	$(4,383)
Loan Fees	(633)	—	(633)	(174)	—	(174)
Federal Funds Sold	(58)	—	(58)	221	(682)	(461)
Due From Banks	304	(88)	216	394	(787)	(393)
Investment Securities	781	(667)	114	301	(585)	(284)
Other Assets	1	(2)	(1)	9	(119)	(110)
	$(1,706)	$(1,433)	$(3,139)	$(643)	$(5,162)	$(5,805)
Decrease in Interest Expense:						
Deposits:						
Interest-Bearing Transaction Deposits	$58	$(274)	$(216)	$(7)	$(317)	$(324)
Savings & MMDAs	179	(354)	(175)	12	(396)	(384)
Time Certificates	(221)	(642)	(863)	687	(1,321)	(634)
Borrowed Funds	(96)	(4)	(100)	(123)	50	(73)
	$(80)	$(1,274)	$(1,354)	$569	$(1,984)	$(1,415)
Decrease in Net Interest Income:	$(1,626)	$(159)	$(1,785)	$(1,212)	$(3,178)	$(4,390)

INVESTMENT PORTFOLIO

Composition of Investment Securities

The mix of investment securities held by the Company at December 31, for the previous three fiscal years is as follows (dollars in thousands):

	2010	2009	2008
Investment securities available-for-sale:			
U.S. Treasury Securities	$4,226	$253	$274
Securities of U.S. Government Agencies and Corporations	40,775	4,335	2,039
Obligations of State & Political Subdivisions	20,045	23,416	26,231
Mortgage-Backed Securities	42,300	47,864	13,562
Total Investments	$107,346	$75,868	$42,106

Maturities of Investment Securities

The following table is a summary of the relative maturities (dollars in thousands) and yields of the Company's investment securities as of December 31, 2010. The yields on tax-exempt securities are shown on a tax equivalent basis.

Period to Maturity

Security	Within One Year Amount	Within One Year Yield	After One But Within Five Years Amount	After One But Within Five Years Yield	After Five But Within Ten Years Amount	After Five But Within Ten Years Yield
U.S. Treasury Securities	$—	—	$3,260	1.16 %	$966	2.79 %
Securities of U.S. Government Agencies and Corporations	16,051	1.77 %	14,901	1.93 %	9,823	2.36 %
Obligations of State & Political Subdivisions	476	8.38 %	1,030	6.18 %	4,824	6.09 %
Mortgage-Backed Securities	46	5.59 %	42,254	2.42 %	—	—
TOTAL	$16,573	1.97 %	$61,445	2.30 %	$15,613	3.54 %

Security	After Ten Years Amount	After Ten Years Yield	Total Amount	Total Yield
U.S. Treasury Securities	$—	—	$4,226	1.53 %
Securities of U.S. Government Agencies and Corporations	—	—	40,775	1.97 %
Obligations of State & Political Subdivisions	13,715	5.51 %	20,045	5.75 %

Mortgage-Backed Securities	—	—		42,300	2.42 %
TOTAL	$13,715	5.51 %		$107,346	2.84 %

33

LOAN PORTFOLIO

Composition of Loans

The mix of loans, net of deferred origination fees and costs and allowance for loan losses and excluding loans held-for-sale, at December 31, for the previous five fiscal years is as follows (dollars in thousands):

	December 31,					
	2010		2009		2008	
	Balance	Percent	Balance	Percent	Balance	Percent
Commercial	$78,997	17.9 %	$89,266	18.8 %	$109,887	21.3 %
Commercial Real Estate	184,365	41.7 %	197,628	41.7 %	199,189	38.5 %
Agriculture	50,864	11.5 %	53,286	11.2 %	59,651	11.5 %
Residential Mortgage	51,491	11.7 %	53,114	11.2 %	47,045	9.1 %
Residential Construction	8,511	1.9 %	15,349	3.2 %	41,864	8.1 %
Consumer	67,787	15.3 %	65,735	13.9 %	59,332	11.5 %
TOTAL	$442,015	100.0 %	$474,378	100.0 %	$516,968	100.0 %

	2007		2006	
	Balance	Percent	Balance	Percent
Commercial	$111,926	22.5 %	$97,162	20.4 %
Commercial Real Estate	183,716	36.9 %	154,000	32.4 %
Agriculture	47,336	9.5 %	44,321	9.3 %
Residential Mortgage	40,756	8.2 %	41,099	8.7 %
Residential Construction	66,969	13.4 %	94,030	19.8 %
Consumer	47,268	9.5 %	44,937	9.4 %
TOTAL	$497,971	100.0 %	$475,549	100.0 %

Commercial loans are primarily for financing the needs of a diverse group of businesses located in the Bank’s market area. The Bank also makes loans to individuals for investment purposes. Most of these loans are relatively short-term (an overall average life of approximately two years) and secured by various types of collateral. Real estate construction loans are generally for financing the construction of single-family residential homes for individuals and builders we believe are well-qualified. These loans are secured by real estate and have short maturities.

As shown in the comparative figures for loan mix during 2010 and 2009, total loans decreased as a result of decreases in commercial loans, commercial real estate loans, agriculture loans, residential mortgage loans and residential construction loans, which were partially offset by an increase in consumer loans.

Maturities and Sensitivities of Loans to Changes in Interest Rates

Loan maturities of the loan portfolio at December 31, 2010 are as follows (dollars in thousands) (excludes loans held-for-sale):

Maturing	Fixed Rate	Variable Rate	Total
Within one year	$17,989	$108,074	$126,063
After one year through five years	54,895	117,727	172,622
After five years	20,434	122,896	143,330
Total	$93,318	$348,697	$442,015

Non-accrual, Past Due, OREO and Restructured Loans

It is generally the Company's policy to discontinue interest accruals once a loan is past due for a period of 90 days as to interest or principal payments. When a loan is placed on non-accrual, interest accruals cease and uncollected accrued interest is reversed and charged against current income. Payments received on non-accrual loans are applied against principal. A loan may only be restored to an accruing basis when it again becomes well secured and in the process of collection or all past due amounts have been collected and an appropriate period of performance has been demonstrated.

The following tables summarize the Company's non-accrual loans by loan category (in thousands) at December 31, 2010, 2009 and 2008.

	At December 31, 2010			At December 31, 2009		
	Gross	Guaranteed	Net	Gross	Guaranteed	Net
Residential mortgage	$2,301	$—	$2,301	$1,370	$—	$1,370
Residential construction	272	—	272	3,413	—	3,413
Commercial real estate	5,864	—	5,864	5,669	—	5,669
Agriculture	1,752	—	1,752	3,188	—	3,188
Commercial	1,817	77	1,740	3,875	408	3,467
Consumer	268	—	268	99	—	99
Total non-accrual loans	$12,274	$77	$12,197	$17,614	$408	$17,206

	At December 31, 2008		
	Gross	Guaranteed	Net
Residential mortgage	$334	$—	$334
Residential construction	6,309	—	6,309
Commercial real estate	5,233	—	5,233
Agriculture	—	—	—
Commercial	1,570	109	1,461
Consumer	99	—	99

Total non-accrual loans	$13,545	$109	$13,436

35

Non-accrual loans amounted to $12,274,000 at December 31, 2010 and were comprised of seven residential mortgage loans totaling $2,301,000, four residential construction loans totaling $272,000, nine commercial real estate loans totaling $5,864,000, one agricultural loan totaling $1,752,000, ten commercial loans totaling $1,817,000 and five consumer loans totaling $268,000. Non-accrual loans amounted to $17,614,000 at December 31, 2009 and were comprised of four residential mortgage loans totaling $1,370,000, fifteen residential construction loans totaling $3,413,000, seven commercial real estate loans totaling $5,669,000, two agricultural loans totaling $3,188,000, eight commercial loans totaling $3,875,000 and one consumer loan totaling $99,000. At December 31, 2008, non-accrual loans amounted to $13,545,000 and were comprised of one residential mortgage loan totaling $334,000, eleven residential construction loans totaling $6,309,000, seven commercial real estate loans totaling $5,233,000, five commercial loans totaling $1,570,000 and one consumer loan totaling $99,000. It is generally the Company's policy to charge-off the portion of any non-accrual loan for which the Company does not expect to collect by writing the loan down to fair value.

The five largest non-accrual loans as of December 31, 2010, totaled approximately $7,222,000 or 58% of total non-accrual loans and consisted of one commercial and industrial loan totaling $1,342,000, supported by the business assets of the borrower, one agricultural loan totaling $1,752,000, supported by real property and the business assets of the borrower and three commercial real estate loans totaling $4,128,000, supported by commercial properties located within the Company's market area. The collateral securing all of these loans was appraised within the last six months.

In comparison, the five largest non-accrual loans as of December 31, 2009, totaled approximately $9,922,000 or 56% of total non-accrual loans and consisted of one commercial and industrial loan totaling $2,751,000, supported by the business assets of the borrower, one agricultural loan totaling $2,403,000, supported by real property and the business assets of the borrower, two commercial real estate loans totaling $3,308,000, supported by commercial properties located within the Company's market area and one residential construction loan totaling $1,460,000, supported by residential real estate.

If interest on non-accrual loans had been accrued, such interest income would have approximated $642,000, $965,000 and $1,501,000 during the years ended December 31, 2010, 2009 and 2008, respectively. Income actually recognized for these loans approximated $218,000, $96,000 and $181,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

Total non-performing impaired loans at December 31, 2010, 2009 and 2008 consisting of loans on non-accrual status totaled $12,274,000, $17,614,000 and $13,545,000, respectively. Performing impaired loans consisting of loans restructured and in compliance with modified terms, totaled $7,891,000, $9,984,000 and $2,682,000 at December 31, 2010, 2009 and 2008, respectively; the majority of the non-performing impaired loans were in management's opinion adequately collateralized based on recently obtained appraised property values or guaranteed by a governmental entity. See "Analysis of the Allowance for Loan Losses" below for additional information. No assurance can be given that the existing or any additional collateral will be sufficient to secure full recovery of the obligations owed under these loans.

The five largest non-performing loans consisting of loans on non-accrual totaled approximately $7,222,000 or 58% of total non-performing loans as of December 31, 2010 and consisted of one commercial and industrial loan totaling $1,342,000, supported by the business assets of the borrower, one agricultural loan totaling $1,752,000, supported by real property and the business assets of the borrower, and three commercial real estate loans totaling $4,128,000, supported by commercial properties located within the Company's market area. The collateral securing all of these loans was appraised within the last six months.

In comparison, the five largest non-performing loans as of December 31, 2009 consisting of loans on non-accrual totaled approximately $9,922,000 or 56% of total non-performing loans and consisted of one commercial and industrial loan totaling $2,751,000, supported by business assets of the borrower, one agricultural loan totaling

$2,403,000, supported by real property and the business assets of the borrower, two commercial real estate loans totaling $3,308,000, supported by commercial properties located within the Company's market area and one residential construction loan totaling $1,460,000, supported by residential real estate.

The Company had loans 90 days past due and still accruing totaling $0-, $0- and $713,000 at December 31, 2010, 2009 and 2008, respectively.

As the following table illustrates, total non-performing assets which consists of loans on non-accrual status, loans past due 90-days and still accruing and Other Real Estate Owned ("OREO") net of guarantees of the State of California and U.S. Government, including its agencies and its government-sponsored agencies, decreased $5,845,000, or 28.2% to $14,879,000 from December 31, 2009 and increased $2,207,000 or 11.9% from December 31, 2008. Non-performing assets net of guarantees represent 2.0% of total assets at December 31, 2010. The Bank's management believes that the $12,274,000 in non-accrual loans are adequately collateralized or guaranteed by a governmental entity. No assurance can be given that the existing or any additional collateral will be sufficient to secure full recovery of the obligations owed under these loans.

	At December 31, 2010				At December 31, 2009			
	Gross	Guaranteed	Net		Gross	Guaranteed	Net	
(dollars in thousands)								
Non-accrual loans	$12,274	$77	$12,197		$17,614	$408	$17,206	
Loans 90 days past due and still accruing	—	—	—		—	—	—	
Total non-performing loans	12,274	77	12,197		17,614	408	17,206	
Other real estate owned	2,682	—	2,682		3,518	—	3,518	
Total non-performing assets	14,956	77	14,879		21,132	408	20,724	
Non-performing loans to total loans			2.7	%			3.6	%
Non-performing assets to total assets			2.0	%			2.8	%
Allowance for loan and lease losses to non-performing loans			90.5	%			69.3	%

	At December 31, 2008			
	Gross	Guaranteed	Net	
(dollars in thousands)				
Non-accrual loans	$13,545	$109	$13,436	
Loans 90 days past due and still accruing	713	—	713	
Total non-performing loans	14,258	109	14,149	
Other real estate owned	4,368	—	4,368	
Total non-performing assets	18,626	109	18,517	
Non-performing loans to total loans			2.7	%
Non-performing assets to total assets			2.8	%
Allowance for loan and lease losses to non-performing loans			102.0	%

There was a $5,845,000 decrease in non-performing assets for 2010 over 2009. At December 31, 2010, non-performing assets included seven non-accrual residential mortgage loans totaling $2,301,000, four non-accrual residential construction loans totaling $272,000, nine non-accrual commercial real estate loans totaling $5,864,000, one non-accrual agricultural loan totaling $1,752,000, ten non-accrual commercial loans totaling $1,817,000 and five non-accrual consumer loans totaling $268,000. Additional non-performing assets included repossessed properties totaling $2,682,000.

There was a $2,207,000 increase in non-performing assets for 2009 over 2008. At December 31, 2009, non-performing assets included four non-accrual residential mortgage loan totaling $1,370,000, fifteen non-accrual residential construction loans totaling $3,413,000, seven non-accrual commercial real estate loans totaling $5,669,000, two non-accrual agricultural loans totaling $3,188,000, eight non-accrual commercial loans totaling $3,875,000, and one non-accrual installment loan totaling $99,000. Additional non-performing assets included repossessed properties totaling $3,518,000.

OREO consists of property that the Company has acquired by deed in lieu of foreclosure or through foreclosure proceedings, and property that the Company does not hold title to but is in actual control of, known as in-substance foreclosure. The estimated fair value of the property is determined prior to transferring the balance to OREO. The balance transferred to OREO is the lesser of the estimated fair market value of the property, or the book value of the loan, less estimated cost to sell. A write-down may be deemed necessary to bring the book value of the loan equal to the appraised value. Appraisals or loan officer evaluations are then done periodically thereafter charging any additional write-downs to the appropriate expense account.

OREO amounted to $2,682,000, $3,518,000 and $4,368,000 for the periods ended December 31, 2010, 2009 and 2008, respectively. The decrease in OREO loans at December 31, 2010 from the balance at December 31, 2009 was primarily due to the disposition of thirteen real estate construction properties, one commercial real estate property and two residential properties, which was partially offset by the addition of nine real estate construction properties, one commercial real estate property and three residential properties.

Potential Problem Loans

The Company manages asset quality and credit risk by maintaining diversification in its loan portfolio and through review processes that include analysis of credit requests and ongoing examination of outstanding loans and delinquencies, with particular attention to portfolio dynamics and loan mix. The Company strives to identify loans experiencing difficulty early enough to correct the problems, to record charge-offs promptly based on realistic assessments of collectability and current collateral values and to maintain an adequate allowance for loan losses at all times. Asset quality reviews of loans and other non-performing assets are administered using credit risk rating standards and criteria similar to those employed by state and federal banking regulatory agencies. The federal bank and thrift regulatory agencies utilize the following definitions for assets adversely classified for supervisory purposes: “Substandard Assets: a substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.” “Doubtful Assets: An asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.” Other Real Estate Owned” and loans rated Substandard and Doubtful are deemed "classified assets". This category, which includes both performing and non-performing assets, receives an elevated level of attention regarding collection.

Residential mortgage loans, which are secured by real estate, are primarily susceptible to three risks; non-payment due to diminished or lost income, over-extension of credit, a lack of borrower’s cash flow to sustain payments, and shortfalls in collateral value. In general, non-payment is due to loss of employment and follows general economic trends in the marketplace, particularly the upward movement in the unemployment rate, loss of collateral value, and demand shifts.

Commercial real estate loans generally fall into two categories, owner-occupied and non-owner occupied. Loans secured by owner occupied real estate are primarily susceptible to changes in the market conditions of the related business. This may be driven by, among other things, industry changes, geographic business changes, changes in the individual financial capacity of the business owner, general economic conditions and changes in business cycles. These same risks apply to commercial loans whether secured by equipment, receivables or other personal property or unsecured. Losses on loans secured by owner occupied real estate, equipment, or other personal property generally are dictated by the value of underlying collateral at the time of default and liquidation of the collateral. When default is driven by issues related specifically to the business owner, collateral values tend to provide better repayment support and may result in little or no loss. Alternatively, when default is driven by more general economic conditions, underlying collateral generally has devalued more and results in larger losses due to default. Loans secured by non-owner occupied real estate are primarily susceptible to risks associated with swings in occupancy or vacancy and related shifts in lease rates, rental rates or room rates. Most often, these shifts are a result of changes in general economic or market conditions or overbuilding and resultant over-supply of space. Losses are dependent on the value of underlying collateral at the time of default. Values are generally driven by these same factors and influenced by interest rates and required rates of return as well as changes in occupancy costs. Collateral values may be determined by appraisals obtained through Bank approved, licensed appraisers, qualified independent third parties, sales invoices, or other appropriate means. Appropriate valuations are obtained at origination of the credit and periodically

thereafter, (generally every 3 – 6 months depending on the collateral type), once repayment is questionable, and the loan has been deemed classified.

Construction loans, whether owner occupied or non-owner occupied residential development loans, are not only susceptible to the related risks described above but the added risks of construction itself including cost over-runs, mismanagement of the project, or lack of demand and market changes experienced at time of completion. Again, losses are primarily related to underlying collateral value and changes therein as described above. Problem construction loans are generally identified by periodic review of financial information that may include financial statements, tax returns and payment history of the borrower. Based on this information the Company may decide to take any of several courses of action including demand for repayment, requiring the borrower to provide a significant principal payment and/or additional collateral or requiring similar support from guarantors, the Company may pursue repossession or foreclosure of the underlying collateral. Collateral values may be determined by appraisals obtained through Bank approved, licensed appraisers, qualified independent third parties, purchase invoices, or other appropriate documentation. Appropriate valuations are obtained at origination of the credit and periodically thereafter, (generally every 3 – 6 months depending on the collateral type), once repayment is questionable, and the loan has been deemed classified.

Agricultural loans, whether secured or unsecured, generally are made to producers and processors of crops and livestock. Repayment is primarily from the sale of an agricultural product or service. Agricultural loans are generally secured by inventory, receivables, equipment, and other real property. Agricultural loans primarily are susceptible to changes in market demand for specific commodities. This may be exacerbated by, among other things, industry changes, changes in the individual financial capacity of the business owner, general economic conditions and changes in business cycles, as well as changing weather conditions. Problem agricultural loans are generally identified by periodic review of financial information that may include financial statements, tax returns, crop budgets, payment history, and crop inspections. Based on this information, the Company may decide to take any of several courses of action including demand for repayment, requiring the borrower to provide a significant principal payment and/or additional collateral or requiring similar support from guarantors. Notwithstanding, when repayment becomes unlikely based on the borrower’s income and cash flow, repossession or foreclosure of the underlying collateral may become necessary. Collateral values may be determined by appraisals obtained through Bank approved, licensed appraisers, qualified independent third parties, purchase invoices, or other appropriate documentation. Appropriate valuations are obtained at origination of the credit and periodically thereafter, (generally every 3 – 6 months depending on the collateral type), once repayment is questionable, and the loan has been deemed classified.

Commercial loans, whether secured or unsecured, generally are made to support the short-term operations and other needs of small businesses. These loans are generally secured by the receivables, equipment, and other real property of the business and are susceptible to the related risks described above. Problem commercial loans are generally identified by periodic review of financial information that may include financial statements, tax returns, and payment history of the borrower. Based on this information, the Company may decide to take any of several courses of action including demand for repayment, requiring the borrower to provide a significant principal payment and/or additional collateral or requiring similar support from guarantors. Notwithstanding, when repayment becomes unlikely based on the borrower’s income and cash flow, repossession or foreclosure of the underlying collateral may become necessary. Collateral values may be determined by appraisals obtained through Bank approved, licensed appraisers, qualified independent third parties, purchase invoices, or other appropriate documentation. Appropriate valuations are obtained at origination of the credit and periodically there after, (generally every 3 – 6 months depending on the collateral type), once repayment is questionable, and the loan has been deemed classified.

Consumer loans, whether unsecured or secured are primarily susceptible to three risks; non-payment due to diminished or lost income, over-extension of credit, a lack of borrower’s cash flow to sustain payments, and shortfall in collateral value. In general, non-payment is due to loss of employment and will follow general economic trends in the marketplace, particularly the upward movements in the unemployment rate, loss of collateral value, and demand shifts.

Once a loan becomes delinquent and repayment becomes questionable, a Company collection officer will address collateral shortfalls with the borrower and attempt to obtain additional collateral or a principal payment. If this is not forthcoming and payment in full is unlikely, the Company will estimate its probable loss, using a recent valuation as appropriate to the underlying collateral less estimated costs of sale, and charge-off the loan down to the estimated net realizable amount. Depending on the length of time until final collection, the Bank may periodically revalue the underlying collateral and take additional charge-offs as warranted. Revaluations may occur as often as every 3-12 months depending on the underlying collateral and volatility of values. Final charge-offs or recoveries are taken when collateral is liquidated and actual loss is known. Unpaid balances on loans after or during collection and liquidation may also be pursued through lawsuit and attachment of wages or judgment liens on borrower's other assets.

Excluding the non-performing loans cited previously, loans totaling $36,140,000 and $45,197,000 were classified as potential problem loans at December 31, 2010 and 2009, respectively. Of these loans, loans totaling $32,093,000 and $40,827,000 are adequately collateralized or guaranteed, in management’s opinion, and the remaining loans totaling $4,047,000 and $4,371,000 may have some loss potential which management believes is sufficiently covered by the

Bank's existing loan loss reserve (Allowance for Loan Losses) at December 31, 2010 and 2009 respectively. The ratio of the Allowance for Loan Losses to total loans at December 31, 2010 and 2009 was 2.44% and 2.45% respectively.

SUMMARY OF LOAN LOSS EXPERIENCE

The Company's allowance for credit losses is maintained at a level considered adequate to provide for losses that can be estimated based upon specific and general conditions. These include conditions unique to individual borrowers, as well as overall credit loss experience, the amount of past due, non-performing loans and classified loans, recommendations of regulatory authorities, prevailing economic conditions and other factors. A portion of the allowance is specifically allocated to classified loans whose full collectability is uncertain. Such allocations are determined by Management based on loan-by-loan analyses. In addition, loans with similar characteristics not usually criticized using regulatory guidelines are analyzed based on the historical loss rates and delinquency trends, grouped by the number of days the payments on these loans are delinquent. Last, allocations are made to non-criticized and classified commercial loans and residential real estate loans based on historical loss rates, and other statistical data. The remainder of the allowance is considered to be unallocated. The unallocated allowance is established to provide for probable losses that have been incurred as of the reporting date but not reflected in the allocated allowance. It addresses additional qualitative factors consistent with Management's analysis of the level of risks inherent in the loan portfolio, which are related to the risks of the Company's general lending activity. Included in the unallocated allowance is the risk of losses that are attributable to national or local economic or industry trends which have occurred but have yet been recognized in past loan charge-off history (external factors). The external factors evaluated by the Company include: economic and business conditions, external competitive issues, and other factors. Also included in the unallocated allowance is the risk of losses attributable to general attributes of the Company's loan portfolio and credit administration (internal factors). The internal factors evaluated by the Company include: loan review system, adequacy of lending Management and staff, loan policies and procedures, problem loan trends, concentrations of credit, and other factors. By their nature, these risks are not readily allocable to any specific loan category in a statistically meaningful manner and are difficult to quantify with a specific number. Management assigns a range of estimated risk to the qualitative risk factors described above based on Management's judgment as to the level of risk, and assigns a quantitative risk factor from the range of loss estimates to determine the appropriate level of the unallocated portion of the allowance. Management considers the $11,039,000 allowance for credit losses to be adequate as a reserve against losses as of December 31, 2010.

Analysis of the Allowance for Loan Losses
(Dollars in thousands)

	2010	2009	2008	2007	2006
Balance at Beginning of Year	$11,916	$14,435	$10,876	$8,361	$7,917
Provision for Loan Losses	4,914	10,489	16,164	4,795	735
Loans Charged-Off:					
Commercial	(1,930)	(4,518)	(2,224)	(1,428)	(572)
Commercial Real Estate	(1,491)	(1,685)	(2,984)	—	—
Agriculture	(736)	(5,043)	(220)	(82)	(57)
Residential Mortgage	(715)	(124)	—	(120)	—
Residential Construction	(830)	(2,433)	(7,281)	(666)	—
Consumer	(914)	(490)	(615)	(764)	(431)
Total Charged-Off	(6,616)	(14,293)	(13,324)	(3,060)	(1,060)
Recoveries:					
Commercial	540	322	153	256	561
Commercial Real Estate	1	355	—	—	—
Agriculture	78	5	88	200	—
Residential Mortgage	22	—	—	—	—
Residential Construction	6	370	159	—	—
Consumer	178	233	319	324	208
Total Recoveries	825	1,285	719	780	769
Net (Charge-Offs) Recoveries	(5,791)	(13,008)	(12,605)	(2,280)	(291)
Balance at End of Year	$11,039	$11,916	$14,435	$10,876	$8,361
Ratio of Net (Charge-Offs) Recoveries During the Year to Average Loans Outstanding During the Year	(1.27%)	(2.65%)	(2.46%)	(0.47%)	(0.06%)

Allocation of the Allowance for Loan Losses

The Allowance for Loan Losses has been established as a general component available to absorb probable inherent losses throughout the Loan Portfolio. The following table is an allocation of the Allowance for Loan Losses balance on the dates indicated (dollars in thousands):

	December 31, 2010		December 31, 2009		December 31, 2008	
Loan Type:	Allocation of Allowance for Loan Losses Balance	Loans as a % of Total Loans	Allocation of Allowance for Loan Losses Balance	Loans as a % of Total Loans	Allocation of Allowance for Loan Losses Balance	Loans as a % of Total Loans
Commercial	$3,761	17.9 %	$4,036	18.8 %	$4,908	21.3 %
Commercial Real Estate	1,957	41.7 %	2,706	41.7 %	3,548	38.5 %
Agriculture	2,141	11.5 %	1,681	11.2 %	643	11.5 %
Residential Mortgage	830	11.7 %	735	11.2 %	944	9.1 %
Residential Construction	1,719	1.9 %	1,611	3.2 %	3,113	8.1 %
Consumer	556	15.3 %	506	13.9 %	1,279	11.5 %
Unallocated	75	—	641	—	—	—
Total	$11,039	100.0 %	$11,916	100.0 %	$14,435	100.0 %

	December 31, 2007		December 31, 2006	
Loan Type:	Allocation of Allowance for Loan Losses Balance	Loans as a % of Total Loans	Allocation of Allowance for Loan Losses Balance	Loans as a % of Total Loans
Commercial	$2,855	22.5 %	$1,978	20.4 %
Commercial Real Estate	3,064	36.9 %	2,586	32.4 %
Agriculture	856	9.5 %	1,100	9.3 %
Residential Mortgage	372	8.2 %	342	8.7 %
Residential Construction	2,918	13.4 %	1,490	19.8 %
Consumer	703	9.5 %	621	9.4 %
Unallocated	108	—	244	—
Total	$10,876	100.0 %	$8,361	100.0 %

42

The Bank believes that any breakdown or allocation of the allowance into loan categories lends an appearance of exactness, which does not exist, because the allowance is available for all loans. The allowance breakdown shown above is computed taking actual experience into consideration but should not be interpreted as an indication of the specific amount and allocation of actual charge-offs that may ultimately occur.

Deposits

The following table sets forth the average amount and the average rate paid on each of the listed deposit categories (dollars in thousands) during the periods specified:

	2010		2009		2008	
	Average Amount	Average Rate	Average Amount	Average Rate	Average Amount	Average Rate
Deposit Type:						
Non-interest-Bearing Demand	$181,689	—	$172,925	—	$173,332	—
Interest-Bearing Demand (NOW)	$141,816	0.28 %	$127,769	0.47 %	$128,690	0.72 %
Savings and MMDAs	$197,464	0.59 %	$172,610	0.78 %	$171,465	1.01 %
Time	$130,592	1.26 %	$144,251	1.74 %	$114,742	2.74 %

The following table sets forth by time remaining to maturity the Bank's time deposits in the amount of $100,000 or more (dollars in thousands) as of December 31, 2010:

Three months or less	$22,357
Over three months through twelve months	33,632
Over twelve months	12,865
Total	$68,854

Short-Term Borrowings

Short-term borrowings at December 31, 2010 and 2009 consisted of secured borrowings from the U.S. Treasury in the amounts of $1,529,000 and $813,000, respectively. The funds are placed at the discretion of the U.S. Treasury and are callable on demand by the U.S. Treasury. At December 31, 2010, the Bank had no Federal Funds purchased.

Additional short-term borrowings available to the Company consist of a line of credit and advances from the Federal Home Loan Bank ("FHLB") secured under terms of a blanket collateral agreement by a pledge of FHLB stock and certain other qualifying collateral such as commercial and mortgage loans. At December 31, 2010, the Company had a current collateral borrowing capacity from the FHLB of $107,591,000. The Company also has unsecured formal

lines of credit totaling $24,000,000 with correspondent banks.

Long-Term Borrowings

Long-term borrowings consisted of Federal Home Loan Bank advances, totaling $9,000,000 and $11,000,000, respectively, at December 31, 2010 and 2009. Such advances ranged in maturity from 0.5 years to 1.5 years at a weighted average interest rate of 4.06% at December 31, 2010. Maturity ranged from 0.5 years to 2.5 years at a weighted average interest rate of 3.94% at December 31, 2009. Average outstanding balances were $9,975,000 and $12,885,000, respectively, during 2010 and 2009. The weighted average interest rate paid was 4.00% in 2010 and 3.87% in 2009.

Overview

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Net income available to common shareholders for the year ended December 31, 2010, was $1.7 million, representing an increase of $3.5 million, or 190.6%, compared to net loss of $1.8 million for the year ended December 31, 2009. The increase in net income is principally attributable to a $5.6 million decrease in the provision for loan losses, $0.4 million increase in other income and a decrease of $2.2 million in other operating expense, which was partially offset by a $1.8 million decrease in net interest income and a $2.9 million decrease in income tax benefit.

Total assets decreased by $10.4 million, or 1.4%, to $737.2 million as of December 31, 2010 compared to $747.6 million at December 31, 2009. The decrease in total assets was mainly due to a $31.7 million decrease in net loans (including loans held-for-sale), a $7.4 decrease in cash and due from banks and a $3.0 million decrease in other assets, which was partially offset by a $31.5 million increase in investment securities. Total deposits decreased $11.2 million, or 1.7%, to $640.3 million as of December 31, 2010 compared to $651.4 million at December 31, 2009. Other borrowings decreased by $1.3 million, or 10.9%, to $10.5 million as of December 31, 2010 compared to $11.8 million at December 31, 2009.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Net loss available to common shareholders for the year ended December 31, 2009, was $1.8 million, representing an increase of $0.5 million, or 34.4%, compared to net loss of $1.4 million for the year ended December 31, 2008. The increase in net loss is principally attributable to a $4.4 million decrease in net interest income, $0.2 million decrease in service charges and fees on deposit accounts, an increase of $0.9 million in other operating expenses, $0.8 million decrease in income tax benefit and an increase of $0.8 million in stock dividends and accretion (relating to preferred stock held by the U.S. Treasury), which was partially offset by a $5.7 million decrease in the provision for loan losses, an increase of $0.5 million in other income and an increase of $0.7 million in gains on sales of loans.

Total assets increased by $76.8 million, or 11.4%, to $747.6 million as of December 31, 2009 compared to $670.8 million at December 31, 2008. The increase in total assets was mainly due to a $121.9 million increase in cash and due from banks and a $33.8 million increase in investment securities, which was partially offset by a $40.9 million decrease in federal funds sold and a $43.1 million decrease in net loans (including loans held-for-sale). Total deposits increased $66.7 million, or 11.4%, to $651.4 million as of December 31, 2009 compared to $584.7 million at December 31, 2008. Other borrowings decreased by $6.4 million, or 35.3%, to $11.8 million as of December 31, 2009 compared to $18.3 million at December 31, 2008.

Results of Operations

Net Interest Income

Net interest income is the excess of interest and fees earned on the Bank's loans, investment securities, federal funds sold and banker's acceptances over the interest expense paid on deposits, mortgage notes and other borrowed funds. It is primarily affected by the yields on the Bank's interest-earning assets and loan fees and interest-bearing liabilities outstanding during the period. The $1,785,000 decrease in the Bank's net interest income in 2010 from 2009 was due to the effects of lower loan rates and volumes, lower loan fees, lower investment securities rates, lower Federal Funds volume and lower due from interest bearing account rates, which was partially offset by higher investment securities, and due from interest bearing account volumes and lower core deposit funding costs. The $4,390,000 decrease in the Bank's net interest income in 2009 from 2008 was due to the effects lower loan rates and volumes, lower loan fees, lower investment securities rates and lower Federal Funds and due from interest bearing account rates, which was partially offset by higher investment securities, Federal Funds and due from interest bearing account volumes and lower core deposit funding costs. The "Analysis of Changes in Interest Income and Interest Expense" set forth on page 32 of this Annual Report on Form 10-K identifies the effects of interest rates and loan/deposit volume. Another factor that affected the net interest income was the average earning asset to average total asset ratio. This ratio was 92.1% in 2010, 89.8% in 2009 and 90.8% in 2008.

Interest income on loans (including loan fees) was $27,110,000 for 2010, representing a decrease of $3,410,000, or 11.2%, from $30,520,000 for 2009. This compared to a decrease in 2009 of $4,557,000, or 13.0%, from $35,077,000 for 2008. The decreased interest income on loans in 2010 over 2009 was the result of a 7.4% decrease in loan volume and a 14 basis point decrease in loan interest rates, combined with a decrease of approximately $633,000 in loan fees. Loan fee comparisons were impacted by a net decrease in deferred loan fees and costs of $78,000 in 2010, and a net decrease of $164,000 in 2009.

Average outstanding federal funds sold fluctuated during this period, ranging from $0 in 2010 to $45,918,000 in 2009 and $26,808,000, in 2008. There were no Federal Funds sold at December 31, 2010. Federal funds are used primarily as a short-term investment to provide liquidity for funding of loan commitments or to accommodate seasonal deposit fluctuations. Federal Funds sold yields were 0.00%, 0.13%, and 1.94% for 2010, 2009 and 2008, respectively.

Average outstanding due from interest bearing accounts fluctuated during this period, ranging from $141,059,000 in 2010 to $36,302,000 in 2009 and $13,428,000, in 2008. At December 31, 2010, due from interest bearing accounts were $129,194,000. As with Federal Funds, due from interest bearing accounts are used primarily as a short-term investment to provide liquidity for funding of loan commitments or to accommodate seasonal deposit fluctuations. Due from interest bearing account yields were 0.27%, 0.45%, and 4.15% for 2010, 2009 and 2008, respectively.

The average total level of investment securities increased $25,600,000 in 2010 to $89,890,000 from $64,290,000 in 2009 and increased $7,167,000 in 2009 to $64,290,000 from $57,123,000 in 2008. The level of interest income attributable to investment securities increased to $2,428,000 in 2010 from $2,314,000 in 2009 and decreased to $2,314,000 in 2009 from $2,598,000 in 2008, due to the effects of interest rates and volume. The Bank's strategy for this period emphasized the use of the investment portfolio to partially offset the Bank's decreased loan volume. The Bank intends to continue to reinvest maturing securities to provide future liquidity while attempting to reinvest the cash flows in short duration securities that provide higher cash flow for reinvestment in a higher interest rate instrument. Investment securities yields were 2.70%, 3.60%, and 4.55% for 2010, 2009 and 2008, respectively.

Total interest expense decreased to $3,606,000 in 2010 from $4,960,000 in 2009, and decreased to $4,960,000 in 2009 from $6,375,000 in 2008, representing a 27.3% decrease in 2010 over 2009 and a 22.2% decrease in 2009 over

2008. The decrease in total interest expense from 2010 to 2009 was due to decreases in interest rates paid on deposits and decreases in the volume of deposits. The decrease in total interest expense from 2009 to 2008 was due to decreases in interest rates paid on deposits, which was partially offset by increases in the volume of deposits.

The mix of deposits for the previous three years is as follows (dollars in thousands):

	2010		2009		2008	
	Average Balance	Percent	Average Balance	Percent	Average Balance	Percent
Non-interest-Bearing Demand	$181,689	27.9 %	$172,925	28.0 %	$173,332	29.5 %
Interest-Bearing Demand (NOW)	141,816	21.8 %	127,769	20.7 %	128,690	21.9 %
Savings and MMDAs	197,464	30.3 %	172,610	28.0 %	171,465	29.1 %
Time	130,592	20.0 %	144,251	23.3 %	114,742	19.5 %
Total	$651,561	100.0 %	$617,555	100.0 %	$588,229	100.0 %

The three years ended December 31, 2010 have been characterized by decreasing interest rates. Loan rates and deposit rates decreased in 2010, 2009 and 2008. The net spread between the rate for total earning assets and the rate for total deposits and borrowed funds decreased 49 basis points in the period from 2010 to 2009 and decreased 78 basis points in the period from 2009 to 2008.

The Bank's net interest margin (net interest income divided by average earning assets) was 3.82% in 2010, 4.39% in 2009, and 5.30% in 2008. The decrease in net interest margin was due to decreasing loan rates which was only partially offset by lower deposit rates. Going forward into the first half of 2011, it is Bank management's belief that net interest income and net interest margin will continue to fluctuate due to the unstable rate environment.

Provision for Loan Losses

The provision for loan losses is established by charges to earnings based on management's overall evaluation of the collectability of the loan portfolio. Based on this evaluation, the provision for loan losses decreased to $4,914,000 in 2010 from $10,489,000 in 2009, primarily as a result of decreased charge-offs, decreased loan volumes and increased credit quality. The amount of loans charged-off decreased in 2010 to $6,616,000 from $14,293,000 in 2009, and recoveries decreased to $825,000 in 2010 from $1,285,000 in 2009. The decrease in charge-offs was due, for the most part, to a decrease in charge-offs of commercial loans, commercial real estate loans, agriculture loans, and residential construction loans. The ratio of the Allowance for Loan Losses to total loans at December 31, 2010 was 2.44% compared to 2.45% at December 31, 2009. The ratio of the Allowance for Loan Losses to total non-accrual loans and loans past due 90 days or more at December 31, 2010 was 90% compared to 68% at December 31, 2009.

The provision for loan losses decreased to $10,489,000 in 2009 from $16,164,000 in 2008, primarily as a result of decreased loan volumes, which was partially offset by increased charge-offs. The amount of loans charged-off increased in 2009 to $14,293,000 from $13,324,000 in 2008, and recoveries increased to $1,285,000 in 2009 from $719,000 in 2008. The increase in charge-offs was due, for the most part, to an increase in charge-offs of commercial loans, agriculture loans, and residential mortgage loans. The ratio of the Allowance for Loan Losses to total loans at December 31, 2009 was 2.45% compared to 2.71% at December 31, 2008. The ratio of the Allowance for Loan Losses to total non-accrual loans and loans past due 90 days or more at December 31, 2009 was 68% compared to 101% at December 31, 2008.

46

Other Operating Income and Expenses

Other operating income consisted primarily of service charges on deposit accounts, net gains on sales of investment securities, net realized gains on loans held-for-sale, gains on other real estate owned, and other income. Service charges on deposit accounts decreased $170,000 in 2010 over 2009 and decreased $237,000 in 2009 over 2008. The decrease in 2010 was due, for the most part, to a decrease in service charges on regular and business checking accounts, partially offset by increases in analysis service charges and decreases in waived fees. Realized gains on sale of investment securities increased $209,000 in 2010 over 2009 and decreased $115,000 in 2009 over 2008. The increase in 2010 was primarily due to an increased number of securities sold, partially offset by a decrease in interest rates. Net realized gains on loans held-for-sale increased $159,000 in 2010 over 2009 and increased $699,000 in 2009 over 2008. The increase in 2010 was due, for the most part, to an increase in pricing of sold loans, partially offset by a decrease in sold loans. Gains on other real estate owned increased $48,000 in 2010 over 2009 and decreased $98,000 in 2009 over 2008. The increase in 2010 was due to an increased number of properties sold in 2010 compared to 2009. Other income increased $355,000 in 2010 over 2009 and increased $508,000 in 2009 over 2008. The increase in 2010 was due, for the most part, to increases in investment & brokerage income, signature based transaction fees, ATM fees and other miscellaneous income.

Other operating expenses consisted primarily of salaries and employee benefits, occupancy and equipment expense, data processing expense, stationery and supplies expense, advertising, OREO expenses and write-downs and other expenses. Other operating expenses decreased to $27,889,000 in 2010 from $30,068,000 in 2009, and increased to $30,068,000 in 2009 from $29,137,000 in 2008, representing a decrease of $2,179,000, or 7.3% in 2010 over 2009, and an increase of $931,000, or 3.2% in 2009 over 2008.

Following is an analysis of the increase or decrease in the components of other operating expenses (dollars in thousands) during the periods specified:

	2010 over 2009		2009 over 2008	
	Amount	Percent	Amount	Percent
Salaries and Employee Benefits	$(532)	(3.5%)	$(90)	(0.6%)
Occupancy and Equipment	(508)	(13.4%)	107	2.9%
Data Processing	(65)	(3.7%)	41	2.4%
Stationery and Supplies	(113)	(27.6%)	(62)	(13.2%)
Advertising	(169)	(23.7%)	(5)	(0.7%)
Directors Fees	(2)	(0.9%)	4	1.9%
OREO Expense and Write-downs	(738)	(47.6%)	(44)	(2.8%)
Other Expense	(52)	(0.8%)	980	18.6%
Total	$(2,179)	(7.2%)	$931	3.2%

In 2010, salaries and employee benefits decreased $532,000 to $14,847,000 from $15,379,000 for 2009. This decrease was due, for the most part, to decreased regular salaries and commissions, which was partially offset by increases in profit sharing expense, workers' compensation and deferred loan processing costs. Decreases in occupancy and equipment expenses were due to decreases in rent expense and depreciation expense. Decreases in data processing were due to a reduction in contract pricing. Decreases in stationary and supplies were attributed to a decrease in the usage of office supplies. Decreases in advertising costs were due to a decrease in printed materials and related costs. Decreases in OREO expense and write-downs were due to lower expenses and write-downs related to foreclosed real estate properties. The decrease in other expense was due, for the most part, to a decrease in FDIC

assessments, accounting and audit fees and loan origination expense, which was partially offset by increases in sundry losses and loan collection expense.

In 2009, salaries and employee benefits decreased $90,000 to $15,379,000 from $15,469,000 for 2008. This decrease was due, for the most part, to decreased regular salaries, stock compensation expense, workers' compensation expense and retirement compensation expense, which was partially offset by increases in commissions and deferred loan processing costs. Increases in occupancy and equipment expenses were due to increases in rent expense and solar equipment rental expense, which were partially offset by decreases in depreciation expense and utilities. Increases in the data processing area were attributed to continued emphasis on Internet-related products and security services and network improvements. Decreases in stationary and supplies were attributed to a decrease in the usage of office supplies. Decreases in OREO expense and write-downs were due to lower expenses and write-downs related to foreclosed real estate properties. The increase in other expense was due, for the most part, to an increase in FDIC assessments, which was partially offset by decreases in consulting fees, public relations expense and employee training.

Income Taxes

The provision for income taxes is primarily affected by the tax rate, the level of earnings before taxes and the amount of lower taxes provided by non-taxable earnings. In 2010, the tax benefit decreased $2,851,000 to an expense of $7,000 from a benefit of $2,844,000 for 2009. In 2009, the tax benefit decreased $791,000 to a benefit of $2,844,000 from a benefit of $3,635,000 for 2008. Non-taxable municipal bond income was $684,000, $1,003,000 and $1,254,000 for the years ended December 31, 2010, 2009, and 2008, respectively.

Liquidity, Contractual Obligations, Commitments, Off-Balance Sheet Arrangements and Capital Resources

Liquidity is defined as the ability to generate cash at a reasonable cost to fulfill lending commitments and support asset growth, while satisfying the withdrawal demands of customers and any borrowing requirements. The Bank's principal sources of liquidity are core deposits and loan and investment payments and prepayments. Providing a secondary source of liquidity is the available-for-sale investment portfolio. As a final source of liquidity, the Bank can exercise existing credit arrangements.

The Company's primary source of liquidity on a stand-alone basis is dividends from the Bank. As discussed in Part I (Item 1) of this Annual Report on Form 10-K, dividends from the Bank are subject to regulatory restrictions.

As discussed in Part I (Item 1) of this Annual Report on Form 10-K, the Bank experiences seasonal swings in deposits, which impact liquidity. Management has sought to address these seasonal swings by scheduling investment maturities and developing seasonal credit arrangements with the Federal Reserve Bank and Federal Funds lines of credit with correspondent banks. In addition, the ability of the Bank's real estate department to originate and sell loans into the secondary market has provided another tool for the management of liquidity. As of December 31, 2010, the Company has not created any special purpose entities to securitize assets or to obtain off-balance sheet funding.

The liquidity position of the Bank is managed daily, thus enabling the Bank to adapt its position according to market fluctuations. Liquidity is measured by various ratios, the most common of which is the ratio of net loans (including loans held-for-sale) to deposits. This ratio was 69.4% on December 31, 2010, 73.1% on December 31, 2009, and 88.8% on December 31, 2008. At December 31, 2010 and 2009, the Bank's ratio of core deposits to total assets was 77.5% and 74.2%, respectively. Core deposits include demand deposits, interest-bearing transaction deposits, savings and money market deposit accounts, and time deposits under $100,000. Core deposits are important in maintaining a strong liquidity position as they represent a stable and relatively low cost source of funds. The Bank's liquidity position increased in 2010; management believes that the Bank's liquidity position was adequate. This is best illustrated by the change in the Bank's net non-core and net short-term non-core funding dependence ratio, which explain the degree of reliance on non-core liabilities to fund long-term assets. At December 31, 2010, the Bank's net core funding dependence ratio, the difference between non-core funds, time deposits $100,000 or more and brokered time deposits under $100,000, and short-term investments to long-term assets, was – 8.94%, compared to – 4.63% in 2009. The Bank's net short-term non-core funding dependence ratio, non-core funds maturing within one year, including borrowed funds, less short-term investments to long-term assets equaled – 12.55% at the end of 2010, compared to – 8.77% at year-end 2009. These ratios indicated at December 31, 2010, the Bank did not significantly rely upon non-core deposits and borrowings to fund the Bank's long-term assets, namely loans and investments. The Bank believes that by maintaining adequate volumes of short-term investments and implementing competitive pricing strategies on deposits, it can ensure adequate liquidity to support future growth. The Bank also believes that its liquidity position remains strong to meet both present and future financial obligations and commitments, events or uncertainties that have resulted or are reasonably likely to result in material changes with respect to the Bank's liquidity.

The Company has various financial obligations, including contractual obligations and commitments that may require future cash payments. The following table presents, as of December 31, 2010, the Company's significant fixed and determinable contractual obligations to third parties by payment date (amounts in thousands):

		Payments due by period			
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Deposits without a stated maturity (a)	$531,321	$531,321	$—	$—	$—
Certificates of Deposit (a)	108,937	91,358	15,919	1,660	—
Short-Term Borrowings (a)	1,529	1,529	—	—	—
Long-Term Borrowings (b)	9,468	2,327	7,141	—	—
Operating Leases	5,189	1,219	2,269	1,345	356
Purchase Obligations	1,460	1,460	—	—	—
Total	$657,904	$629,214	$25,329	$3,005	$356

(a) Excludes interest.
(b) Includes interest on fixed rate obligations.

The Company's operating lease obligations represent short-term and long-term lease and rental payments for facilities, certain software and data processing and other equipment. Purchase obligations represent obligations under agreements to purchase goods or services that are enforceable and legally binding on the Company and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. The purchase obligation amounts presented above primarily relate to certain contractual payments for services provided for information technology, capital expenditures, and the outsourcing of certain operational activities.

The Company's long-term borrowing consists of FHLB fixed-rate obligations. FHLB advances are collateralized by qualifying residential real estate loans and commercial loans.

The Company's borrowed funds consist of secured borrowings from the U.S. Treasury's Treasury Tax and Loan Program. These borrowings are collateralized by qualifying securities. The funds are placed at the discretion of the U.S. Treasury and are callable on demand by the U.S. Treasury.

The following table details the amounts and expected maturities of commitments as of December 31, 2010 (amounts in thousands):

		Maturities by period			
Commitments	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Commitments to extend credit					
Commercial	$61,741	$46,137	$13,925	$158	$1,521
Commercial Real Estate	591	50	2	437	102
Agriculture	22,496	18,418	4,008	—	70
Residential Construction	1,104	1,020	—	—	84
Consumer	54,476	16,828	9,630	3,210	24,808
Commitments to sell loans	1,826	1,826	—	—	—
Standby Letters of Credit	3,739	3,739	—	—	—

Total	$145,973	$88,018	$27,565	$3,805	$26,585

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of loans or through standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. These loans have been sold to third parties without recourse, subject to customary default, representations and warranties, recourse for breaches of the terms of the sales contracts and payment default recourse.

Financial instruments, whose contract amounts represent credit risk at December 31 of the indicated years, are as follows (amounts in thousands):

	2010	2009
Undisbursed loan commitments	$140,408	$191,589
Standby letters of credit	3,739	3,572
Commitments to sell loans	1,826	3,179
	$145,973	$198,340

The Bank expects its liquidity position to remain strong in 2011 as the Bank expects to continue to grow into existing markets. The stock market remained volatile this past year and, while the Bank did not experience a dramatic outflow of deposits, the potential of additional outflows still exists if the stock market improves. Regardless of the outcome, the Bank believes that it has the means to provide adequate liquidity for funding normal operations in 2011.

The Bank believes a strong capital position is essential to the Bank's continued growth and profitability. A solid capital base provides depositors and shareholders with a margin of safety, while allowing the Bank to take advantage of profitable opportunities, support future growth and provide protection against any unforeseen losses.

At December 31, 2010, stockholders' equity totaled $79.6 million, an increase of $1.5 million from $78.1 million at December 31, 2009. Net income available to common shareholders of $1.7 million was the primary factor contributing to the increase. Also affecting capital in 2010 was paid in capital in the amount of $0.4 million resulting from employee stock purchases and stock plan accruals, which was partially offset by a decrease in other comprehensive income of $0.7 million, consisting of retirement plan equity adjustments and unrealized losses on investment securities available-for-sale. The Bank's Tier 1 Leverage Capital ratio at year-end 2010 was 9.7% and was 9.8% for 2009.

On June 21, 2009, the Company's stock repurchase program expired. The Company does not currently operate a stock repurchase program. The Company's previous stock purchase plan had allowed repurchases by the Company in an aggregate of up to 4.0% of the Company's outstanding shares of common stock over each rolling twelve-month period. Our ability to repurchase our shares is restricted due to our CPP participation. The consent of the U.S. Treasury generally is required for us to make any stock repurchase (other than in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice), unless all of the Preferred Shares have been redeemed or transferred by the U.S. Treasury to unaffiliated third parties.

The capital of the Bank historically has been maintained at a level that is in excess of regulatory guidelines. The policy of annual stock dividends has, over time, allowed the Bank to match capital and asset growth through retained earnings and a managed program of geographic growth.

51

ITEM 8 – FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

In response to this Item, the information set forth on pages 56 through 100 in this Annual Report is incorporated herein by reference.

Financial Statements Filed:

Management's Report	Page 53
Report of Independent Registered Public Accounting Firm	Page 54
Consolidated Balance Sheets as of December 31, 2010 and 2009	Page 55
Consolidated Statements of Operations for Years ended December 31, 2010, 2009, and 2008	Page 56
Consolidated Statements of Stockholders' Equity and Comprehensive Income (loss) for Years ended December 31, 2010, 2009, and 2008	Page 57
Consolidated Statements of Cash Flows for Years ended December 31, 2010, 2009, and 2008	Page 59
Notes to Consolidated Financial Statements	Page 60

Management's Report

FIRST NORTHERN COMMUNITY BANCORP AND SUBSIDIARY
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of First Northern Community Bancorp and subsidiary (the "Company") is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under the framework in Internal Control – Integrated Framework, management of the Company has concluded the Company maintained effective internal control over financial reporting, as such term is defined in Securities Exchange Act of 1934 Rules 13a-15(f), as of December 31, 2010.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management is also responsible for the preparation and fair presentation of the consolidated financial statements and other financial information contained in this report. The accompanying consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include, as necessary, best estimates and judgments by management.

/s/ Louise A. Walker

Louise A. Walker
President/Chief Executive Officer/Director
(Principal Executive Officer)

/s/ Jeremiah Z. Smith

Jeremiah Z. Smith
Executive Vice President/Chief Financial Officer
(Principal Financial Officer)

March 21, 2011

Report of Independent Registered Public Accounting Firm

To The Board of Directors and Stockholders
First Northern Community Bancorp:

We have audited the accompanying consolidated balance sheets of First Northern Community Bancorp and subsidiary (the "Company") as of December 31, 2010 and 2009 and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of First Northern Community Bancorp and subsidiary as of December 31, 2010 and 2009, and the results of their operations and cash flows for each of the years in the three-year period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

/s/ MOSS ADAMS LLP

Stockton, California
March 21, 2011

FIRST NORTHERN COMMUNITY BANCORP
AND SUBSIDIARY
Consolidated Balance Sheets
December 31, 2010 and 2009
(in thousands, except shares and share amounts)

	2010	2009
Assets		
Cash and due from banks	$139,707	$147,076
Investment securities – available-for-sale, at fair value (includes securities pledged to creditors with the right to sell or repledge of $35,009 and $29,194, respectively)	107,346	75,868
Loans (net of allowance for loan losses of $11,039 at December 31, 2010 and $11,916 at December 31, 2009)	442,015	474,378
Loans held-for-sale	2,345	1,640
Stock in Federal Home Loan Bank and other equity securities, at cost	2,823	2,506
Premises and equipment, net	8,035	7,397
Other real estate owned	2,682	3,518
Other assets	32,264	35,242
Total Assets	$737,217	$747,625
Liabilities and Stockholders’ Equity		
Liabilities:		
Deposits:		
Demand	$180,382	$179,684
Interest-bearing transaction deposits	146,579	133,224
Savings and MMDAs	204,360	186,456
Time, under $100,000	40,083	55,013
Time, $100,000 and over	68,854	97,049
Total Deposits	640,258	651,426
FHLB advances and other borrowings	10,529	11,813
Accrued interest payable and other liabilities	6,834	6,293
Total Liabilities	657,621	669,532
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, par value $0.01 per share; $1,000 per share liquidation preference, 18,500 shares authorized; 17,390 shares issued and outstanding in 2010 and 2009	16,944	16,822
Common stock, no par value; 16,000,000 shares authorized; 9,103,158 and 9,055,137 shares issued and outstanding in 2010 and 2009, respectively;	62,869	62,457
Additional paid-in capital	977	977
Accumulated deficit	(401)	(2,074)

Accumulated other comprehensive loss, net	(793)	(89)
Total Stockholders’ Equity	79,596	78,093
Total Liabilities and Stockholders’ Equity	$737,217	$747,625

See accompanying notes to consolidated financial statements.

FIRST NORTHERN COMMUNITY BANCORP
AND SUBSIDIARY
Consolidated Statements of Operations
Years Ended December 31, 2010, 2009 and 2008
(in thousands, except per share amounts)

	2010	2009	2008
Interest and dividend income:			
Interest and fees on loans	$27,110	$30,520	$35,077
Federal funds sold	—	58	519
Due from interest bearing accounts	380	164	557
Investment securities:			
Taxable	1,744	1,311	1,344
Non-taxable	684	1,003	1,254
Other earning assets	9	10	120
Total interest and dividend income	29,927	33,066	38,871
Interest expense:			
Time deposits $100,000 and over	1,183	1,651	2,056
Other deposits	2,024	2,810	3,747
Other borrowings	399	499	572
Total interest expense	3,606	4,960	6,375
Net interest income	26,321	28,106	32,496
Provision for loan losses	4,914	10,489	16,164
Net interest income after provision for loan losses	21,407	17,617	16,332
Other operating income:			
Service charges on deposit accounts	3,327	3,497	3,734
Net gain on sale of available-for-sale securities	663	454	569
Net gain on sale of loans held-for-sale	1,113	954	255
Net gain on sale of other real estate owned	52	4	102
Other income	3,999	3,644	3,136
Total other operating income	9,154	8,553	7,796
Other operating expenses:			
Salaries and employee benefits	14,847	15,379	15,469
Occupancy and equipment	3,281	3,789	3,682
Data processing	1,691	1,756	1,715
Stationery and supplies	296	409	471
Advertising	543	712	717
Directors fees	213	215	211
OREO expense and write-downs	811	1,549	1,593
Other	6,207	6,259	5,279
Total other operating expenses	27,889	30,068	29,137
Income (loss) before income tax (benefit) expense	2,672	(3,898)	(5,009)
Provision (benefit) for income tax	7	(2,844)	(3,635)
Net income (loss)	2,665	(1,054)	(1,374)
Preferred stock dividends and accretion	(992)	(792)	—
Net income (loss) available to common shareholders	$1,673	$(1,846)	$(1,374)
Basic income (loss) per share	$0.19	$(0.21)	$(0.15)
Diluted income (loss) per share	$0.19	$(0.21)	$(0.15)

See accompanying notes to consolidated financial statements.

FIRST NORTHERN COMMUNITY BANCORP
AND SUBSIDIARY
Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)
Years Ended December 31, 2010, 2009 and 2008
(in thousands, except share data)

	Preferred Stock		Common Stock		Comprehensive	Additional Paid-in	Retained Earnings / (Accumulated	Accumulated Other Comprehensive (Loss) /	
	Shares	Amounts	Shares	Amounts	Income	Capital	Deficit)	Income	Total
Balance at December 31, 2007	—	$ —	8,177,981	$ 50,956		$ 977	$ 12,209	$ (167)	$ 63,975
Cumulative effect of adoption of accounting for split dollar life insurance							(158)		(158)
Comprehensive income:									
Net loss					$ (1,374)		(1,374)		(1,374)
Other comprehensive income, net of tax:									
Unrealized holding gains on securities arising during the current period, net of tax effect of $62					92				
Reclassification adjustment due to gains realized on sales of securities, net of tax effect of $228					(341)				
Directors' and officers' retirement plan equity adjustments, net of tax effect of $306					459				
					210			210	210

Total other comprehensive income, net of tax effect of $140									
Comprehensive income					$ (1,164)				
6% stock dividend			488,234	8,642			(8,642)		—
Cash in lieu of fractional shares							(9)		(9)
Stock-based compensation and related tax benefits				519					519
Common shares issued, stock options exercised, net of swapped shares			57,910	225					225
Stock repurchase and retirement			(85,415)	(1,359)					(1,359)
Balance at December 31, 2008	—	$ —	8,638,710	$ 58,983		$ 977	$ 2,026	$ 43	$ 62,029
Comprehensive income:									
Net loss					$ (1,054)		(1,054)		(1,054)
Other comprehensive loss, net of tax:									
Unrealized holding losses on securities arising during the current period, net of tax effect of $134									