

CORPORATE GOVERNANCE PRINCIPLES

It is the policy of the Board of Directors of United Security Bancshares and United Security Bank (the “Board”) to adhere to the following principles of corporate governance with respect to Board membership, conduct of Board and Committee meetings, conflicts of interest, performance, and compliance with applicable rules and regulations.

Board of Directors

Membership

The Board seeks members from diverse professional backgrounds who combine a broad spectrum of experience and expertise, with a reputation for integrity. Directors should have positions with a high degree of responsibility, be leaders in the companies with which they are affiliated, and be selected based upon contributions they can make to the Board and management.

The Board’s optimum size is approximately seven to ten members, with a significant majority being “outside”, or independent, Directors. The expectation is the number of “inside” Directors should not exceed one.

Independent Director Definition

“Family Member” means a person’s spouse, parents, children and siblings, whether by blood, marriage or adoption, or anyone residing in such person’s home.

In keeping with NASD Rule 4200 (a)(15), an Independent Director is a person other than an officer or employee of United Security Bank (the “Bank”) or United Security Bancshares (the “HC”) or any other individual having a relationship, which, in the opinion of the Board, would not interfere with the exercise of independent judgment in carrying out the responsibilities of a Director. The following persons shall **not** be considered independent:

- 1) A Director who is, or at any time during the past three years was, employed by the Bank or Holding Company;
- 2) A Director who accepted, or has a Family Member who accepted any payments from the Bank, or Holding Company, in excess of \$60,000 during any twelve-month period within the last three years preceding the determination of independence, other than the following:
 - Compensation for Board or Board Committee service;
 - Payments arising solely from investments in the Bank’s securities;
 - Compensation paid to a Family Member who is a non-executive employee of the Bank or Holding Company;

- Benefits under a tax-qualified retirement plan, or non-discretionary compensation;
 - Loans from a financial institution provided that the loans (1) were made in the ordinary course of business, (2) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with the general public, (3) did not involve more than a normal degree of risk or other unfavorable factors, and (4) were not otherwise subject to the specific disclosure requirements of SEC Regulation S-K, Item 404; or
 - Loans permitted under Section 13(k) of the Act. Provided, however, that Audit Committee Members are subject to additional, more stringent requirements under Rule 4350 (d).
- 3) A Director who is a Family Member of an individual who is, or at any time during the past three years was, employed by the Bank or Holding Company as an executive officer;
- 4) A Director who is, or has a Family Member who is, a partner in, or a controlling shareholder or an executive officer of, any organization to which the Bank made, or from which the Bank received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenues for that year, or \$200,000, whichever is more, other than the following:
- Payments arising solely from investments in the Bank's securities; or
 - Payments under non-discretionary charitable contribution matching programs.
- 5) A Director of the Bank who is, or has a Family Member who is, employed as an executive officer of another entity where at any time during the past three years any of the executive officers of the Bank serve on the Compensation Committee of such other entity; or
- 6) A Director who is, or has a Family Member who is, a current partner of the Bank's outside auditor, or was a partner or employee of the Bank's outside auditor who worked on the Bank's audit at any time during any of the past three years.

The determination that a Director is independent shall be made by the Board following a review of all relevant information. Any independent Director is also considered to be an "Outside" Director.

Selection of New Directors

Review of Director recommendations shall be the exclusive responsibility of the "independent" Directors, meeting in executive session.

Selection of New Directors (cont.)

The Chief Executive Officer and the Presiding Independent Director shall extend the invitation.

The Board does not favor term limits for Directors. It is important, however, to monitor overall Board performance.

Retirement Policy – Inside Directors

Employee Directors should resign from the Board upon their resignation, removal, or retirement as an Officer of the Bank, and in any event, may not stand for re-election at the Annual Meeting of Stockholders following their 65th birthday. There may be circumstances where this policy would not apply, including the transition to a new Chairman or Chief Executive Officer by the incumbent Chairman.

Board Meetings

The Chairman and Chief Executive Officer, in consultation with members of the Board, shall establish the agenda for Board Meetings.

The Board believes it is critical for members to have materials on topics to be discussed sufficiently in advance of the meeting date and for Board members to be kept abreast of developments between Board Meetings. Management shall regularly inform Board members of Bank, and competitive, developments; and shall distribute, several days in advance of meetings to permit meaningful review, written materials for use at Board Meetings.

Attendance of Non-Directors

The Board believes that attendance of key Executive Officers augments the meeting process. The Bank's Chief Financial Officer, Chief Operating Officer, Chief Banking Officer, and Chief Credit Officer regularly attend all scheduled Board Meetings. The Chief Executive Officer encourages these officers to respond to questions, posed by Board members, that relate to their areas of expertise. These Executive Officers shall not attend Executive Sessions or Outside Director Sessions either of the Board or any Committee thereof, unless requested.

The Board believes that Executive Officers of the Bank can assist the Board with its deliberations and provide critical insights and analyses, particularly when the Board hears presentations on strategic plans for the upcoming year. Attendance of such officers allows the most knowledgeable and accountable executives to communicate directly with the Board. It also provides the Board direct access to individuals critical to Bank succession planning.

The full Board should engage in discussions on strategic issues and ensure that there is sufficient time devoted to Director interchange on these subjects.

The Board shall meet at least monthly.

Conflicts of Interest

Directors are expected to avoid any action, position, or interest that conflicts with an interest of the Bank, or gives the appearance of a conflict. The Bank annually solicits information from Directors in order to monitor potential conflicts of interest, and Directors are expected to be mindful of their fiduciary obligations to the Bank. When faced with a situation involving a potential conflict of interest, Directors are encouraged to seek advice from the Bank's legal counsel.

Consulting Agreements

The Board believes that the Bank should not enter into paid consulting agreements with Outside Directors.

Director Share Ownership

The Board believes that the number of shares of the Company's common stock owned by each Director is a personal decision; however, the Board strongly supports the position that Directors should own a meaningful number of shares.

Compensation Review

The Independent Directors shall recommend Director compensation and benefits to the full Board based on comparable information for companies of similar size, and on recommendations from management.

Assessing Board Performance

The Board will periodically review and assess both individual, and full Board, performance.

Presiding Independent Director

The presiding Independent Director, for purposes of leading executive sessions, will be determined by resolution of the Independent Directors.

Outside Director Executive Sessions

Executive Sessions are those sessions that include only Outside Directors, and may be called by the Chairman of the Board, or Presiding Independent Director or Audit Committee Chairman. These sessions should occur at least twice each year for the periodic evaluation of the Executive Officers, and to consider Director nominations.

Access to Senior Management

Board members have complete and open access to senior members of management. The Chief Executive Officer shall invite key employees to attend Board sessions at which the Chief Executive Officer believes they can meaningfully contribute to Board discussion.

Interaction with Peers, Customers, and Institutional Investors

The Board believes that, under ordinary circumstances, management speaks for the Bank, and the Chairman speaks for the Board. Individual Board members may, from time to time, meet or communicate with various constituencies that are involved with the Bank. It is expected that Board members would do this with the knowledge of management and, in most instances, at the request of management.

Confidentiality

In order to facilitate open discussion, the Board believes that confidentiality of information and deliberations is an imperative.

Board Committees

The Board is organized into committees to oversee enforcement of policy. Committees shall report to the full Board of Directors. The Board shall have, at all times, an Audit Committee, a Risk Management Committee, an Asset/Liability Committee, a Nominating/Corporate Governance Committee, a Compensation Committee and a Loan Committee.

Audit Committee

All of the members shall be independent, and adhere to the rules and regulations of the Securities and Exchange Commission, Nasdaq Stock Market, Inc., and appropriate bank regulatory agencies. At least one member shall meet all of the attributes of an “audit committee financial expert”, as defined by the aforementioned Agencies.

The Audit Committee shall have a written charter. The charter will set forth the purpose, authority, and responsibilities of the committee, as well as, qualifications for membership, committee structure, and how the committee reports to the Board.

Asset / Liability Committee (ALCO)

Bank only.

Loan

Bank only.

Risk Management

Consisting of not less than three independent Directors, the Committee shall review, as appropriate, risk management and risk assessment policies and procedures, including limits and limit allocations for transaction risk, strategic risk, credit risk, interest rate risk, compliance risk, liquidity risk, reputation risk, and price risk.

Nominating / Corporate Governance

Composed entirely of independent directors. The nominating/corporate governance committee must have a written charter that addresses the committee's purpose and responsibilities and complete an annual performance evaluation. In addition, the Committee will advise and make recommendations to the Board on corporate governance and all matters pertaining to the role of the Board and the practices and performance of its Directors.

Compensation

Composed entirely of independent directors. The compensation committee must have a written charter addressing the committee's purpose and responsibilities and complete an annual performance evaluation.

Rotation of Assignments

Committee assignments and the designation of Committee Chairs should be based on the Director's knowledge, interest, and areas of expertise. The Board does not favor mandatory rotation of assignments or Chairs. The Board believes experience and continuity are more important than rotation and that Board members and Chairs should be rotated only if rotation is likely to increase Committee performance or facilitate Committee work.

Frequency and Length of Meetings

The Chairman and Chief Executive Officer should regularly consult with Committee Chairs to obtain their insights and to optimize Committee performance. The Committee Chairs, in consultation with the Chairman and President, should establish the frequency and length of Committee meetings.

Development of Agenda

The Committee Chairs, working with the Chief Executive Officer, should establish Committee agendas for the year. All standing Committees should meet regularly during the year, and receive reports from Bank personnel on developments affecting the Committee's work. At the beginning of each year, the Audit Committee must review and approve the Annual Audit Plan.

Chairman and Chief Executive Officer

The Bank's By-Laws permit the Chairman, President & Chief Executive Officer to be the same person.

Formal Evaluations

The independent Directors, meeting in executive session, conduct the evaluation of the Chief Executive Officer and Senior Vice Presidents, in the context of reviewing the Bank's performance in meeting goals, for purposes of awarding compensation.

Succession Planning

The Chief Executive Officer shall review succession planning, on an annual basis, with the Board.

Management Development

Senior Bank executives should evaluate and compile a Succession Plan for their areas of responsibility. This Plan should then be reviewed with the Chief Executive Officer and the Board. The Chief Executive Officer shall provide input on each Succession Plan, and discuss the Plans with the Board in Executive Session.

Other Principles**Confidential Voting**

It is the policy of the Bank that individual stockholder voting be confidential.

Re-Pricing of Stock Options

The Board opposes re-pricing of stock options by a reduction in the option's exercise price. The Board favors equitable adjustment of option's exercise price in connection with a re-classification of Bank stock; a change in the Bank's capitalization; a stock split; a restructuring, or merger of the Bank, or other similar events in connection with which it is customary to adjust the exercise price of an option and/or the number and kind of shares subject thereto.

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