CENTRAL VALLEY COMMUNITY BANCORP
Form 10-Q
May 16, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED March 31, 2011

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 31977

CENTRAL VALLEY COMMUNITY BANCORP

(Exact name of registrant as specified in its charter)

California	**77-0539125**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7100 N. Financial Dr, Suite 101, Fresno, California	**93720**
(Address of principal executive offices)	(Zip code)

Registrant s telephone number **(559) 298-1775**

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 past 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 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 a 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

As of April 30, 2011 there were 9,500,016 shares of the registrant s common stock outstanding.

Table of Contents

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

2011 QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

PART 1: FINANCIAL INFORMATION	**3**
ITEM 1: FINANCIAL STATEMENTS	**3**
ITEM 2: MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	**25**
ITEM 4: CONTROLS AND PROCEDURES	**43**
PART II: OTHER INFORMATION	**44**
ITEM 1: LEGAL PROCEEDINGS	**44**
ITEM 1A: RISK FACTORS	**44**
ITEM 2: CHANGES IN SECURITIES AND USE OF PROCEEDS	**44**
ITEM 3: DEFAULTS UPON SENIOR SECURITIES	**44**
ITEM 4: REMOVED AND RESERVED	**44**
ITEM 5: OTHER INFORMATION	**44**
ITEM 6: EXHIBITS	**44**
SIGNATURES	**45**

Table of Contents

PART 1: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	**March 31, 2011 (Unaudited)**	**December 31, 2010**
ASSETS		
Cash and due from banks	$ 15,274	$ 11,357
Interest-earning deposits in other banks	68,296	89,042
Federal funds sold	861	600
Total cash and cash equivalents	84,431	100,999
Available-for-sale investment securities (Amortized cost of $205,605 at March 31, 2011 and $189,682 at December 31, 2010)	207,403	191,325
Loans, less allowance for credit losses of $11,019 at March 31, 2011 and $11,014 at December 31, 2010	411,023	420,583
Bank premises and equipment, net	5,591	5,843
Other real estate owned	257	1,325
Bank owned life insurance	11,487	11,390
Federal Home Loan Bank stock	3,050	3,050
Goodwill	23,577	23,577
Core deposit intangibles	1,094	1,198
Accrued interest receivable and other assets	18,777	18,304
Total assets	$ 766,690	$ 777,594
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits:		
Non-interest bearing	$ 165,753	$ 173,867
Interest bearing	478,424	476,628
Total deposits	644,177	650,495
Short-term borrowings		10,000
Long-term debt	4,000	4,000
Junior subordinated deferrable interest debentures	5,155	5,155
Accrued interest payable and other liabilities	13,815	10,553
Total liabilities	667,147	680,203
Commitments and contingencies (Note 10)		
Shareholders equity:		
Preferred stock, no par value, $1,000 per share liquidation preference; 10,000,000 shares authorized; Series A, no par value, 7,000 issued and outstanding	6,875	6,864
Common stock, no par value; 80,000,000 authorized; issued and outstanding 9,232,654 at March 31, 2011 and 9,109,154 at December 31, 2010	38,987	38,428
Non-voting common stock, 1,000,000 authorized; issued and outstanding 258,862 at March 31, 2011 and at December 31, 2010	1,317	1,317
Retained earnings	51,306	49,815
Accumulated other comprehensive income, net of tax	1,058	967

Total shareholders equity		99,543		97,391
Total liabilities and shareholders equity	$	766,690	$	777,594

See notes to unaudited consolidated financial statements.

Table of Contents

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except earnings per share amounts)	For the Three Months Ended March 31, 2011	2010
INTEREST INCOME:		
Interest and fees on loans	$ 6,462	$ 6,778
Interest on deposits in other banks	50	23
Interest on Federal funds sold	1	
Interest and dividends on investment securities:		
Taxable	1,097	1,630
Exempt from Federal income taxes	800	757
Total interest income	8,410	9,188
INTEREST EXPENSE:		
Interest on deposits	717	1,053
Interest on junior subordinated deferrable interest debentures	25	23
Other	70	126
Total interest expense	812	1,202
Net interest income before provision for credit losses	7,598	7,986
PROVISION FOR CREDIT LOSSES	100	600
Net interest income after provision for credit losses	7,498	7,386
NON-INTEREST INCOME:		
Service charges	699	861
Appreciation in cash surrender value of bank owned life insurance	97	97
Loan placement fees	57	28
Gain on sale of other real estate owned	545	
Net realized (loss) gains on sales and calls of investment securities	(16)	21
Total impairment on investment securities	23	
Decrease in fair value recognized in other comprehensive income	(54)	
Net impairment loss recognized in earnings	(31)	
Federal Home Loan Bank dividends	2	2
Other income	395	325
Total non-interest income	1,748	1,334
NON-INTEREST EXPENSES:		
Salaries and employee benefits	4,078	3,747
Occupancy and equipment	934	926
Regulatory assessments	289	300
Data processing expense	276	286
Advertising	184	192
Audit and accounting fees	112	114
Legal fees	93	122
Other real estate owned	9	314
Amortization of core deposit intangibles	104	104
Other expense	1,074	1,099
Total non-interest expenses	7,153	7,204
Income before provision for income taxes	2,093	1,516
PROVISION FOR INCOME TAXES	505	224
Net income	$ 1,588	$ 1,292
Net income	$ 1,588	$ 1,292

Preferred stock dividends and accretion		99		99
Net income available to common shareholders	$	1,489	$	1,193
Net income per common share:				
Basic earnings per common share	$	0.16	$	0.13
Weighted average common shares used in basic computation		9,475,444		8,969,687
Diluted earnings per common share	$	0.16	$	0.13
Weighted average common shares used in diluted computation		9,503,313		9,082,070

See notes to unaudited consolidated financial statements.

Table of Contents

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (In thousands)

	For the Three Months Ended March 31, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,588	$ 1,292
Adjustments to reconcile net income to net cash provided by operating activities:		
Net increase (decrease) in deferred loan fees	135	(1)
Depreciation	309	323
Accretion	(186)	(369)
Amortization	710	474
Stock-based compensation	50	56
Tax benefit from exercise of stock options	(81)	(2)
Provision for credit losses	100	600
Net other than temporary impairment losses on investment securities	31	
Net realized losses (gains) on sales and calls of available-for-sale investment securities	16	(21)
Net loss on sale and disposal of equipment		(5)
Net gain on sale of other real estate owned	(545)	
Write down of other real estate owned and other property		283
Increase in bank owned life insurance, net of expenses	(97)	(97)
Net (increase) decrease in accrued interest receivable and other assets	(698)	677
Net decrease in prepaid FDIC assessments	252	226
Net increase (decrease) in accrued interest payable and other liabilities	3,096	(50)
Provision for deferred income taxes	(9)	(876)
Net cash provided by operating activities	4,671	2,510
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available-for-sale investment securities	(25,383)	(3,010)
Proceeds from sales or calls of available-for-sale investment securities	594	3,183
Proceeds from maturity and principal repayments of available-for-sale investment securities	8,398	6,998
Net decrease in loans	9,230	7,113
Proceeds from sale of other real estate owned	1,876	
Purchases of premises and equipment	(57)	(39)
Proceeds from sale of premises and equipment		5
Net cash (used in) provided by investing activities	(5,342)	14,250
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in demand, interest bearing and savings deposits	(1,339)	11,202
Net decrease in time deposits	(4,979)	(15,076)
Repayments of short-term borrowings to Federal Home Loan Bank	(10,000)	(5,000)
Proceeds from exercise of stock options	428	444
Tax benefit from exercise of stock options	81	2
Cash paid for preferred stock dividends	(88)	(88)
Net cash used in financing activities	(15,897)	(8,516)
(Decrease) increase in cash and cash equivalents	(16,568)	8,244
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	100,999	48,680
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 84,431	$ 56,924
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid during the year for:		

Interest	$	959	$	1,414
Income taxes	$	385	$	
Non-Cash Investing Activities:				
Net pre-tax change in unrealized gain on available-for-sale investment securities	$	155	$	2,051
Non-Cash Financing Activities:				
Transfer of loans to other real estate owned	$	95	$	
Accrued preferred stock dividends	$	44	$	44

See notes to unaudited consolidated financial statements.

Table of Contents

CENTRAL VALLEY COMMUNITY BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The interim unaudited consolidated financial statements of Central Valley Community Bancorp and subsidiary have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). These interim consolidated financial statements include the accounts of Central Valley Community Bancorp and its wholly owned subsidiary Central Valley Community Bank (the Bank) (collectively, the Company). All significant intercompany accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The Company believes that the disclosures are adequate to make the information presented not misleading. These interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company s 2010 Annual Report to Shareholders on Form 10-K. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company s financial position at March 31, 2011 and December 31, 2010, and the results of its operations for the three month interim periods ended March 31, 2011 and March 31, 2010 and its cash flows for the three month interim periods ended March 31, 2011 and March 31, 2010 have been included. Certain reclassifications have been made to prior year amounts to conform to the 2011 presentation. The results of operations for interim periods are not necessarily indicative of results for the full year.

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Management has determined that since all of the banking products and services offered by the Company are available in each branch of the Bank, all branches are located within the same economic environment and management does not allocate resources based on the performance of different lending or transaction activities, it is appropriate to aggregate the Bank branches and report them as a single operating segment. No customer accounts for more than 10 percent of revenues for the Company or the Bank.

Recent Accounting Pronouncements

Determination of Whether a Restructuring is a Troubled Debt Restructuring

In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-02, *A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring*. This ASU provides for a more consistent application of the accounting guidance for troubled debt restructurings. This ASU clarified guidance on a creditor s evaluation of whether it has granted a

concession to a borrower, and clarified guidance to determine if a borrower is experiencing financial difficulties. This ASU also finalized the disclosures required in a creditor s financial statements related to troubled debt restructurings. This standard is effective for interim or annual periods beginning on or after June 15, 2011 and should be applied retrospectively to the beginning of the annual period of adoption. Early adoption is permitted. Management does not expect the adoption of this standard will have a significant impact on the Company s financial position, results of operations or cash flows.

Impact of New Financial Accounting Standards

Fair Value Measurements and Disclosures

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements (ASU 10-06). ASU 10-06 revises two disclosure requirements concerning fair value measurements and clarifies two others. It requires separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It will also require the presentation of purchases, sales, issuances and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and non-recurring fair value measurements. The Company s disclosures about fair value measurements are presented in Note 5: Fair Value Measurements. These new disclosure requirements were adopted by the Company in the first quarter of 2010, and they did not have a material impact on the Company s financial position, results of operations, cash flows, or disclosures.

Table of Contents

Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses

In July 2010, the FASB issued Accounting Standards Update No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.* This standard expands disclosures about credit quality of financing receivables and the allowance for loan losses. The standard will require the Company to expand disclosures about the credit quality of our loans and the related reserves against them. The extra disclosures will include disaggregated matters related to our past due loans, credit quality indicators, and modifications of loans. The Company adopted the provisions of this standard on January 1, 2011, and they did not have a material impact on the Company s financial position or results of operations.

Business Combinations

In December 2010, FASB issued ASU 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations.* This ASU reflects the decision reached in EITF Issue No. 10-G. The amendments in this ASU affect any public entity as defined by Topic 805, *Business Combinations* that enters into business combinations that are material on an individual or aggregate basis. The amendments in this ASU specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company adopted this standard on January 1, 2011, and it did not have a material impact on the Company s financial position or results of operations.

Note 2. Share-Based Compensation

For the three month periods ended March 31, 2011 and 2010, the compensation cost recognized for stock option compensation was $50,000 and $56,000, respectively. The recognized tax benefit for stock option compensation expense was $9,000 and $13,000, for the three month periods ended March 31, 2011 and 2010, respectively.

The Company bases the fair value of the options granted on the date of grant using a Black-Scholes Merton option pricing model that uses assumptions based on expected option life and the level of estimated forfeitures, expected stock volatility, risk free interest rate, and dividend yield. The expected term of the Company s option s was determined under the applicable guidance for estimating expected term of options. Stock volatility is based on the historical volatility of the Company s stock. The risk-free rate is based on the U. S. Treasury yield curve for the periods within the contractual life of the options in effect at the time of grant. The compensation cost for options granted is based on the weighted average grant date fair value per share.

No options to purchase shares of the Company s common stock were issued in the first quarters of 2011 or 2010 from any of the Company s stock based compensation plans.

A summary of the combined activity of the Company s Stock Based Compensation Plans for the three month period ended March 31, 2011 follows:

	Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)		Aggregate Intrinsic Value
Options outstanding at January 1, 2011	707,129					
Options exercised	(123,500)	$	3.46			
Options canceled	(8,750)	$	6.40			
Options outstanding at March 31, 2011	574,879	$	8.15	4.26	$	179
Options vested or expected to vest at March 31, 2011	554,224	$	8.22	5.90	$	174
Options exercisable March 31, 2011	447,491	$	8.75	3.11	$	141

No options were granted during the three month periods ended March 31, 2011 or 2010.

The total intrinsic value of 123,500 options exercised in the three months ended March 31, 2011 was $296,000.

Cash received from options exercised for the three months ended March 31, 2011 was $428,000. The actual tax benefit realized for the tax deductions from options exercised totaled $81,000 for three months ended March 31, 2011.

As of March 31, 2011, there was $340,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all plans. The cost is expected to be recognized over a weighted average period of 2.9 years.

Table of Contents

Note 3. Earnings per share

Basic earnings per share (EPS), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options or warrants, stock appreciation rights settled in stock or restricted stock awards, result in the issuance of common stock which shares in the earnings of the Company. There was no difference in the net income used in the calculation of basic earnings per share and diluted earnings per share for the three month periods ended March 31, 2011 or 2010.

A reconciliation of the numerators and denominators of the basic and diluted EPS computations is as follows:

Basic Earnings Per Share In thousands (except share and per share amounts)	Three Months Ended March 31, 2011		2010	
Net income	$	1,588	$	1,292
Less: Preferred stock dividends and accretion		99		99
Income available to common shareholders	$	1,489	$	1,193
Weighted average shares outstanding		9,475,444		8,969,687
Net income per common share	$	0.16	$	0.13

Diluted Earnings Per Share In thousands (except share and per share amounts)	Three Months Ended March 31, 2011		2010	
Net income	$	1,588	$	1,292
Less: Preferred stock dividends and accretion		99		99
Income available to common shareholders	$	1,489	$	1,193
Weighted average shares outstanding		9,475,444		8,969,687
Effect of dilutive stock options		27,869		112,383
Weighted average shares of common stock and common stock equivalents		9,503,313		9,082,070
Net income per diluted common share	$	0.16	$	0.13

Note 4. Investments

The investment portfolio consists primarily of agency securities, mortgage backed securities, and municipal securities all of which are classified available-for-sale. As of March 31, 2011, $128,118,000 was held as collateral for borrowing arrangements, public funds, and for other purposes.

The fair value of the available-for-sale investment portfolio reflected an unrealized gain of $1,798,000 at March 31, 2011 compared to an unrealized gain of $1,643,000 at December 31, 2010.

The following table sets forth the carrying values and estimated fair values of our investment securities portfolio at the dates indicated (in thousands):

	March 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities				
Debt Securities:				
U.S. Government agencies	$ 175	$ 5	$	$ 180
Obligations of states and political subdivisions	76,475	2,673	(1,115)	78,033
U.S. Government agencies collateralized by mortgage obligations	103,831	1,649	(648)	104,832
Other collateralized mortgage obligations	17,528	539	(1,355)	16,712
Other equity securities	7,596	50		7,646
	$ 205,605	$ 4,916	$ (3,118)	$ 207,403

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities				
Debt Securities:				
U.S. Government agencies	$ 190	$ 5	$	$ 195
Obligations of states and political subdivisions	74,598	1,884	(1,432)	75,050
U.S. Government agencies collateralized by mortgage obligations	88,105	2,092	(120)	90,077
Other collateralized mortgage obligations	18,661	506	(1,329)	17,838
Corporate debt securities	500	4		504
Other equity securities	7,628	33		7,661
	$ 189,682	$ 4,524	$ (2,881)	$ 191,325

Table of Contents

Investment securities with unrealized losses as of the dates indicated are summarized and classified according to the duration of the loss period as follows (in thousands):

	March 31, 2011					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities						
Debt Securities:						
Obligations of states and political subdivisions	$ 16,516	$ (570)	$ 3,185	$ (545)	$ 19,701	$ (1,115)
U.S. Government agencies collateralized by mortgage obligations	27,468	(648)			27,468	(648)
Other collateralized mortgage obligations			9,416	(1,355)	9,416	(1,355)
	$ 43,984	$ (1,218)	$ 12,601	$ (1,900)	$ 56,585	$ (3,118)

	December 31, 2010					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities						
Debt Securities:						
Obligations of states and political subdivisions	$ 24,782	$ (904)	$ 3,168	$ (528)	$ 27,950	$ (1,432)
U.S. Government agencies collateralized by mortgage obligations	9,131	(120)			9,131	(120)
Other collateralized mortgage obligations	286	(2)	10,136	(1,327)	10,422	(1,329)
	$ 34,199	$ (1,026)	$ 13,304	$ (1,855)	$ 47,503	$ (2,881)

As of March 31, 2011, the Company performed an analysis of the investment portfolio to determine whether any of the investments held in the portfolio had an other-than-temporary impairment (OTTI). Management evaluated all available-for-sale investment securities with an unrealized loss at March 31, 2011 and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at March 31, 2011 greater than 10% of the recorded book value on that date, or which had an unrealized loss of more than $10,000. In addition, management reviewed all private label residential mortgage backed securities (PLRMBS) at March 31, 2011.

For those bonds that met the evaluation criteria management obtained and reviewed the most recently published national credit ratings for those bonds. For those bonds that were municipal debt securities with an investment grade rating by the rating agencies, management also evaluated the financial condition of the municipality and any applicable municipal bond insurance provider and concluded that no credit related impairment existed.

Table of Contents

The evaluation for PLRMBS also includes estimating projected cash flows that the Company is likely to collect based on an assessment of all available information about the applicable security on an individual basis, the structure of the security, and certain assumptions, such as the remaining payment terms for the security, prepayment speeds, default rates, loss severity on the collateral supporting the security based on underlying loan-level borrower and loan characteristics, expected housing price changes, and interest rate assumptions, to determine whether the Company will recover the entire amortized cost basis of the security. In performing a detailed cash flow analysis, the Company identified the best estimate of the cash flows expected to be collected. If this estimate results in a present value of expected cash flows (discounted at the security s effective yield) that is less than the amortized cost basis of the security, an OTTI is considered to have occurred.

To assess whether it expects to recover the entire amortized cost basis of its PLRMBS, the Company performed a cash flow analysis for all of its PLRMBS as of March 31, 2011. In performing the cash flow analysis for each security, the Company uses a third-party model. The model considers borrower characteristics and the particular attributes of the loans underlying the Company s securities, in conjunction with assumptions about future changes in home prices and other assumptions, to project prepayments, default rates, and loss severities.

The month-by-month projections of future loan performance are allocated to the various security classes in each securitization structure in accordance with the structure s prescribed cash flow and loss allocation rules. When the credit enhancement for the senior securities in a securitization is derived from the presence of subordinated securities, losses are allocated first to the subordinated securities until their principal balance is reduced to zero. The projected cash flows are based on a number of assumptions and expectations, and the results of these models can vary significantly with changes in assumptions and expectations. The scenario of cash flows determined based on the model approach described above reflects a best-estimate scenario.

At each quarter end, the Company compares the present value of the cash flows expected to be collected on its PLRMBS to the amortized cost basis of the securities to determine whether a credit loss exists.

The unrealized losses associated with private residential PLRMBS are primarily driven by higher projected collateral losses, wider credit spreads, and changes in interest rates. The Company assesses for credit impairment using a discounted cash flow model. The key assumptions include default rates, severities, discount rates and prepayment rates. Losses are estimated to a security by forecasting the underlying mortgage loans in each transaction. The forecasted loan performance is used to project cash flows to the various tranches in the structure. Based upon management s assessment of the expected credit losses of the security given the performance of the underlying collateral compared with our credit enhancement (which occurs as a result of credit loss protection provided by subordinated tranches), the Company expects to recover the entire amortized cost basis of these securities, with the exception of certain securities for which OTTI was recorded.

U.S. Government Agencies

At March 31, 2011, the Company held one U.S. Government agency security and it was not in a loss position.

Obligations of States and Political Subdivisions

At March 31, 2011, the Company held 163 obligations of states and political subdivision securities of which 36 were in a loss position for less than 12 months and seven were in a loss position and have been in a loss position for 12 months or more. The unrealized losses on the Company s investments in obligations of states and political subdivision securities were caused by interest rate changes. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell, and it is more likely than not that it will not be required to sell those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at March 31, 2011.

U.S. Government Agencies Collateralized by Mortgage Obligations

At March 31, 2011, the Company held 140 U.S. Government agency securities collateralized by mortgage obligation securities of which 15 were in a loss position for less than 12 months. The unrealized losses on the Company s investments in U.S. government agencies collateralized by mortgage obligations were caused by interest rate changes. The contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company s investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell, and it is more likely than not that it will not be required to sell those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at March 31, 2011.

Other Collateralized Mortgage Obligations

At March 31, 2011, the Company had a total of 36 PLRMBS with a remaining principal balance of $17,528,000 and a net unrealized loss of approximately $816,000. Eight of these securities account for $1,355,000 of the unrealized loss at March 31, 2011 offset by 28 of these securities with gains totaling $539,000. 11 of these PLRMBS with a remaining principal balance of $11,084,000 had credit ratings below investment grade. The Company continues to perform extensive analyses on these securities as well as all whole loan CMOs.

Table of Contents

Several of these investment securities continue to demonstrate cash flows and credit support as expected and the expected cash flows of the security discounted at the security s effective yield are greater than the book value of the security, therefore management does not consider these securities to be other than temporarily impaired. No OTTI charges related to PLRMBS were recorded during the first quarter of 2011.

Investment securities as of March 31, 2011 with credit ratings below investment grade are summarized in the table below (dollars in thousands):

Description	Book Value	Market Value	Unrealized Gain (Loss)	Rating	Agency	12 Month Historical Prepayment Rates %	Projected Default Rates %	Projected Severity Rates %	Original Purchase Price %	Current Credit Enhancement %
PHHAM	$ 2,786	$ 2,516	$ (270)	C	Fitch	13.56	24.29	60.00	97.25	2.70
RAST	2,107	1,990	(117)	D	Fitch	14.61	25.09	76.95	98.50	-0.49
CWALT 1	842	696	(146)	C	Fitch	10.02	28.21	68.21	100.73	6.18
CWALT 2	387	292	(95)	C	Fitch	9.79	30.49	42.04	101.38	4.95
CWALT 3	1,715	1,437	(278)	CCC	S&P	10.69	26.05	71.13	100.25	9.75
FHAMS	2,432	2,111	(321)	C	Fitch	11.74	21.23	66.74	95.00	1.12
CMFG	220	222	2	CC	Fitch	21.02	20.81	45.00	93.25	3.91
CWHL	21	22	1	BB-	S&P	20.22	12.98	29.33	97.42	7.14
BAALT	172	127	(45)	CCC	Fitch	7.90	10.41	60.00	97.24	5.25
ABFS	331	246	(85)	D	S&P	6.70	25.0	75.00	97.46	0.00
CONHE	71	79	8	B3	Moodys	2.90	10.00	60.00	86.39	0.064
TOTALS	$ 11,084	$ 9,738	$ (1,346)							

The following tables provide a roll forward for the three month periods ended March 31, 2011 and 2010 of investment securities credit losses recorded in earnings. The beginning balance represents the credit loss component for which OTTI occurred on debt securities in prior periods. Additions represent the first time a debt security was credit impaired or when subsequent credit impairments have occurred on securities for which OTTI credit losses have been previously recognized.

(Dollars in thousands)	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010
Beginning balance	$ 1,387	$ 300
Amounts related to credit loss for which an OTTI charge was not previously recognized	31	
Increases to the amount related to credit loss for which OTTI was previously recognized		
Realized losses for securities sold		(300)
Ending balance	$ 1,418	$

Other Equity Securities

At March 31, 2011, the Company had a total of two mutual fund equity investments, one of which had been in an unrealized loss position for more than 12 months. Based on management s evaluation of the nature of the decline in net asset value on this mutual fund, the Company recorded an OTTI charge of $31,000 during the three month period ended March 31, 2011.

Table of Contents

The amortized cost and estimated fair value of investment securities at March 31, 2011 and December 31, 2010 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

March 31, 2011 (in thousands)	**Amortized Cost**	**Estimated Fair Value**
Within one year	$ 175	$ 180
After one year through five years	7,030	7,586
After five years through ten years	18,513	18,885
After ten years	50,932	51,562
	76,650	78,213
Investment securities not due at a single maturity date:		
U.S. Government agencies collateralized by mortgage obligations	103,831	104,832
Other collateralized mortgage obligations	17,528	16,712
Other equity securities	7,596	7,646
	$ 205,605	$ 207,403

December 31, 2010	**Amortized Cost**	**Estimated Fair Value**
Within one year	$ 500	$ 504
After one year through five years	6,350	6,819
After five years through ten years	18,274	18,664
After ten years	50,164	49,762
	75,288	75,749
Investment securities not due at a single maturity date:		
U.S. Government agencies collateralized by mortgage obligations	88,105	90,077
Other collateralized mortgage obligations	18,661	17,838
Other equity securities	7,628	7,661
Total	$ 189,682	$ 191,325

Table of Contents

Note 5. Fair Value Measurements

The estimated carrying and fair values of the Company s financial instruments are as follows (in thousands):

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(In thousands)		
Financial assets:				
Cash and due from banks	$ 15,274	$ 15,274	$ 11,357	$ 11,357
Interest-earning deposits in other banks	68,296	68,296	89,042	89,042
Federal funds sold	861	861	600	600
Available-for-sale investment securities	207,403	207,403	191,325	191,325
Loans, net	411,023	396,576	420,583	405,876
Bank owned life insurance	11,487	11,487	11,390	11,390
Federal Home Loan Bank stock	3,050	3,050	3,050	3,050
Accrued interest receivable	3,079	3,079	3,467	3,467
Financial liabilities:				
Deposits	$ 644,177	$ 645,055	$ 650,495	$ 651,668
Short-term borrowings			10,000	10,000
Long-term debt	4,000	4,204	4,000	4,256
Junior subordinated deferrable interest debentures	5,155	2,320	5,155	2,320
Accrued interest payable	328	328	475	475

These estimates do not reflect any premium or discount that could result from offering the Company s entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. Because no market exists for a significant portion of the Company s financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.

The following methods and assumptions were used to estimate the fair value of financial instruments. For cash and due from banks, interest-earning deposits in other banks, Federal funds sold, variable-rate loans, bank owned life insurance, accrued interest receivable and

payable, FHLB stock, demand deposits and short-term borrowings, the carrying amount is estimated to be fair value. For investment securities, fair values are based on quoted market prices, quoted market prices for similar securities and indications of value provided by brokers. The fair values for fixed-rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness. Fair values for fixed-rate certificates of deposit are estimated using discounted cash flow analyses using interest rates offered at each reporting date by the Company for certificates with similar remaining maturities. The fair value of long-term debt and subordinated debentures was determined based on the current market for like-kind instruments of a similar maturity and structure. The fair values of commitments are estimated using the fees currently charged to enter into similar agreements and are not significant and, therefore, not included in the above table.

Fair Value Hierarchy

In accordance with applicable guidance, the Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1 Quoted market prices for identical instruments traded in active exchange markets.

Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Company s estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

Table of Contents

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, we report the transfer at the beginning of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings. During the three months ended March 31, 2011, no transfers between levels occurred.

Assets Recorded at Fair Value

The following tables present information about the Company s assets and liabilities measured at fair value on a recurring and non-recurring basis as of March 31, 2011:

Recurring Basis

The Company is required or permitted to record the following assets at fair value on a recurring basis under other accounting pronouncements as of March 31, 2011 (in thousands).

Description	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Available-for-sale securities				
Debt Securities:				
U.S. Government agencies	$ 180	$	$ 180	$
Obligations of states and political subdivisions	78,033		78,033	
U.S. Government agencies collateralized by mortgage obligations	104,832		104,832	
Other collateralized mortgage obligations	16,712		16,712	
Other equity securities	7,646	7,646		
Total assets and liabilities measured at fair value	$ 207,403	$ 7,646	$ 199,757	$

Securities in Level 1 are mutual funds and fair values are based on quoted market prices for identical instruments traded in active markets. Fair values for available-for-sale investment securities in Level 2 are based on quoted market prices for similar securities.

The balance of Level 3 assets measured at fair value on a recurring basis was zero for the year ended December 31, 2010. No changes occurred in the first three months of 2011.

There were no liabilities measured at fair value on a recurring basis at March 31, 2011.

Non-recurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. These include assets that are measured at the lower of cost or fair value that were recognized at fair value which was below cost at March 31, 2011 (in thousands).

Description	**Fair Value**	**Level 1**	**Level 2**	**Level 3**	**Total Losses in the Year**
Impaired loans:					
Commercial:					
Commercial and industrial	$ 178	$	$	$ 178	$ (1)
Agricultural production					
Total commercial	178			178	(1)
Real estate:					
Owner occupied	876			876	(188)
Real estate-construction and other land loans	4,698			4,698	(835)
Commercial real estate					
Agricultural real estate					
Other	1,900			1,900	(658)
Total real estate	7,474			7,474	(1,681)
Consumer:					
Equity loans and lines of credit					
Consumer and installment	62			62	(20)
Total consumer	62			62	(20)
Lease financing receivable					
Total impaired loans	7,714			7,714	(1,702)
Other real estate owned	257			257	
Other					
Total assets and liabilities measured at fair value on a non-recurring basis	$ 7,971	$	$	$ 7,971	$ (1,702)

Table of Contents

The fair value of impaired loans and other real estate owned is based on the fair value of the collateral for all collateral dependent loans and for other impaired loans is estimated using a discounted cash flow model. Impaired loans and other real estate owned were determined to be collateral dependent and categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements. There were no changes in valuation techniques used during the three months ended March 31, 2011 or the year ended December 31, 2010.

Impaired loans with a carrying value of $9,416,000 were written down to their fair value of $7,714,000, resulting in a related valuation allowance of $1,702,000 at March 31, 2011. The valuation allowance represents specific allocations of the allowance for credit losses for impaired loans.

The fair value of real estate is based on property appraisals at the time of transfer and as appropriate thereafter, less estimated costs to sell. Other real estate owned is periodically reviewed to determine whether the property continues to be carried at the lower of its recorded book value or estimated fair value, net of estimated selling costs. During the three months ended March 31, 2011, no other real estate properties were written down.

There were no liabilities measured at fair value on a non-recurring basis at March 31, 2011.

The following tables present information about the Company s assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2010:

Recurring Basis

The Company is required or permitted to record the following assets at fair value on a recurring basis under other accounting pronouncements (in thousands).

Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities				
Debt Securities:				
U.S. Government agencies	$ 195	$	$ 195	$
Obligations of states and political subdivisions	75,050		75,050	
U.S. Government agencies collateralized by mortgage obligations	90,077		90,077	
Other collateralized mortgage obligations	17,838		17,838	
Corporate debt securities	504		504	
Other equity securities	7,661	7,661		
Total assets measured at fair value	$ 191,325	$ 7,661	$ 183,664	$

Securities in Level 1 are mutual funds and fair values are based on quoted market prices for identical instruments traded in active markets. Fair values for available-for-sale investment securities in Level 2 are based on quoted market prices for similar securities.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows for the year ended December 31, 2010 (in thousands).

	Balance, beginning of year	Net income	Other comprehensive income	Purchases, sales, and principal payments	Transfers into Level 3	Transfers out of Level 3	Balance, end of year
Available-for-sale securities							
Other collateralized mortgage obligations	$ 5,724	$ 13	$ 93	$ (2,752)	$	$ (3,078)	$
Corporate debt securities	785	235		(1,020)			
Other equity securities	7,588					(7,588)	
Total assets and liabilities measured at fair value	$ 14,097	$ 248	$ 93	$ (3,772)	$	$ (10,666)	$

Table of Contents

Gains and losses (realized and unrealized) included in earnings (or changes in net assets) for the year ended December 31, 2010 totaled $248,000 and were included in non-interest income.

There were no liabilities measured at fair value on a recurring basis at December 31, 2010.

Non-recurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. These include assets that are measured at the lower of cost or fair value that were recognized at fair value which was below cost at December 31, 2010 (in thousands).

Description	Fair Value	Level 1	Level 2	Level 3	Total Losses in the Year
Impaired loans:					
Commercial and industrial	$ 980	$	$	$ 980	$ (248)
Real estate:					
Owner occupied	1,016			1,016	(261)
Real estate-construction and other land loans	4,773			4,773	(1,170)
Commercial real estate	679			679	(47)
Other real estate	1,865			1,865	(420)
Total impaired loans	9,313			9,313	(2,146)
Other real estate owned	1,325			1,325	(309)
Other	98			98	
Total assets measured at fair value on a non-recurring basis	$ 10,736	$	$	$ 10,736	$ (2,455)

The fair value of impaired loans and other real estate owned is based on the fair value of the collateral for all collateral dependent loans and for other impaired loans is estimated using a discounted cash flow model. Impaired loans and other real estate owned were determined to be collateral dependent and categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements. There were no changes in valuation techniques used during the year ended December 31, 2010.

In accordance with the provisions of ASC 360-10, impaired loans with a carrying value of $11,436,000 were written down to their fair value of $9,313,000, resulting in an impairment charge of $2,124,000. The valuation allowance represents specific allocations for the allowance for credit losses for impaired loans.

The fair value of real estate is based on property appraisals at the time of transfer and as appropriate thereafter, less estimated costs to sell. Other real estate owned is periodically reviewed to determine whether the property continues to be carried at the lower of its recorded book value or estimated fair value, net of estimated selling costs. In 2010, other real estate properties were written down $309,000 to their estimated fair values of $1,325,000. In 2010, other repossessed assets were recorded at their estimated realizable value of $98,000.

There were no liabilities measured at fair value on a non-recurring basis at December 31, 2010.

Table of Contents

Note 6. LOANS

Outstanding loans are summarized as follows:

Loan Type	March 31, 2011	% of Total loans	December 31, 2010	% of Total loans
	(Dollars in thousands)			
Commercial:				
Commercial and industrial	$ 99,236	23.5%	$ 104,387	24.1%
Agricultural production	44,024	10.4%	38,787	9.0%
Total commercial	143,260	33.9%	143,174	33.1%
Real estate:				
Owner occupied	111,754	26.4%	111,888	25.9%
Real estate-construction and other land loans	31,865	7.5%	32,039	7.4%
Commercial real estate	60,892	14.4%	63,627	14.7%
Agricultural real estate	18,201	4.3%	22,100	5.1%
Other	16,464	3.9%	16,254	3.8%
Total real estate	239,176	56.5%	245,908	56.9%
Consumer:				
Equity loans and lines of credit	31,950	7.6%	34,521	8.0%
Consumer and installment	8,289	2.0%	8,493	2.0%
Total consumer	40,239	9.6%	43,014	10.0%
Deferred loan fees, net	(633)		(499)	
Total gross loans	422,042	100.0%	431,597	100.0%
Allowance for credit losses	(11,019)		(11,014)	
Total loans	$ 411,023		$ 420,583	

At March 31, 2011 and December 31, 2010, loans originated under Small Business Administration (SBA) programs totaling $30,242,000 and $30,775,000, respectively, were included in the real estate and commercial categories.

Note 7. ALLOWANCE FOR CREDIT LOSSES

Changes in the allowance for credit losses were as follows (in thousands):

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010
Balance, beginning of year	$ 11,014	$ 10,200
Provision charged to operations	100	600
Losses charged to allowance	(321)	(476)
Recoveries	226	271

Balance, end of year	$	11,019	$	10,595

Table of Contents

The following table shows the allocation of the allowance for loan losses as of and for the period ended March 31, 2011 by class of loan and by impairment methodology (in thousands):

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
Beginning balance	$ 2,830	$ 6,767	$ 1,179	$ 238	$ 11,014
Charge-offs	(156)	(26)	(102)	(37)	(321)
Recoveries	174	23	14	15	226
Provision	112	(228)	(93)	309	100
Ending balance	$ 2,960	$ 6,536	$ 998	$ 525	$ 11,019
Ending balance: individually evaluated for impairment	$ 1	$ 1,681	$ 20	$	$ 1,702
Ending balance: collectively evaluated for impairment	$ 2,959	$ 4,856	$ 978	$ 525	$ 9,318
Loans:					
Ending balance	$ 143,260	$ 239,176	$ 40,239	$	$ 422,675
Ending balance: individually evaluated for impairment	$ 1,404	$ 13,581	$ 604	$	$ 15,589
Ending balance: collectively evaluated for impairment	$ 141,856	$ 225,595	$ 39,635	$	$ 407,086

The following table shows the allocation of the allowance for loan losses at December 31, 2010 by class of loan and by impairment methodology (in thousands):

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
Ending balance	$ 2,830	$ 6,767	$ 1,179	$ 238	$ 11,014
Ending balance: individually evaluated for impairment	$ 226	$ 1,898	$	$	$ 2,124
Ending balance: collectively evaluated for impairment	$ 2,604	$ 4,869	$ 1,179	$ 238	$ 8,890
Loans:					
Ending balance	$ 143,174	$ 245,908	$ 43,014	$	$ 432,096
Ending balance: individually evaluated for impairment	$ 2,356	$ 15,717	$ 488	$	$ 18,561
Ending balance: collectively evaluated for impairment	$ 140,818	$ 230,191	$ 42,526	$	$ 413,535

The following table shows the loan portfolio allocated by management s internal risk ratings at March 31, 2011 (in thousands):

Commercial Credit Exposure

Credit Risk Profile by Internally Assigned Grade

	Commercial and Industrial	Agricultural Production	Owner Occupied	Real Estate Construction and Other Land Loans	Commercial Real Estate	Agricultural Real Estate	Other Real Estate
Grade:							
Pass	$ 87,282	$ 44,020	$ 103,870	$ 10,464	$ 46,129	$ 15,799	$ 12,445
Special Mention	4,650	4	3,554	7,118	4,320	2,402	1,758
Substandard	7,304		4,330	14,283	10,443		2,261
Doubtful							
Total	$ 99,236	$ 44,024	$ 111,754	$ 31,865	$ 60,892	$ 18,201	$ 16,464

Table of Contents

Consumer Credit Exposure

Credit Risk Profile by Internally Assigned Grade

	Equity Loans and Lines of Credit	Consumer and Installment
Grade:		
Pass	$ 30,323	$ 7,016
Special mention		
Substandard	1,627	227
Doubtful		
Total	$ 31,950	$ 7,243

Consumer Credit Exposure

Credit Risk Profile Based on Payment Activity

	Credit Cards
Grade:	
Performing	$ 1,046
Non-Performing	
Total	$ 1,046

The following table shows the loan portfolio allocated by management s internal risk ratings at December 31, 2010 (in thousands):

Commercial Credit Exposure

Credit Risk Profile by Internally Assigned Grade

	Commercial and Industrial	Agricultural Production	Owner Occupied	Real Estate Construction and Other Land Loans	Commercial Real Estate	Agricultural Real Estate	Other Real Estate
Grade:							
Pass	$ 92,237	$ 37,683	$ 100,278	$ 10,287	$ 49,294	$ 17,494	$ 9,713
Special Mention	4,305		6,336	6,330	3,118	1,903	1,308
Substandard	7,845	1,104	5,274	15,422	11,215	2,703	5,233
Doubtful							
Total	$ 104,387	$ 38,787	$ 111,888	$ 32,039	$ 63,627	$ 22,100	$ 16,254

Consumer Credit Exposure

Credit Risk Profile by Internally Assigned Grade

	Equity Loans and Lines of Credit	Consumer and Installment
Grade:		
Pass	$ 33,228	$ 7,269
Special mention		
Substandard	1,293	135
Doubtful		
Total	$ 34,521	$ 7,404

Consumer Credit Exposure

Credit Risk Profile Based on Payment Activity

	Credit Cards
Grade:	
Performing	$ 1,089
Non-Performing	
Total	$ 1,089

Table of Contents

The following table shows an aging analysis of the loan portfolio by the time past due at March 31, 2011 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days (nonaccrual)	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days Accruing
Commercial							
Commercial and industrial	$ 101	$ 85	$ 46	$ 232	$ 99,004	$ 99,236	$
Agricultural land and production					44,024	44,024	
Real estate							
Owner occupied	476	316	165	957	110,797	111,754	
Real estate construction and other land loans	1,004		5,533	6,537	25,328	31,865	
Commercial real estate	4,113			4,113	56,779	60,892	
Agricultural real estate					18,201	18,201	
Other					16,464	16,464	
Consumer							
Equity loans and lines of credit	3,255	249		3,504	28,446	31,950	
Consumer and installment	109			109	8,180	8,289	
Total	$ 9,058	$ 650	$ 5,744	$ 15,452	$ 407,223	$ 422,675	$

The following table shows an aging analysis of the loan portfolio by the time past due at December 31, 2010 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days (nonaccrual)	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days Accruing
Commercial							
Commercial and industrial	$ 164	$	$ 180	$ 344	$ 104,043	$ 104,387	$
Agricultural land and production					38,787	38,787	
Real estate							
Owner occupied	863			863	111,025	111,888	
Real estate construction and other land loans			5,634	5,634	26,405	32,039	
Commercial real estate	2,316		726	3,042	60,585	63,627	
Other					38,354	38,354	
Consumer							
Equity loans and lines of credit					34,521	34,521	
Consumer and installment	78			78	8,415	8,493	
Total	$ 3,421	$	$ 6,540	$ 9,961	$ 422,135	$ 432,096	$

Table of Contents

The following table shows information related to impaired loans at and for the three months ended March 31, 2011 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial					
Commercial and industrial	$ 1,225	$ 1,263	$	$ 1,225	$
Agricultural land and production					
Total commercial	1,225	1,263		1,225	
Real estate					
Owner occupied	763	810		763	
Real estate construction and other land loans	1,852	2,056		1,852	
Commercial real estate	1,811	1,823		1,811	
Agricultural real estate					
Other					
Total real estate	4,426	4,689		4,426	
Consumer					
Equity loans and lines of credit	522	535		522	
Consumer and installment					
Total consumer	522	535		522	
Total with no related allowance recorded	$ 6,173	$ 6,487	$	$ 6,173	$
With an allowance recorded:					
Commercial					
Commercial and industrial	$ 179	$ 205	$ 1	$ 179	$
Agricultural land and production					
Total commercial	179	205	1	179	
Real estate					
Owner occupied	1,064	1,086	188	1,064	
Real estate construction and other land loans	5,830	6,288	835	5,830	
Commercial real estate					
Agricultural real estate					
Other	2,261	2,300	658	2,261	
Total real estate	9,155	9,674	1,681	9,155	
Consumer					
Equity loans and lines of credit					
Consumer and installment	82	82	20	82	
Total consumer	82	82	20	82	
Total with an allowance recorded	$ 9,416	$ 9,961	$ 1,702	$ 9,416	$
Total	$ 15,589	$ 16,448	$ 1,702	$ 15,589	$

The following table shows information related to impaired loans at and for the year ended December 31, 2010 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized

With no related allowance recorded:					
Commercial					
Commercial and industrial	$ 1,150	$ 1,174	$	$ 865	$
Agricultural land and production					
Total commercial	1,150	1,174		865	
Real estate					
Owner occupied	1,775	2,147		1,125	
Real estate construction and other land loans	1,885	2,056		2,653	
Commercial real estate	1,828	1,834		1,520	
Other					
Total real estate	5,488	6,037		5,298	
Consumer					
Equity loans and lines of credit	488	506		284	
Consumer and installment					
Total consumer	488	506		284	
Total with no related allowance recorded	$ 7,126	$ 7,717	$	$ 6,447	$

Table of Contents

With an allowance recorded:					
Commercial					
Commercial and industrial	$ 1,206	$ 1,299	$ 227	$ 1,664	$
Agricultural land and production					
Total commercial	1,206	1,299	227	1,664	
Real estate					
Owner occupied	1,276	1,284	260	1,672	
Real estate construction and other land loans	5,942	6,290	1,170	5,995	
Commercial real estate	726	824	47	243	
Other	2,285	2,300	420	1,165	
Total real estate	10,229	10,698	1,897	9,075	
Consumer					
Equity loans and lines of credit				214	
Consumer and installment				251	
Total consumer				465	
Total with an allowance recorded	$ 11,435	$ 11,997	$ 2,124	$ 11,204	$
Total	$ 18,561	$ 19,714	$ 2,124	$ 17,651	$

Nonaccrual loans totaled 15,589,000 and $18,561,000 at March 31, 2011 and December 31, 2010, respectively. Foregone interest on nonaccrual loans totaled $288,000 and $385,000 for the three month periods ended March 31, 2011 and 2010, respectively. There were no accruing loans past due 90 days or more at March 31, 2011 and December 31, 2010.

Included in the impaired and nonaccrual loans above at March 31, 2011 are 13 loans considered troubled debt restructurings totaling $8,290,000. Included in the impaired and nonaccrual loans above are seven loans in the amount of $6,180,000 that were considered to be troubled debt restructurings at December 31, 2010. There are no outstanding commitments to lend additional funds to any of these borrowers.

Note 8. Goodwill and Intangible Assets

Business combinations involving the Company s acquisition of the equity interests or net assets of another enterprise give rise to goodwill. Total goodwill at March 31, 2011 was $23,577,000 consisting of $14,643,000 and $8,934,000 representing the excess of the cost of Service 1st Bank and Bank of Madera County, respectively, over the net amounts assigned to assets acquired and liabilities assumed in the transactions accounted for under the purchase method of accounting. The value of goodwill is ultimately derived from the Bank s ability to generate net earnings after the acquisitions and is not deductible for tax purposes. A decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed at least annually for impairment. We engaged an independent valuation specialist to perform our annual impairment test in the third quarter of 2010 and no impairment was required.

Goodwill is also tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. No such events or circumstances arose during the first quarter of 2011, so goodwill was not required to be retested.

The intangible assets at March 31, 2011 represent the estimated fair value of the core deposit relationships acquired in the acquisition of Service 1st Bank in 2008 of $1,400,000 and the 2005 acquisition of Bank of Madera County of $1,500,000. Core deposit intangibles are being

amortized by the straight-line method over an estimated life of seven years from the date of acquisition. The carrying value of intangible assets at March 31, 2011 was $1,094,000 net of $1,806,000 in accumulated amortization expense. Management evaluates the remaining useful lives quarterly to determine whether events or circumstances warrant a revision to the remaining periods of amortization. Based on the evaluation, no changes to the remaining useful lives was required in the first quarter of 2011. Management engaged an independent valuation specialist to perform our annual impairment test on core deposit intangibles as of September 30, 2010 and determined no impairment was necessary. Amortization expense recognized was $104,000 for the three month periods ended March 31, 2011 and 2010.

Note 9. Comprehensive Income

Total comprehensive income is comprised of unrealized gains, net of taxes, on available-for-sale investment securities, which is the Company s only source of other comprehensive income. Total comprehensive income was $1,679,000 and $2,523,000 for the three months ended March 31, 2011 and 2010, respectively.

At March 31, 2011 and December 31, 2010, accumulated other comprehensive income totaled $1,058,000 and $967,000, respectively, and is reflected, net of taxes, as a component of shareholders equity.

Table of Contents

Note 10. Commitments and Contingencies

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and standby letters of credit**.** These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract or notional amounts of these instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for loans.

Commitments to extend credit amounting to $129,595,000 and $123,676,000 were outstanding at March 31, 2011 and December 31, 2010, respectively. 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 unless waived by the bank. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Included in commitments to extend credit are undisbursed lines of credit totaling $129,230,000 and $123,311,000 at March 31, 2011 and December 31, 2010, respectively. Undisbursed lines of credit are revolving lines of credit whereby customers can repay principal and request principal advances during the term of the loan at their discretion and most expire between one and 12 months.

The Company has undisbursed portions of construction loans totaling $4,055,000 and $2,380,000 as of March 31, 2011 and December 31, 2010, respectively. These commitments are agreements to lend to a customer, subject to meeting certain construction progress requirements established in the contract. The underlying construction loans have fixed expiration dates.

Standby letters of credit and financial guarantees amounting to $365,000 were outstanding at March 31, 2011 and December 31, 2010. Standby letters of credit and financial guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. Most standby letters of credit and guarantees carry a one year term or less. The fair value of the liability related to these standby letters of credit, which represents the fees received for their issuance, was not significant at March 31, 2011 and December 31, 2010. The Company recognizes these fees as revenue over the term of the commitment or when the commitment is used.

The Company generally requires collateral or other security to support financial instruments with credit risk. Management does not anticipate any material loss will result from the outstanding commitments to extend credit, standby letters of credit and financial guarantees.

The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the consolidated financial position or consolidated results of operations of the Company.

Note 11. Income Taxes

The Company files its income taxes on a consolidated basis with its subsidiary. The allocation of income tax expense (benefit) represents each entity s proportionate share of the consolidated provision for income taxes. Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. On the consolidated balance sheets, net deferred tax assets are included in accrued interest receivable and other assets. The Company establishes a tax valuation allowance when it is more likely than not that a recorded tax benefit is not expected to be fully realized. The expense to create the tax valuation is recorded as an additional income tax expense in the period the tax valuation allowance is created. Based on management s analysis as of March 31, 2011, no deferred tax valuation allowance was deemed necessary.

Accounting for uncertainty in income taxes - The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of tax expense in the consolidated statements of income. During the three months ended March 31, 2011, the Company increased its reserve for uncertain tax positions attributable to tax credits and deductions related to enterprise zone activities in California.

Table of Contents

Note 12. Borrowing Arrangements

Federal Home Loan Bank Advances: Advances from the Federal Home Loan Bank (FHLB) of San Francisco consisted of the following:

	Amount	2011 Rate (Dollars in thousands)	Maturity Date
$	4,000	3.59%	February 12, 2013
	4,000		
		Less short-term portion	
$	4,000		

	Amount	2010 Rate (Dollars in thousands)	Maturity Date
$	5,000	3.00%	February 7, 2011
	5,000	3.10%	February 14, 2011
	4,000	3.59%	February 12, 2013
	14,000		
	(10,000)	Less short-term portion	
$	4,000		

FHLB advances are secured by investment securities with amortized costs totaling $30,005,000 and $31,918,000, and market values totaling $31,090,000 and $33,214,000 at March 31, 2011 and December 31, 2010, respectively. The Bank s credit limit varies according to the amount and composition of the investment and loan portfolios pledged as collateral.

As of March 31, 2011 and December 31, 2010, the Company had no Federal funds purchased.

Table of Contents

ITEM 2: MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain matters discussed in this report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained herein that are not historical facts, such as statements regarding the Company s current business strategy and the Company s plans for future development and operations, are based upon current expectations. These statements are forward-looking in nature and involve a number of risks and uncertainties. Such risks and uncertainties include, but are not limited to (1) significant increases in competitive pressure in the banking industry; (2) the impact of changes in interest rates, a decline in economic conditions at the international, national or local level on the Company s results of operations, the Company s ability to continue its internal growth at historical rates, the Company s ability to maintain its net interest margin, and the quality of the Company s earning assets; (3) changes in the regulatory environment; (4) fluctuations in the real estate market; (5) changes in business conditions and inflation; (6) changes in securities markets; and (7) risks associated with acquisitions, relating to difficulty in integrating combined operations and related negative impact on earnings, and incurrence of substantial expenses. Therefore, the information set forth in such forward-looking statements should be carefully considered when evaluating the business prospects of the Company.

When the Company uses in this Quarterly Report on Form 10-Q the words anticipate, estimate, expect, project, intend, commit, and similar expressions, the Company intends to identify forward-looking statements. Such statements are not guarantees of performance and are subject to certain risks, uncertainties and assumptions, including those described in this Quarterly Report on Form 10-Q. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected, projected, intended, committed or believed. The future results and shareholder values of the Company may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results and values are beyond the Company s ability to control or predict. For those statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The Securities and Exchange Commission (SEC) maintains a web site which contains reports, proxy statements, and other information pertaining to registrants that file electronically with the SEC, including the Company. The internet address is: www.sec.gov. In addition, our periodic and current reports are available free of charge on our website at www.cvcb.com as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. We believe that the Company s most critical accounting policies are those which the Company s financial condition depends upon, and which involve the most complex or subjective decisions or assessments.

There have been no material changes to the Company s critical accounting policies during 2011. Please refer to the Company s 2010 Annual Report to Shareholders on Form 10-K for a complete listing of critical accounting policies.

This discussion should be read in conjunction with our unaudited consolidated financial statements, including the notes thereto, appearing elsewhere in this report.

OVERVIEW

First Quarter of 2011

In the first quarter of 2011, our consolidated net income was $1,588,000 compared to net income of $1,292,000 for the same period in 2010. Diluted EPS was $0.16 for the first quarter of 2011 compared to $0.13 for the same period in 2010. The increase in net income is attributed to decreases in the provision for credit losses and an increase in non-interest income, offset by a decrease in net interest income before provision for credit losses. The provision for credit losses was $100,000 for the first quarter of 2011 compared to $600,000 for the first quarter of 2010, a decrease of $500,000. Net interest income before provision for credit losses decreased $388,000 or 4.86%. The yield on average total interest-earning assets decreased 55 basis points comparing the three month period ended March 31, 2011 to the same period in 2010 while interest rates on deposits decreased 22 basis points resulting in a 31 basis point decrease in net interest margin. Net interest margin was 4.67% for the three months ended March 31, 2011 compared to 4.98% for the same period in 2010. Non-interest income increased $414,000 or 31.03% primarily due to a gain on sale of other real estate owned, and non-interest expense decreased $51,000 or 0.71% in the three months ended March 31, 2011 compared to the same period in 2010.

Annualized return on average equity for the first quarter of 2011 was 6.41% compared to 5.53% for the same period in 2010. Total average equity was $99,118,000 for the first quarter of 2011 compared to $93,333,000 for the first quarter of 2010.

Table of Contents

Our average total assets increased $11,833,000 or 1.56% in the three months ended March 31, 2011 compared to the same period of 2010. Total average interest-earning assets increased $13,330,000 or 1.98% comparing the three month period ended March 31, 2011 to the same period of 2010. Average total loans decreased $28,011,000 or 6.17% while average total investments increased $39,617,000 or 16.92% in the three month period ended March 31, 2011 compared to the same period in 2010. Average interest-bearing liabilities decreased $10,993,000 or 2.26% over the same period.

Our net interest margin for the three months ended March 31, 2011 was 4.67% compared to 4.98% for the same period in 2010. The margin decreased principally due to the decrease in yields on interest-earning assets outpacing the decrease in rates on interest-bearing liabilities. The effective yield on interest earning assets decreased 55 basis points to 5.14% for the three month period ended March 31, 2011 compared to 5.69% for the same period in 2010. For the three months ended March 31, 2011, the effective yield on investment securities including Federal funds sold and interest-earning deposits in other banks decreased 133 basis points while the effective yield on loans increased 9 basis points. The cost of total interest-bearing liabilities decreased 29 basis points to 0.67% compared to 0.96% for the same period in 2010. The cost of total deposits, including noninterest bearing accounts decreased 22 basis points to 0.45% for the three months ended March 31, 2011 compared to 0.67% for the same period in 2010.

Net interest income before the provision for credit losses for the three months ended March 31, 2011 was $7,598,000 compared to $7,986,000 for the same period in 2010, a decrease of $388,000 or 4.86%. Net interest income before the provision for credit losses decreased as a result of the decrease in net interest margin as discussed above and a decrease in average loan balances. The Bank had non-accrual loans totaling $15,586,000 at March 31, 2011, compared to $18,561,000 at December 31, 2010 and $18,053,000 at March 31, 2011. The Company had other real estate owned at March 31, 2011 totaling $257,000, compared to $1,325,000 at December 31, 2010, and $2,549,000 at March 31, 2010.

Central Valley Community Bancorp (Company)

We are a central California-based bank holding company for a one-bank subsidiary, Central Valley Community Bank (Bank). We provide traditional commercial banking services to small and medium-sized businesses and individuals in the communities along the Highway 99 corridor in the Fresno, Madera, Merced, Sacramento, Stanislaus, and San Joaquin Counties of central California. Additionally, we have a private banking office in Sacramento County. As a bank holding company, the Company is subject to supervision, examination and regulation by the Federal Reserve Bank.

At March 31, 2011, we had total loans of $422,042,000, total assets of $766,690,000, total deposits of $644,177,000, and shareholders equity of $99,543,000.

Central Valley Community Bank (Bank)

The Bank commenced operations in January 1980 as a state-chartered bank. As a state-chartered bank, the Bank is subject to primary supervision, examination and regulation by the Department of Financial Institutions. The Bank s deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to the applicable limits thereof, and the Bank is subject to supervision, examination and regulations of the FDIC.

The recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act permanently raises the current standard maximum deposit insurance amount to $250,000 and extended unlimited FDIC deposit insurance to qualifying noninterest-bearing transaction accounts through December 31, 2012.

Coverage under the TAG is in addition to and separate from the coverage available under the FDIC s general deposit insurance rules. As a participant in TAG, the Bank is assessed an annual fee of 10 basis points for all deposit amounts exceeding the existing deposit insurance limit of $250,000.

The Bank operates 17 branches which serve the communities of Clovis, Fresno, Kerman, Lodi, Madera, Merced, Modesto, Oakhurst, Prather, Sacramento, Stockton, and Tracy, California. Additionally the Bank operates Real Estate, Agribusiness and SBA departments that originate loans in California. According to the June 30, 2010 FDIC data, the Bank s branches in Fresno, Madera and San Joaquin Counties had a 3.38% combined deposit market share of all insured depositories.

Key Factors in Evaluating Financial Condition and Operating Performance

As a publicly traded community bank holding company, we focus on several key factors including:

- Return to our stockholders;
- Return on average assets;
- Development of core earnings, including net interest income and non-interest income;
- Asset quality;
- Asset growth;
- Capital adequacy;
- Operating efficiency; and
- Liquidity

Table of Contents

Return to Our Stockholders

Our return to our stockholders is measured in a ratio that measures the return on average equity (ROE). Our annualized ROE was 6.41% for the three months ended March 31, 2011 compared to 3.41% for the year ended December 31, 2010 and 5.53% for the three months ended March 31, 2010. Our net income for the three months ended March 31, 2011 increased $296,000 or 22.91% to $1,588,000 compared to $1,292,000 for the three months ended March 31, 2010. Net income increased due to decreases in the provision for credit losses and an increase in non-interest income and a decrease in non-interest expenses partially offset by a decrease in net interest income before provision for credit losses. Net interest margin (NIM) decreased 31 basis points comparing the three month periods ended March 31, 2011 and 2010. Diluted EPS was $0.16 for the three months ended March 31, 2011 and $0.13 for the same period in 2010.

Return on Average Assets

Our return on average assets (ROA) is a ratio that measures our performance compared with other banks and bank holding companies. Our annualized ROA for the three months ended March 31, 2011 was 0.82% compared to 0.43% for the year ended December 31, 2010 and 0.68% for the three months ended March 31, 2010. The increase in ROA compared to December 2010 is due to the increase in net income relative to total average assets. Average assets for the three months ended March 31, 2011 were $770,729,000 compared to $758,852,000 for the year ended December 31, 2010. ROA for our peer group was 0.31% for the quarter ended December 31, 2010. Peer group from SNL Financial data includes certain bank holding companies in central California with assets from $300 million to $1 billion that are not subchapter S corporations.

Development of Core Earnings

Over the past several years, we have focused on not only improving net income, but improving the consistency of our revenue streams in order to create more predictable future earnings and reduce the effect of changes in our operating environment on our net income. Specifically, we have focused on net interest income through a variety of processes, including increases in average interest earning assets as a result of loan generation and retention, and minimizing the effects of the recent interest rate decline on our net interest margin by focusing on core deposits and managing the cost of funds. The Company s net interest margin (fully tax equivalent basis) was 4.67% for the three months ended March 31, 2011, compared to 4.98% for the same period in 2010. The decrease in net interest margin is principally due to a decrease in the yield on earning assets which was greater than the decrease in our rates on interest-bearing liabilities. In comparing the two periods, the effective yield on total earning assets decreased 55 basis points, while the cost of total interest bearing liabilities decreased 29 basis points and the cost of total deposits decreased 22 basis points. The Company s total cost of deposits for the three months ended March 31, 2011 was 0.45% compared to 0.67% for the same period in 2010. At March 31, 2011, 26.64% of the Company s average deposits were non-interest bearing compared to 21.6% for the Company s peer group as of December 31, 2010. Net interest income for the three month period ended March 31, 2011 was $7,598,000 compared to $7,986,000 for the same period in 2010.

Our non-interest income is generally made up of service charges and fees on deposit accounts, fee income from loan placements and other services, and gains from sales of investment securities offset by other-than-temporary impairment losses. Non-interest income for the three months ended March 31, 2011 increased $414,000 or 31.03% to $1,748,000 compared to $1,334,000 for the three months ended March 31, 2010. The increase is mainly due to a $545,000 gain on the sale of other real estate owned. Further detail of non-interest income is provided below.

Asset Quality

For all banks and bank holding companies, asset quality has a significant impact on the overall financial condition and results of operations. Asset quality is measured in terms of non-performing assets as a percentage of total assets, and is a key element in estimating the future earnings of a company. The Company had non-performing loans totaling $15,589,000 or 3.69% of total loans as of March 31, 2011 and $18,561,000 or 4.30% of total loans at December 31, 2010. Management maintains certain loans that have been brought current by the borrower (less than 30 days delinquent) on non-accrual status until such time as management has determined that the loans are likely to remain current in future periods and collectability has been reasonably assured. The Company had $257,000 in other real estate owned at March 31, 2011 and $1,325,000 at December 31, 2010.

Asset Growth

As revenues from both net interest income and non-interest income are a function of asset size, the growth in assets has a direct impact in increasing net income and therefore ROE and ROA. The majority of our assets are loans and investment securities, and the majority of our liabilities are deposits, and therefore the ability to generate deposits as a funding source for loans and investments is fundamental to our asset growth. Total assets decreased by $10,904,000 during the three months ended March 31, 2011 to $766,690,000 compared to $777,594,000 as of December 31, 2010. Total gross loans decreased $9,555,000 to $422,042,000 as of March 31, 2011 compared to $431,597,000 as of December 31, 2010. Total deposits decreased 0.97% to $644,177,000 as of March 31, 2011 compared to $650,495,000 as of December 31, 2010. Our loan to deposit ratio at March 31, 2011 was 65.52% compared to 66.35% at December 31, 2010. The loan to deposit ratio of our peers was 80.53% at December 31, 2010. Further discussion of loans and deposits is below.

Table of Contents

Capital Adequacy

Capital serves as a source of funds and helps protect depositors and shareholders against potential losses. The Company has historically maintained substantial levels of capital. The assessment of capital adequacy is dependent on several factors including asset quality, earnings trends, liquidity and economic conditions. Maintenance of adequate capital levels is integral to providing stability to the Company. The Company needs to maintain substantial levels of regulatory capital to give it maximum flexibility in the changing regulatory environment and to respond to changes in the market and economic conditions.

At March 31, 2011, we had a total risk-based capital to risk-weighted assets ratio of 16.08%, a Tier 1 risk-based capital ratio of 14.81% and a Tier 1 leverage ratio of 9.87%. At December 31, 2010, we had a total risk-based capital to risk-weighted assets ratio of 15.42%, a Tier 1 risk-based capital ratio of 14.16% and a Tier 1 leverage ratio of 9.48%. At March 31, 2011, on a stand-alone basis, the Bank had a total risk-based capital ratio of 15.78%, a Tier 1 risk based capital ratio of 14.51% and a Tier 1 leverage ratio of 9.67%. At December 31, 2010, the Bank had a total risk-based capital ratio of 15.19%, a Tier 1 risk based capital ratio of 13.92% and a Tier 1 leverage ratio of 9.32%. The improvement in 2011 is due to an increase in risk adjusted capital coupled with a decrease in risk weighted assets and average assets.

Operating Efficiency

Operating efficiency is the measure of how efficiently earnings before provision for credit losses and taxes are generated as a percentage of revenue. A lower ratio is more favorable. The Company s efficiency ratio (operating expenses, excluding amortization of intangibles and foreclosed property expense divided by net interest income plus non-interest income, excluding gains from sales of securities and OREO related gains and expenses) was 79.6% for the first three months of 2011 compared to 73.0% for the three months of 2010. The deterioration in the efficiency ratio is primarily due to a decrease in net interest income. After the elimination of OREO related gains and expenses, non-interest income decreased and operating expenses increased.

The Company s net interest income before provision for credit losses plus non-interest income, net of OREO related gains, decreased 5.57% to $8,801,000 for the three months of 2011 compared to $9,320,000 for the same period in 2010, while operating expenses, net of OREO related expenses, increased 3.69% to $7,144,000 from $6,890,000 for the same period in 2010.

Liquidity

Liquidity management involves our ability to meet cash flow requirements arising from fluctuations in deposit levels and demands of daily operations, which include providing for customers credit needs, funding of securities purchases, and ongoing repayment of borrowings. Our liquidity is actively managed on a daily basis and reviewed periodically by our management and Directors Asset/Liability Committee. This process is intended to ensure the maintenance of sufficient liquidity to meet our funding needs, including adequate cash flow for off-balance sheet commitments. Our primary sources of liquidity are derived from financing activities which include the acceptance of customer and, to a lesser extent, broker deposits, Federal funds facilities and advances from the Federal Home Loan Bank of San Francisco (FHLB). We have available unsecured lines of credit with correspondent banks totaling approximately $39,000,000 and secured borrowing lines of approximately $113,308,000 with the FHLB. These funding sources are augmented by collection of principal and interest on loans, the routine maturities and pay downs of securities from our investment securities portfolio, the stability of our core deposits, and the ability to sell investment securities.

Primary uses of funds include origination and purchases of loans, withdrawals of and interest payments on deposits, purchases of investment securities, and payment of operating expenses.

RESULTS OF OPERATIONS

Net Income for the Three Months Ended March 31, 2011 Compared to the Three Months Ended March 31, 2010:

Net income increased to $1,588,000 for the three months ended March 31, 2011 compared to $1,292,000 for the three months ended March 31, 2010. Basic earnings per share were $0.16 and $0.13 for the three months ended March 31, 2011 and 2010, respectively. Diluted earnings per share were $0.16 and $0.13 for the three months ended March 31, 2011 and 2010, respectively. Annualized ROE was 6.41% for the three months ended March 31, 2011 compared to 5.53% for the three months ended March 31, 2010. Annualized ROA for the three months ended March 31, 2011 was 0.82% compared to 0.68% for the three months ended March 31, 2010.

The increase in net income for the three months ended March 31, 2011 compared to the same period in 2010 can be attributed to decreases in the provision for credit losses, an increase in non-interest income, and a decrease in non-interest expenses, offset by decreases in net interest income,. Net interest income decreased due to a decrease in the yield on our investment securities and a decrease in average loans. The increase in non-interest income is due to a gain on sale of other real estate owned. Non-interest expenses decreased due to a decrease in OREO related expenses partially offset by increases in salary and employee benefits expense. Further discussion of non-interest expenses is below.

Table of Contents

Interest Income and Expense

Net interest income is the most significant component of our income from operations. Net interest income (the   interest rate spread) is the difference between the gross interest and fees earned on the loan and investment portfolio and the interest paid on deposits and other borrowings. Net interest income depends on the volume of and interest rate earned on interest earning assets and the volume of and interest rate paid on interest bearing liabilities.

The following table sets forth a summary of average balances with corresponding interest income and interest expense as well as average yield and cost information for the periods presented. Average balances are derived from daily balances, and non-accrual loans are not included as interest earning assets for purposes of this table.

Table of Contents

CENTRAL VALLEY COMMUNITY BANCORP

SCHEDULE OF AVERAGE BALANCES AND AVERAGE YIELDS AND RATES

(Dollars in thousands)

	FOR THE THREE MONTHS ENDED MARCH 31,2011			FOR THE THREE MONTHS ENDED MARCH, 31, 2010		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
ASSETS						
Interest-earning deposits in other banks	$ 76,618	$ 50	0.26%	$ 37,067	$ 23	0.25%
Securities						
Taxable securities	127,621	1,097	3.44%	131,657	1,630	4.95%
Non-taxable securities (1)	68,830	1,212	7.04%	64,628	1,147	7.10%
Total investment securities	196,451	2,309	4.70%	196,285	2,777	5.66%
Federal funds sold	758	1	0.30%	858		0.25%
Total securities	273,827	2,360	3.45%	234,210	2,800	4.78%
Loans (2) (3)	409,353	6,462	6.40%	435,550	6,778	6.31%
Federal Home Loan Bank stock	3,050	2	0.26%	3,140	2	0.25%
Total interest-earning assets	686,230	$ 8,824	5.14%	672,900	$ 9,580	5.69%
Allowance for credit losses	(11,007)			(10,606)		
Nonaccrual loans	16,881			18,695		
Other real estate owned	620			2,826		
Cash and due from banks	17,492			15,458		
Bank premises and equipment	5,738			6,414		
Other non-earning assets	54,775			53,209		
Total average assets	$ 770,729			$ 758,896		
LIABILITIES AND SHAREHOLDERS EQUITY						
Interest-bearing liabilities:						
Savings and NOW accounts	$ 143,383	$ 102	0.29%	$ 142,861	$ 140	0.40%
Money market accounts	159,355	184	0.47%	148,855	271	0.74%
Time certificates of deposit, under $100,000	54,587	117	0.87%	66,089	254	1.56%
Time certificates of deposit, $100,000 and over	119,122	313	1.07%	129,635	388	1.21%
Total interest-bearing deposits	476,447	716	0.61%	487,440	1,053	0.88%
Other borrowed funds	13,655	95	2.82%	21,099	149	2.86%
Total interest-bearing liabilities	490,102	$ 811	0.67%	508,539	$ 1,202	0.96%
Non-interest bearing demand deposits	173,005			149,995		
Other liabilities	8,504			7,029		
Shareholders equity	99,118			93,333		
Total average liabilities and shareholders equity	$ 770,729			$ 758,896		
Interest income and rate earned on average earning assets		$ 8,824	5.14%		$ 9,580	5.69%
Interest expense and interest cost related to average interest-bearing liabilities		811	0.67%		1,202	0.96%
Net interest income and net interest margin (4)		$ 8,013	4.67%		$ 8,378	4.98%

(1) Calculated on a fully tax equivalent basis, which includes Federal tax benefits relating to income earned on municipal bonds totaling $412 and $390 in 2011 and 2010 respectively.

(2) Loan interest income includes loan fees of $93 in 2011 and $103 in 2010

(3) Average loans do not include non-accrual loans.

(4) Net interest margin is computed by dividing net interest income by total average interest-earning assets.

Interest and fee income from loans decreased $316,000 or 4.66% for the three months ended March 31, 2011 compared to the same period in 2010. Average total loans, including non-accrual loans, for the three months ended March 31, 2011 decreased $28,011,000 or 6.17% to $426,234,000 compared to $454,245,000 the same period in 2010. The yield on average total loans increased 9 basis points to 6.40% for the three months ended 2011 compared to 6.31% for the same period in 2010. We have been successful in implementing interest rate floors on many of our new adjustable rate loans to partially offset the effects of the decrease in the prime interest rate experienced in the last two years. We are committed to providing our customers with competitive pricing without sacrificing strong asset quality and value to our shareholders.

Table of Contents

Interest income from total investments on a non tax equivalent basis (total investments include investment securities, Federal funds sold, interest bearing deposits with other banks, and other securities) decreased $462,000 in the first three months of 2011 to $1,948,000 compared to $2,410,000, for the same period in 2010. The decrease is attributed to lower yields on the investment securities portfolio. The yield on average investments decreased 133 basis points to 3.45% for the three month period ended March 31, 2011 compared to 4.78% for the same period in 2010. We experienced a decrease in yield in our investment securities in 2011 due to purchases of lower yielding debt securities and an increase in average interest-earning deposits in other banks. Average total investments for the first three months of 2011 increased $39,617,000 or 16.92% to $273,827,000 compared to $234,210,000 for the same period in 2010. Income from investments represents 25.64% of net interest income for the first three months of 2011 compared to 30.18% for the same period in 2010.

In an effort to increase yields, without accepting unreasonable risk, a significant portion of the investment purchases have been in mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs). At March 31, 2011, we held $121,544,000 or 58.60% of the total fair value of the investment portfolio in MBS and CMOs with an average yield of 3.43%. We invest in Collateralized Mortgage Obligations (CMO) and Mortgage Backed Securities, (MBS) as part of the overall strategy to increase our net interest margin. CMOs and MBS by their nature react to changes in interest rates. In a normal declining rate environment, prepayments from MBS and CMOs would be expected to increase and the expected life of the investment would be expected to shorten. Conversely, if interest rates increase, prepayments normally would be expected to decline and the average life of the MBS and CMOs would be expected to extend. However, in the current economic environment, prepayments may not behave according to historical norms. Premium amortization and discount accretion of these investments affects our net interest income. Our management monitors the prepayment speed of these investments and adjusts premium amortization and discount accretion based on several factors. These factors include the type of investment, the investment structure, interest rates, interest rates on new mortgage loans, expectation of interest rate changes, current economic conditions, the level of principal remaining on the bond, the bond coupon rate, the bond origination date, and volume of available bonds in market. The calculation of premium amortization and discount accretion is by nature inexact, and represents management s best estimate of principal pay downs inherent in the total investment portfolio.

The net of tax effect value of the change in fair value of the available-for-sale investment portfolio was a gain of $1,058,000 at March 31, 2011 and is reflected in the Company s equity. At March 31, 2011, the average life of the investment portfolio was 7.05 years and the fair value reflected a pre-tax gain of $1,798,000. Management reviews fair value declines on individual investment securities to determine whether they represent an other-than-temporary impairment (OTTI) and recorded a $31,000 OTTI loss for the three months ended March 31, 2011. Refer to Note 4 of the Notes to Consolidated Financial Statements (unaudited) for more detail. Future deterioration in the market values of our investment securities may require the Company to recognize future OTTI losses.

A component of the Company s strategic plan has been to use its investment portfolio to offset, in part, its interest rate risk relating to variable rate loans. At March 31, 2011, an immediate rate increase of 200 basis points would result in an estimated decrease in the market value of the investment portfolio by approximately $16,518,000. Conversely, with an immediate rate decrease of 200 basis points, the estimated increase in the market value of the investment portfolio is $10,649,000. The modeling environment assumes management would take no action during an immediate shock of 200 basis points. However, the Company uses those increments to measure its interest rate risk in accordance with regulatory requirements and to measure the possible future risk in the investment portfolio. For further discussion of the Company s market risk, refer to Item 3 - Quantitative and Qualitative Disclosures about Market Risk.

Management s review of all investments before purchase includes an analysis of how the security will perform under several interest rate scenarios to monitor whether investments are consistent with our investment policy. The policy addresses issues of average life, duration, and concentration guidelines, prohibited investments, impairment, and prohibited practices.

Total interest income for the three months ended March 31, 2011 decreased $778,000 or 8.47% to $8,410,000 compared to $9,188,000 for the three months ended March 31, 2010. The decrease was due to the 55 basis point decrease in average interest earning assets. The yield on

interest earning assets decreased to 5.14% for the three months ended March 31, 2011 from 5.69% for the three months ended March 31, 2010. Average interest earning assets increased to $686,230,000 for the three months ended March 31, 2011 compared to $672,900,000 for the three months ended March 31, 2010. The $13,330,000 increase in average earning assets can be attributed to the $39,617,000 increase in total investments offset by a $26,197,000 decrease in loans.

Interest expense on deposits for the three months ended March 31, 2011 decreased $336,000 or 31.91% to $717,000 compared to $1,053,000 for the three months ended March 31, 2010. This decrease in interest expense was primarily due to repricing of interest bearing deposits which decreased 27 basis points to 0.61% for the three months ended March 31, 2011 from 0.88% in 2010 as a result of the ongoing low interest rate environment. Average interest-bearing deposits decreased 2.26% or $10,993,000 to $476,447,000 for the three months ended March 31, 2011 compared to $487,440,000 for the same period ended March 31, 2010.

Average other borrowed funds decreased $7,444,000 or 35.28% to $13,655,000 with an effective rate of 2.82% for the three months ended March 31, 2011 compared to $21,099,000 with an effective rate of 2.86% for the three months ended March 31, 2010. As a result, total interest expense on other borrowed funds decreased $54,000 to $95,000 for the three months ended March 31, 2011 from $149,000 for the three months ended March 31, 2010. Other borrowings include advances from the Federal Home Loan Bank (FHLB) and junior subordinated deferrable interest debentures. The FHLB advances are fixed rate short-term and long term borrowings. The effective rate of the FHLB advances was 2.82% for the three month period ended March 31, 2011. Advances were utilized as part of a leveraged strategy in the first quarter of 2008 to purchase investment securities. The debentures were acquired in the merger with Service 1st and carry a floating rate based on the three month Libor plus a margin of 1.6%. The rate at March 31, 2011 was 1.90%. See the section on Financial Condition for more detail.

The cost of all of our interest-bearing liabilities decreased 29 basis points to 0.67% for the three month period ended March 31, 2011 compared to 0.96% for 2010 while the cost of total deposits decreased to 0.45% for the three month period ended March 31, 2011 compared to 0.67% for same period in 2010. Average demand deposits increased 15.34% to $173,005,000 in 2011 compared to $149,995,000 for 2010. The ratio of demand deposits to total deposits increased to 26.64% in the three month period of 2011 compared to 23.53% for the same period in 2010.

Net Interest Income before Provision for Credit Losses

Net interest income before provision for credit losses for the three months ended March 31, 2011 decreased by $388,000 or 4.86% to $7,598,000 compared to $7,986,000 for the same period in 2010. The decrease was due to the 31 basis point decrease in our net interest margin and the decrease in average loans. Average interest earning assets were $686,230,000 for the three months ended March 31, 2011 with a net interest margin of 4.67% compared to $672,900,000 with a net interest margin of 4.98% for the three months ended March 31, 2010. The $13,330,000 increase in average earning assets can be attributed to the $39,617,000 increase in total investments offset by a $26,197,000 decrease in average loans. Average interest bearing liabilities decreased 3.63% to $490,102,000 for the three months ended March 31, 2011 compared to $508,539,000 for the same period in 2010. For a discussion of the repricing of our assets and liabilities, see Item 3 Quantitative and Qualitative Disclosure about Market Risk.

Provision for Credit Losses

We provide for probable credit losses by a charge to operating income based upon the composition of the loan portfolio, delinquency levels, losses and nonperforming assets, economic and environmental conditions and other factors which, in management s judgment, deserve recognition in estimating credit losses. Loans are charged off when they are considered uncollectible or of such little value that continuance as an active earning bank asset is not warranted.

The establishment of an adequate credit allowance is based on both an accurate risk rating system and loan portfolio management tools. The Board has established initial responsibility for the accuracy of credit risk grades with the individual credit officer. The grading is then submitted to the Chief Credit Administrator (CCA), who reviews the grades for accuracy and gives final approval. The CCA is not involved in loan originations. The risk grading and reserve allocation is analyzed quarterly by the CCA and the Board and at least annually by a third party credit reviewer and by various regulatory agencies.

Quarterly, the CCA sets the specific reserve for all adversely risk-graded credits. This process includes the utilization of loan delinquency reports, classified asset reports, and portfolio concentration reports to assist in accurately assessing credit risk and establishing appropriate reserves. Reserves are also allocated to credits that are not impaired.

The allowance for credit losses is reviewed at least quarterly by the Board s Audit/Compliance Committee and by the Board of Directors. Reserves are allocated to loan portfolio categories using percentages which are based on both historical risk elements such as delinquencies and losses and predictive risk elements such as economic, competitive and environmental factors. We have adopted the specific reserve approach to allocate reserves to each impaired asset for the purpose of estimating potential loss exposure. Although the allowance for credit losses is allocated to various portfolio categories, it is general in nature and available for the loan portfolio in its entirety. Additions may be required based on the results of independent loan portfolio examinations, regulatory agency examinations, or our own internal review process. Additions

are also required when, in management s judgment, the allowance does not properly reflect the portfolio s potential loss exposure.

The allocation of the allowance for credit losses is set forth below:

Loan Type (Dollars in Thousands)	March 31, 2011	% of Total Loans	December 31, 2010	% of Total Loans
Commercial and industrial	$ 2,721	23.4%	$ 2,417	24.1%
Agricultural production	239	4.5%	182	9.0%
Real estate:				
Owner occupied	1,850	26.4%	1,978	25.9%
Real estate-construction and other land loans	1,957	7.5%	1,805	7.4%
Agricultural real estate	569	14.4%	466	14.7%
Commercial real estate	933	10.4%	1,387	5.1%
Other	1,227	3.9%	1,362	3.8%
Total real estate	6,536	62.6%	6,998	56.9%
Equity loans and lines of credit	610	7.6%	797	8.0%
Consumer and installment	388	2.0%	382	2.0%
Unallocated reserves	525		238	
Total allowance for credit losses	$ 11,019		$ 11,014	

Table of Contents

Loans are charged to the allowance for credit losses when the loans are deemed uncollectible. It is the policy of management to make additions to the allowance so that it remains adequate to cover all probable loan charge-offs that exist in the portfolio at that time. In 2010 enhanced methodology enabled us to assign qualitative and quantitative factors (Q factors) to each loan category resulting in a decrease in unallocated reserves. Q factors include reserves held for the effects of lending policies, economic trends, and portfolio trends along with other dynamics which may cause additional stress to the portfolio.

The unallocated reserves as of March 31, 2011 are principally due to qualitative and quantitative factors (Q factors). Q factors include reserves held for the effects of lending policies, economic trends, and portfolio trends along with other dynamics which may cause additional stress to the portfolio.

Managing credits identified through the risk evaluation methodology includes developing a business strategy with the customer to mitigate our potential losses. Management continues to monitor these credits with a view to identifying as early as possible when, and to what extent, additional provisions may be necessary.

Additions to the allowance for credit losses in the three months of 2011 were $100,000 compared to $600,000 for the same period in 2010. These provisions are primarily the result of our assessment of the overall adequacy of the allowance for credit losses considering a number of factors as discussed in the Allowance for Credit Losses section below. During the three months ended March 31, 2011, the Company had net charge offs totaling $95,000 compared $205,000 for the same period in 2010. During the first quarter of 2011, gross charge offs of $321,000 were partially offset by gross recoveries of $226,000. The period-to-period decrease in provision for credit losses resulted from a decrease in the level of outstanding loans and a decrease in net charge offs.

Nonperforming loans were $15,589,000 and $18,561,000 at March 31, 2011 and December 31, 2010, respectively and $18,053,000 at March 31, 2010. Nonperforming loans as a percentage of total loans were 3.69% at March 31, 2011 compared to 4.30% at December 31, 2010 and 3.99% at March 31, 2010. Other real estate owned at March 31, 2011 was $257,000 compared to $1,325,000 net of a valuation allowance of $309,000, at December 31, 2010, and $2,549,000 net of a valuation allowance of $639,000 at March 31, 2010.

The annualized net charge off ratio, which reflects net charge-offs to average loans for the three months ended March 31, 2011, was 0.09% compared to 0.18% for the same period in 2010. The annual net charge off ratios for 2010, 2009, and 2008 were 0.66%, 1.56% and 0.20%, respectively.

We believe the significant economic downturn witnessed during 2008 that has continued through 2011 has had a considerable impact on the ability of certain borrowers to satisfy their obligations, resulting in loan downgrades and corresponding increases in credit loss provisions. Additionally, we estimate the impact certain economic factors will have on various credits within the portfolio.

While the Company saw a decline in the balance of non-accruing loans when compared to that reported at December 31, 2010, non-accruing balances remain elevated relative to historical periods. Continued increases in the level of charge-offs and the number and dollar volume of past due and non-performing loans may result in further provisions to the allowance for credit losses.

We anticipate weakness in economic conditions on national, state and local levels to continue. Continued economic pressures may negatively impact the financial condition of borrowers to whom the Company has extended credit and as a result we may be required to make further significant provisions to the allowance for credit losses during 2011. We have been and will continue to be proactive in looking for signs of deterioration within the loan portfolio in an effort to manage credit quality and work with borrowers where possible to mitigate any further losses.

As of March 31, 2011, we believe, based on all current and available information, the allowance for credit losses is adequate to absorb current estimable losses within the loan portfolio. However, no assurance can be given that we may not sustain charge-offs which are in excess of the allowance in any given period. Refer to Allowance for Credit Losses below for further information.

Net Interest Income after Provision for Credit Losses

Net interest income, after the provision for credit losses, was $7,498,000 for the three month period ended March 31, 2011 and $7,386,000 for the same period in 2010.

Non-Interest Income

Non-interest income is comprised of customer service charges, loan placement fees, gains on sale of other real estate owned, gains on sales of investment securities, appreciation in cash surrender value of bank owned life insurance, Federal Home Loan Bank dividends, and other income. Non-interest income was $1,748,000 for the three months ended March 31, 2011 compared to $1,334,000 for the same period in 2010. The $414,000 or 31.03% increase in non-interest income was due to an increase in gains on sale of other real estate owned, offset by a decrease in service charges.

Table of Contents

During the three months ended March 31, 2011, we realized net loss on sales and calls of investment securities of $16,000 compared to a gain of $21,000 for the same period in 2010. During the first quarter of 2011 we also realized a gain on sale of other real estate owned of $545,000 compared to none in 2010. For the three month period ended March 31, 2011, we realized a $31,000 other-than-temporary impairment write down on certain investment securities. See Note 4 of the Notes to Consolidated Financial Statements (unaudited) for more detail.

Customer service charges decreased $162,000 or 18.82% to $699,000 for the first three months of 2011 compared to 861,000 for the same period in 2010, mainly due to a decrease in overdraft fee income.

The Bank holds stock from the Federal Home Loan Bank in relationship with the borrowing capacity and generally earns quarterly dividends. We currently hold $3,050,000 in FHLB stock. We received dividends totaling $2,000 in each of the three months ended March 31, 2011 and 2010.

Non-Interest Expenses

Salaries and employee benefits, occupancy, regulatory assessments, professional services, other real estate owned expense, and data processing are the major categories of non-interest expenses. Non-interest expenses decreased $51,000 or 0.71% to $7,153,000 for the three months ended March 31, 2011 compared to $7,204,000 for the three months ended March 31, 2010. The decrease in 2011 was primarily due to a decrease in other real estate owned expense and legal expense, partially offset by an increase in salaries and employee benefits.

The Company s efficiency ratio, measured as the percentage of non-interest expenses (exclusive of amortization of core deposit intangible assets and foreclosure expenses) to net interest income before provision for credit losses plus non-interest income (exclusive of realized gains on sale and calls of investments) was 79.6% for the first three months of 2011 compared to 73.0% for the three months ended March 31, 2010. The deterioration in the ratio resulted from a decrease in net interest income. After the elimination of OREO related gains and expenses, non-interest income decreased and operating expenses increased.

Salaries and employee benefits increased $331,000 or 8.83% to $4,078,000 for the first three months of 2011 compared to $3,747,000 for the three months ended March 31, 2010. The increase in salaries and employee benefits for the 2011 period can be attributed to the addition of personnel in connection with the expansion of offices in Modesto and Merced and other new positions along with normal cost increases. Full time equivalents were 214.6 on March 31, 2011 compared to 194.6 on March 31, 2010.

Occupancy and equipment expense increased $8,000 or 0.86% to $934,000 for the three months ended March 31, 2011 compared to $926,000 for the three months ended March 31, 2010. The new Modesto and Merced offices as well as the relocation of our Oakhurst office in 2010 contributed to the increase in occupancy expenses.

Regulatory assessments decreased to $289,000 for the three month period ended March 31, 2011 compared to $300,000 for the same period in 2010.

Total other real estate owned (OREO) expenses were $9,000 for the three months ended March 31, 2011 and $314,000 for the same period in 2010. The decrease in 2011 is the result of the write downs of several OREO properties to their estimated fair value for the three month period ended March 31, 2010.

Other categories of non-interest expenses decreased $25,000 or 2.27% in the period under review. The following table shows significant components of other non-interest expense as a percentage of average assets.

For the Three Months Ended March 31, (Dollars in thousands)	Other Expense 2011	% Average Assets	Other Expense 2010	% Average Assets
ATM/debit card expenses	$ 87	0.05%	$ 98	0.05%
Telephone	81	0.04%	77	0.04%
Appraisal fees	30	0.02%	74	0.04%
Stationery/supplies	60	0.03%	60	0.03%
License and maintenance contracts	83	0.04%	57	0.03%
Postage	48	0.02%	53	0.03%
Director fees and related expenses	53	0.03%	52	0.03%
Amortization of software	56	0.03%	48	0.03%
Donations	47	0.02%	44	0.02%
General insurance	25	0.01%	36	0.02%
Consulting	36	0.02%	32	0.02%
Education/training	25	0.01%	28	0.01%
Operating losses	17	0.01%	18	0.01%
Other	426	0.22%	422	0.22%
Total other non-interest expense	$ 1,074	0.56%	$ 1,099	0.63%

Table of Contents

Provision for Income Taxes

Our effective income tax rate was 24.13% for the three months ended March 31, 2011 compared to 14.78% for the three months ended March 31, 2010. The Company reported an income tax provision of $505,000 for three months ended March 31, 2011, compared to $224,000 for the three months ended March 31, 2010. The increase in the effective tax rate in 2011 is due to increases in taxable income and reserves for uncertain tax positions which are primarily attributable to state tax credits and deductions related to certain enterprise zone activities in California.

Preferred Stock Dividends and Accretion

On January 30, 2009, we entered into a Letter Agreement with the United States Department of the Treasury under the Capital Purchase Program. We received $7,000,000 in proceeds and the Treasury owns 7,000 shares of the Company s Series A Fixed Rate Cumulative Perpetual Preferred Stock (Preferred Stock) and a warrant to purchase 79,089 shares, at $6.64 per share, of the Company s common stock, no par value. The Company accrued preferred stock dividends to the United States Department of the Treasury and accretion of the warrants in the amount of $99,000 during the three months ended March 31, 2011 and 2010, respectively.

FINANCIAL CONDITION

Summary of Changes in Consolidated Balance Sheets

March 31, 2011 compared to December 31, 2010

Total assets were $766,690,000, compared to $777,594,000 as of December 31, 2010, a decrease of 1.40%, or $10,904,000. Total gross loans were $422,042,000 as of March 31, 2011 compared to $431,597,000 as of December 31, 2010. The total investment portfolio (including Federal funds sold and interest-earning deposits in other banks) decreased 1.57% or $4,407,000 to $276,560,000. Total deposits decreased 0.97% or $6,318,000 to $644,177,000 as of March 31, 2011 compared to $650,495,000 as of December 31, 2010. Stockholders equity increased $2,152,000 or 2.21% to $99,543,000 as of March 31, 2011 compared to $97,391,000 as of December 31, 2010 due to net income included in retained earnings, an increase in other comprehensive income and issuance of common stock from the exercise of stock options.

Fair Value

The Company measures the fair values of its financial instruments utilizing a hierarchical disclosure framework associated with the level of observable pricing scenarios utilized in measuring financial instruments at fair value. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of the observable pricing scenario. Financial instruments with readily available

actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of observable pricing and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no observable pricing and a higher degree of judgment utilized in measuring fair value. Observable pricing scenarios are impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction.

See Note 5 of the Notes to Consolidated Financial Statements (unaudited) for additional information about the level of pricing transparency associated with financial instruments carried at fair value.

Investments

Our investment portfolio consists primarily of agency securities, mortgage backed securities, municipal securities, collateralized mortgage obligations, corporate debt securities, and overnight investments in the Federal funds market and are classified at the date of acquisition as available for sale or held to maturity. As of March 31, 2011, investment securities with a fair value of $128,118,000, or 61.77% of our investment securities portfolio, were held as collateral for public funds, short and long-term borrowings, treasury, tax, and for other purposes. Our investment policies are established by the Board of Directors and implemented by our Investment/Asset Liability Committee. They are designed primarily to provide and maintain liquidity, to enable us to meet our pledging requirements for public money and borrowing arrangements, to generate a favorable return on investments without incurring undue interest rate and credit risk, and to complement our lending activities.

Table of Contents

The level of our investment portfolio is generally considered higher than our peers due primarily to a comparatively low loan to deposit ratio. Our loan to deposit ratio at March 31, 2011 was 63.81% compared to 66.35% at December 31, 2010. The loan to deposit ratio of our peers was 80.53% at December 31, 2010. The total investment portfolio, including Federal funds sold and interest-earning deposits in other banks, decreased 1.57% or $4,407,000 to $276,560,000 at March 31, 2011 from $280,967,000 at December 31, 2010. The market value of the portfolio reflected an unrealized gain of $1,798,000 at March 31, 2011 compared to $1,643,000 at December 31, 2010.

We periodically evaluate each investment security for other-than-temporary impairment, relying primarily on industry analyst reports, observation of market conditions and interest rate fluctuations.

As of March 31, 2011, we performed an analysis of the investment portfolio to determine whether any of the investments held in the portfolio had an other-than-temporary impairment (OTTI). We evaluated all available-for-sale investment securities with an unrealized loss at March 31, 2011 and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at March 31, 2011 greater than 10% of the recorded book value on that date, or which had an unrealized loss of more than $10,000. In addition, we reviewed all private label residential mortgage backed securities (PLRMBS) at March 31, 2011.

For those bonds that met the evaluation criteria we obtained and reviewed the most recently published national credit ratings for those bonds. For those bonds that were municipal debt securities with an investment grade rating by the rating agencies, we also evaluated the financial condition of the municipality and any applicable municipal bond insurance provider and concluded that no credit related impairment existed based on the rating. Our evaluation for PLRMBS also includes estimating projected cash flows that the Company is likely to collect based on an assessment of all available information about the applicable security on an individual basis, the structure of the security, and certain assumptions, such as the remaining payment terms for the security, prepayment speeds, default rates, loss severity on the collateral supporting the security based on underlying loan-level borrower and loan characteristics, expected housing price changes, and interest rate assumptions, to determine whether the Company will recover the entire amortized cost basis of the security. In performing a detailed cash flow analysis, the Company identified the best estimate of the cash flows expected to be collected. If this estimate results in a present value of expected cash flows (discounted at the security s effective yield) that is less than the amortized cost basis of the security, OTTI is considered to have occurred.

To assess whether it expects to recover the entire amortized cost basis of its PLRMBS, the Company performed a cash flow analysis for all of its PLRMBS as of March 31, 2011. In performing the cash flow analysis for each security, the Company uses a third-party model. The model considers borrower characteristics and the particular attributes of the loans underlying the Company s securities, in conjunction with assumptions about future changes in home prices and other assumptions, to project prepayments, default rates, and loss severities.

The month-by-month projections of future loan performance are allocated to the various security classes in each securitization structure in accordance with the structure s prescribed cash flow and loss allocation rules. When the credit enhancement for the senior securities in a securitization is derived from the presence of subordinated securities, losses are allocated first to the subordinated securities until their principal balance is reduced to zero. The projected cash flows are based on a number of assumptions and expectations, and the results of these models can vary significantly with changes in assumptions and expectations. The scenario of cash flows determined based on the model approach described above reflects a best-estimate scenario.

At each quarter end, the Company compares the present value of the cash flows expected to be collected on its PLRMBS to the amortized cost basis of the securities to determine whether a credit loss exists.

The unrealized losses associated with private residential PLRMBS are primarily driven by higher projected collateral losses, wider credit spreads, and changes in interest rates. The Company assesses for credit impairment using a discounted cash flow model. The key assumptions include home price depreciation, default rates, severities, discount rates and prepayment rates. We estimate losses to a security by forecasting the underlying mortgage loans in each transaction. The forecasted loan performance is used to project cash flows to the various tranches in the structure. Based upon management s assessment of the expected credit losses of the security given the performance of the underlying collateral compared with our credit enhancement (which occurs as a result of credit loss protection provided by subordinated tranches), we expect to recover the entire amortized cost basis of these securities, with the exception of certain securities for which we recorded an OTTI.

At March 31, 2011, the Company held 163 obligations of states and political subdivision securities of which 36 were in a loss position for less than 12 months and seven were in a loss position and have been in a loss position for 12 months or more. The unrealized losses on the Company s investments in obligations of states and political subdivision securities were caused by interest rate changes. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell, and it is more likely than not that it will not be required to sell those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at March 31, 2011.

Table of Contents

At March 31, 2011, the Company held 140 U.S. Government agency securities collateralized by mortgage obligation securities of which 15 were in a loss position for less than 12 months. The unrealized losses on the Company s investments in U.S. government agencies collateralized by mortgage obligations were caused by interest rate changes. The contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company s investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell, and it is more likely than not that it will not be required to sell those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at March 31, 2011.

At March 31, 2011, the Company had a total of 36 PLRMBS with a remaining principal balance of $17,528,000 and a net unrealized loss of approximately $816,000. Eight of these securities account for $1,355,000 of the unrealized loss at March 31, 2011 offset by 28 of these securities with gains totaling $539,000. Nine of these PLRMBS with a remaining principal balance of $10,682,000 had credit ratings below investment grade. The Company continues to perform extensive analyses on these securities as well as all whole loan CMOs. Several of these investment securities continue to demonstrate cash flows and credit support as expected and the expected cash flows of the security discounted at the security s effective yield are greater than the book value of the security, therefore management does not consider these securities to be other than temporarily impaired. No OTTI charges related to PLRMBS were recorded during the first quarter of 2011.

During the three months ended March 31, 2011, the Company recorded an OTTI charge of $31,000 related to one mutual fund investment security.

See Note 4 of the Notes to Consolidated Financial Statements (unaudited) included in this report for carrying values and estimated fair values of our investment securities portfolio.

Loans

Total gross loans decreased $9,555,000 or 2.21% to $422,042,000 as of March 31, 2011 compared to $431,597,000 as of December 31, 2010.

The following table sets forth information concerning the composition of our loan portfolio at the dates indicated:

Loan Type (Dollars in thousands)	**March 31, 2011**	**% of Total loans**	**December 31, 2010**	**% of Total loans**
Commercial:				
Commercial and industrial	$ 99,236	23.5%	$ 104,387	24.1%
Agricultural production	44,024	10.4%	38,787	9.0%
Total commercial	143,260	33.9%	143,174	33.1%
Real estate:				
Owner occupied	111,754	26.4%	111,888	25.9%
Real estate-construction and other land loans	31,865	7.5%	32,039	7.4%

Commercial real estate		60,892	14.4%	63,627	14.7%
Agricultural real estate		18,201	4.3%	22,100	5.1%
Other		16,464	3.9%	16,254	3.8%
Total real estate		239,176	56.5%	245,908	56.9%
Consumer:					
Equity loans and lines of credit		31,950	7.6%	34,521	8.0%
Consumer and installment		8,289	2.0%	8,493	2.0%
Total consumer		40,239	9.6%	43,014	10.0%
Deferred loan fees, net		(633)		(499)	
Total gross loans		422,042	100.0%	431,597	100.0%
Allowance for credit losses		(11,019)		(11,014)	
Total loans	$	411,023	$	420,583	

Table of Contents

As of March 31, 2011, in management s judgment, a concentration of loans existed in commercial loans and loans collateralized by real-estate-related loans, representing approximately 90.5% of total loans of which 27.9% were commercial and 62.6% were real-estate-related. This level of concentration is consistent with 90.0% at December 31, 2010. Although management believes the loans within this concentration have no more than the normal risk of collectibility, a substantial further decline in the performance of the economy in general or a further decline in real estate values in our primary market areas, in particular, could have an adverse impact on collectibility, increase the level of real estate-related non-performing loans, or have other adverse effects which alone or in the aggregate could have a material adverse effect on our business, financial condition, results of operations and cash flows. The Company was not involved in any sub-prime mortgage lending activities at March 31, 2011 or December 31, 2010.

We believe that our commercial real estate loan underwriting policies and practices result in prudent extensions of credit, but recognize that our lending activities result in relatively high reported commercial real estate lending levels. Commercial real estate loans include certain loans which represent low to moderate risk and certain loans with higher risks.

The Board of Directors reviews and approves concentration limits and exceptions to limitations of concentration are reported to the Board of Directors at least quarterly.

Nonperforming Assets

Nonperforming assets consist of nonperforming loans, other real estate owned (OREO), and repossessed assets. Nonperforming loans are those loans which have (i) been placed on nonaccrual status; (ii) been subject to troubled debt restructuring; (iii) been classified as doubtful under our asset classification system; or (iv) become contractually past due 90 days or more with respect to principal or interest and have not been restructured or otherwise placed on nonaccrual status. A loan is classified as nonaccrual when 1) it is maintained on a cash basis because of deterioration in the financial condition of the borrower; 2) payment in full of principal or interest under the original contractual terms is not expected; or 3) principal or interest has been in default for a period of 90 days or more unless the asset is both well secured and in the process of collection.

At March 31, 2011, total nonperforming assets totaled $15,846,000, or 2.07% of total assets, compared to $19,984,000, or 2.57% of total assets at December 31, 2010. Total nonperforming assets at March 31, 2011 included nonaccrual loans totaling $15,589,000 and OREO of $257,000. At March 31, 2011, we had 13 loans considered troubled debt restructurings totaling $8,290,000, which are included in nonaccrual loans. At December 31, 2010, nonperforming assets included nonaccrual loans totaling $18,561,000, OREO of $1,325,000, and repossessed assets of $98,000. We had seven restructured loans totaling $6,180,000 at December 31, 2010. Foregone interest on nonaccrual loans totaled $288,000 and $385,000 for the three month periods ended March 31, 2011 and 2010, respectively.

A summary of nonaccrual, restructured, and past due loans at March 31, 2011 and December 31, 2010 is set forth below. The Company had no loans past due more than 90 days and still accruing interest at March 31, 2011 or December 31, 2010. Management can give no assurance that nonaccrual and other nonperforming loans will not increase in the future.

Composition of Non-accrual, Past Due and Restructured Loans

(Dollars in thousands)	March 31, 2011	December 31, 2010
Non-accrual loans		
Commercial and industrial	$ 481	$ 1,487
Real estate	763	4,772
Real estate construction and other land loans	5,533	5,634
Equity loans and lines of credit	523	488
Troubled debt restructured loans (non-accruing)		
Commercial and industrial	922	869
Consumer	82	
Real estate	2,874	3,118
Real estate construction and land development	4,411	2,193
Total non-accrual	15,589	18,561
Accruing loans past due 90 days or more		
Total non-performing loans	$ 15,589	$ 18,561
Nonperforming loans to total loans	3.69%	4.30%
Ratio of non-performing loans to allowance for credit losses	141.48%	168.52%
Loans considered to be impaired	$ 15,589	$ 18,561
Related allowance for credit losses on impaired loans	$ 1,702	$ 2,124

We measure our impaired loans by using the fair value of the collateral if the loan is collateral dependent and the present value of the expected future cash flows discounted at the loan s effective interest rate if the loan is not collateral dependent. As of March 31, 2011 and December 31, 2010, we had impaired loans totaling $15,589,000 and $18,561,000, respectively. For collateral dependent loans secured by real estate, we obtain external appraisals which are updated at least annually to determine the fair value of the collateral, and we record an immediate charge off for the difference between the book value of the loan and the appraised value of collateral. We perform quarterly internal reviews on substandard loans. We place loans on nonaccrual status and classify them as impaired when it becomes probable that we will not receive interest and principal under the original contractual terms, or when loans are delinquent 90 days or more unless the loan is both well secured and in the process of collection. Management maintains certain loans that have been brought current by the borrower (less than 30 days delinquent) on nonaccrual status until such time as management has determined that the loans are likely to remain current in future periods.

Table of Contents

The following table provides a reconciliation of the change in non-accrual loans for the first three months of 2011.

(Dollars in thousands)	Balances December 31, 2010	Additions to Nonaccrual Loans	Net Pay Downs	Transfers to Foreclosed Collateral - OREO	Returns to Accrual Status	Charge Offs	Balances March 31, 2011
Non-accrual loans:							
Commercial and industrial	$ 377	$ 390	$ (42)	$ (95)	$	$ (149)	$ 481
Real estate	1,407	297	(720)		(195)	(26)	763
Real estate construction and other land loans	5,634		(101)				5,533
Equity loans and lines of credit	488	248	(214)				522
Restructured loans (non-accruing):							
Commercial and industrial	1,978		(206)		(850)		922
Consumer		82					82
Real estate	4,198		(1,324)				2,874
Real estate construction and land development	4,479		(67)				4,412
Total non-accrual	$ 18,561	$ 1,017	$ (2,674)	$ (95)	$ (1,045)	$ (175)	$ 15,589

The following table provides a summary of the change in the OREO balance for the three months ended March 31, 2011:

(Dollars in thousands)	Three Months Ended March 31, 2011
Balance, December 31, 2010	$ 1,325
Additions	257
Dispositions	(1,325)
Balance, March 31, 2011	$ 257

OREO represents real property taken either through foreclosure or through a deed in lieu thereof from the borrower. OREO is carried at the lesser of cost or fair market value, less selling costs. OREO holdings represented one property with a fair value totaling $257,000 at March 31, 2011 and two properties totaling $1,325,000 at December 31, 2010.

Allowance for Credit Losses

We have established a methodology for the determination of provisions for credit losses. The methodology is set forth in a formal policy and takes into consideration the need for an overall allowance for credit losses as well as specific allowances that are tied to individual loans. Our methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula allowance and a specific allowance for identified problem loans.

In originating loans, we recognize that losses will be experienced and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan, general economic conditions and, in the case of a secured loan, the quality of the collateral securing the loan. The allowance is increased by provisions charged against earnings and reduced by net loan charge offs. Loans are charged off when they are deemed to be uncollectible, or partially charged off when portions of a loan are deemed to be uncollectible. Recoveries are generally recorded only when cash payments are received.

The allowance for credit losses is maintained to cover probable losses inherent in the loan portfolio. The responsibility for the review of our assets and the determination of the adequacy lies with management and our Audit Committee. They delegate the authority to the Chief Credit Administrator (CCA) to determine the loss reserve ratio for each type of asset and reviews, at least quarterly, the adequacy of the allowance based on an evaluation of the portfolio, past experience, prevailing market conditions, amount of government guarantees, concentration in loan types and other relevant factors.

Table of Contents

The allowance for credit losses is an estimate of the losses that may be sustained in our loan and lease portfolio. The allowance is based on principles of accounting: (1) ASC 310-10 which requires that losses be accrued when they are probable of occurring and can be reasonably estimated and (2) ASC 450-20 which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

Credit Administration adheres to an internal asset review system and loss allowance methodology designed to provide for timely recognition of problem assets and adequate valuation allowances to cover expected asset losses. The Bank s asset monitoring process includes the use of asset classifications to segregate the assets, largely loans and real estate, into various risk categories. The Bank uses the various asset classifications as a means of measuring risk and determining the adequacy of valuation allowances by using a nine-grade system to classify assets. All credit facilities exceeding 90 days of delinquency require classification.

The following table sets forth information regarding our allowance for credit losses at the dates and for the periods indicated:

(Dollars in thousands)	**For the Three Months Ended March 31, 2011**	**For the Year Ended December 31, 2010**	**For the Three Months Ended March 31, 2010**
Balance, beginning of period	$ 11,014	$ 10,200	$ 10,200
Provision charged to operations	100	3,800	600
Losses charged to allowance	(321)	(4,122)	(476)
Recoveries	226	1,136	271
Balance, end of period	$ 11,019	$ 11,014	$ 10,595
Ratio of non-performing loans to allowance for credit losses at end of period	141.48%	168.52%	170.39%
Allowance for credit losses to total loans at end of period	2.61%	2.55%	2.34%

As of March 31, 2011 the balance in the allowance for credit losses was $11,019,000 compared to $11,014,000 as of December 31, 2010. The increase was due to net charge offs during the three months ended March 31, 2011 being less than the amount of the provision for credit losses. Net charge offs totaled $95,000 while the provision for credit losses was $100,000. The balance of commitments to extend credit on undisbursed construction and other loans and letters of credit was $129,595,000 as of March 31, 2011 compared to $123,676,000 as of December 31, 2010. Risks and uncertainties exist in all lending transactions and our management and Directors Loan Committee have established reserve levels based on economic uncertainties and other risks that exist as of each reporting period.

As of March 31, 2011, the allowance for credit losses was 2.61% of total gross loans compared to 2.55% as of December 31, 2010. During the three months ended March 31, 2011 there were no major changes in loan concentrations that significantly affected the allowance for credit losses. During the period ended March 31, 2011 the Company enhanced the process for estimating the allowance for credit losses. The modification did not have a significant impact on the amount of the allowance for credit losses in total nor did it have a material impact on the allocation of the allowance within loan categories. In 2010 enhanced methodology enabled us to assign qualitative and quantitative factors (Q factors) to each loan category resulting in a decrease in unallocated reserves. Q factors include reserves held for the effects of lending policies, economic trends, and portfolio trends along with other dynamics which may cause additional stress to the portfolio. Assumptions regarding the collateral value of various under performing loans may affect the level and allocation of the allowance for credit losses in future periods. The allowance may also be affected by trends in the amount of charge offs experienced or expected trends within different loan portfolios.

Non-performing loans totaled $15,589,000 as of March 31, 2011, and $18,561,000 as of December 31, 2010. The allowance for credit losses as a percentage of nonperforming loans was 70.68% and 59.34% as of March 31, 2011 and December 31, 2010, respectively. Management believes the allowance at March 31, 2011 is adequate based upon its ongoing analysis of the loan portfolio, historical loss trends and other factors. However, no assurance can be given that the Company may not sustain charge-offs which are in excess of the allowance in any given period.

Goodwill and Intangible Assets

Business combinations involving the Company s acquisition of the equity interests or net assets of another enterprise give rise to goodwill. Total goodwill at March 31, 2011 was $23,577,000 consisting of $14,643,000 and $8,934,000 representing the excess of the cost of Service 1st and Bank of Madera County, respectively, over the net of the amounts assigned to assets acquired and liabilities assumed in the transactions accounted for under the purchase method of accounting. The value of goodwill is ultimately derived from the Bank s ability to generate net earnings after the acquisitions and is not deductible for tax purposes. A decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed at least annually for impairment.

Table of Contents

During the third quarter of 2010 we engaged an independent valuation specialist to test goodwill for impairment. Goodwill impairment testing is a two step process. The first step compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount exceeds the fair value, the second step of the goodwill impairment test is performed to measure the impairment loss, if any. If the fair value of the reporting unit exceeds the carrying value, then goodwill is not impaired and step two is unnecessary. Since the Company is considered to be one reporting unit, the fair value of the Company was compared to the carrying value. Based on the results of the testing performed, the fair value of the Company exceeded the carrying value so step two was not required and goodwill was not impaired. The fair value of the Company was determined based on an analysis of three different valuation methods including the analysis of discounted future cash flows, comparable whole bank transactions, and the Company s market capitalization plus a control premium.

Goodwill is also tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. No such events or circumstances arose during the first quarter of 2011, so goodwill was not required to be retested.

The intangible assets represent the estimated fair value of the core deposit relationships acquired in the acquisition of Service 1st in 2008 of $1,400,000 and the 2005 acquisition of Bank of Madera County of $1,500,000 at December 31, 2009. Core deposit intangibles are being amortized using the straight-line method over an estimated life of seven years from the date of acquisition. The carrying value of intangible assets at March 31, 2011 was $1,094,000, net of $1,806,000 in accumulated amortization expense. The carrying value at December 31, 2010 was $1,198,000, net of $1,702,000 accumulated amortization expense. We evaluate the remaining useful lives quarterly to determine whether events or circumstances warrant a revision to the remaining periods of amortization. Based on the evaluation, no changes to the remaining useful lives was required in the first quarter of 2011. We engaged an independent valuation specialist to perform our annual impairment test on core deposit intangibles as of September 30, 2010 and determined no impairment was necessary. Amortization expense recognized was $104,000 for the three month periods ended March 31, 2011 and 2010.

Deposits and Borrowings

The Bank s deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to applicable legal limits. The recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act permanently raises the current standard maximum deposit insurance amount to $250,000 and extended unlimited FDIC deposit insurance to qualifying noninterest-bearing transaction accounts through December 31, 2012.

Total deposits decreased $6,318,000 or 0.97% to $644,177,000 as of March 31, 2011 compared to $650,495,000 as of December 31, 2010. Interest-bearing deposits increased $1,796,000 or 0.38% to $478,424,000 as of March 31, 2011 compared to $476,628,000 as of December 31, 2010. Non-interest bearing deposits decreased $8,114,000 or 4.67% to $165,753,000 as of March 31, 2011 compared to $173,867,000 as of December 31, 2010. Average non-interest bearing deposits to average total deposits was 26.64% for the three months ended March 31, 2011 compared to 23.53% for the same period in 2010.

The composition of the deposits and average interest rates paid at March 31, 2011 and December 31, 2010 is summarized in the table below.

(Dollars in thousands)	**March 31, 2011**	**% of Total Deposits**	**Effective Rate**	**December 31, 2010**	**% of Total Deposits**	**Effective Rate**

NOW accounts	$	119,359	18.5%	0.31%	$ 114,473	17.6%	0.38%
MMA accounts		157,513	24.5%	0.47%	157,345	24.2%	0.66%
Time deposits		172,153	26.7%	1.01%	177,132	27.2%	1.19%
Savings deposits		29,399	4.6%	0.20%	27,678	4.3%	0.20%
Total interest-bearing		478,424	74.3%	0.67%	476,628	73.3%	0.77%
Non-interest bearing		165,753	25.7%		173,867	26.7%	
Total deposits	$	644,177	100.0%		$ 650,495	100.0%	

Other Borrowings

There were no short term borrowings as of March 31, 2011 compared to $10,000,000 as of December 31, 2010.

Long-term borrowings of $4,000,000 at March 31, 2011 represent FHLB advances with weighted average interest of 3.31% and weighted average maturity of 1.9 years. Long-term borrowings at December 31, 2010 were $4,000,000.

The Company holds junior subordinated deferrable interest debentures (trust preferred securities). Under applicable regulatory guidance, the amount of trust preferred securities that is eligible as Tier 1 capital is limited to 25% of the Company s Tier 1 capital on a pro forma basis. At March 31, 2011, all of the trust preferred securities that have been issued qualify as Tier 1 capital. Interest on the trust preferred securities is payable and the rate is adjusted to equal the three month LIBOR plus 1.60% each January 7, April 7, July 7 or October 7 of each year. As of March 31, 2011, the rate was 1.98%. Interest expense recognized by the Company for the three months ended March 31, 2011 was $94,907.

Table of Contents

Capital

Our stockholders equity was $99,543,000 as of March 31, 2011 compared to $97,391,000 as of December 31, 2010. The increase in stockholders equity is the result of retained earnings increase of $1,491,000 for the three months ended March 31, 2011, an increase in other comprehensive income net of tax of $91,000, and proceeds from the exercise of employee stock options of $559,000.

Management considers capital requirements as part of its strategic planning process. The strategic plan calls for continuing increases in assets and liabilities, and the capital required may therefore be in excess of retained earnings. The ability to obtain capital is dependent upon the capital markets as well as our performance. Management regularly evaluates sources of capital and the timing required to meet its strategic objectives.

The following table presents the Company s and the Bank s Regulation capital ratios as of March 31, 2011 and December 31, 2010.

	March 31, 2011			December 31, 2010		
(Dollars in thousands)		**Amount**	**Ratio**		**Amount**	**Ratio**
Tier 1 Leverage Ratio						
Central Valley Community Bancorp and Subsidiary	$	73,050	9.87%	$	70,669	9.48%
Minimum regulatory requirement	$	29,612	4.00%	$	29,832	4.00%
Central Valley Community Bank	$	71,514	9.67%	$	69,457	9.32%
Minimum requirement for Well-Capitalized institution	$	36,989	5.00%	$	37,264	5.00%
Minimum regulatory requirement	$	29,591	4.00%	$	29,811	4.00%
Tier 1 Risk-Based Capital Ratio						
Central Valley Community Bancorp and Subsidiary	$	73,050	14.81%	$	70,669	14.16%
Minimum regulatory requirement	$	19,729	4.00%	$	19,965	4.00%
Central Valley Community Bank	$	71,514	14.51%	$	69,457	13.92%
Minimum requirement for Well-Capitalized institution	$	29,570	6.00%	$	29,929	6.00%
Minimum regulatory requirement	$	19,714	4.00%	$	19,953	4.00%
Total Risk-Based Capital Ratio						
Central Valley Community Bancorp and Subsidiary	$	79,298	16.08%	$	76,982	15.42%
Minimum regulatory requirement	$	39,458	8.00%	$	39,931	8.00%
Central Valley Community Bank	$	77,757	15.78%	$	75,766	15.19%
Minimum requirement for Well-Capitalized institution	$	49,284	10.00%	$	49,881	10.00%
Minimum regulatory requirement	$	39,427	8.00%	$	39,905	8.00%

We are required to deduct the disallowed portion of net deferred tax assets from Tier 1 capital in calculating our capital ratios. Generally, disallowed deferred tax assets that are dependent upon future taxable income are limited to the lesser of the amount of deferred tax assets that we expect to realize within one year, based on projected future taxable income, or 10% of the amount of our Tier 1 capital. Disallowed deferred tax assets deducted from Tier 1 capital were $5,764,000 and $5,981,000 at March 31, 2011 and December 31, 2010, respectively.

Liquidity

Liquidity management involves our ability to meet cash flow requirements arising from fluctuations in deposit levels and demands of daily operations, which include funding of securities purchases, providing for customers credit needs and ongoing repayment of borrowings. Our liquidity is actively managed on a daily basis and reviewed periodically by our management and Director s Asset/Liability Committees. This process is intended to ensure the maintenance of sufficient funds to meet our needs, including adequate cash flow for off-balance sheet commitments.

Our primary sources of liquidity are derived from financing activities which include the acceptance of customer and, to a lesser extent, broker deposits, Federal funds facilities with correspondent banks, and advances from the Federal Home Loan Bank of San Francisco. These funding sources are augmented by payments of principal and interest on loans, the routine maturities and pay downs of securities from the securities portfolio, the stability of our core deposits and the ability to sell investment securities. As of March 31, 2011, the Company had unpledged securities totaling $67,958,000 available as a secondary source of liquidity and total cash and cash equivalents of

Table of Contents

$84,431,000. Cash and cash equivalents at March 31, 2011 decreased 16.40% compared to December 2010. Primary uses of funds include withdrawal of and interest payments on deposits, originations and purchases of loans, purchases of investment securities, and payment of operating expenses. Due to the negative impact of the slow economic recovery, we have been cautiously managing our asset quality. Consequently, expanding our portfolio or finding adequate investments to utilize some of our excess liquidity has been difficult in the current economic environment.

As a means of augmenting our liquidity, we have established federal funds lines with correspondent banks. At March 31, 2011 our available borrowing capacity includes approximately $39,000,000 in unsecured credit lines with our correspondent banks, $112,570,100 in unused FHLB advances and $1,064,000 secured credit line at the Federal Reserve Bank. We believe our liquidity sources to be stable and adequate. At March 31, 2011, we were not aware of any information that was reasonably likely to have a material effect on our liquidity position.

The following table reflects the Company s credit lines, balances outstanding, and pledged collateral at March 31, 2011 and December 31, 2010:

Credit Lines (In thousands)		**March 31, 2011**		**December 31, 2010**
Unsecured Credit Lines (interest rate varies with market):				
Credit limit	$	39,000	$	39,000
Balance outstanding	$		$	
Federal Home Loan Bank (interest rate at prevailing interest rate):				
Credit limit	$	116,570	$	114,659
Balance outstanding	$	4,000	$	14,000
Collateral pledged	$	120,084	$	123,717
Fair value of collateral	$	122,627	$	126,326
Federal Reserve Bank (interest rate at prevailing discount interest rate):				
Credit limit	$	1,064	$	1,321
Balance outstanding	$		$	
Collateral pledged	$	1,027	$	1,278
Fair value of collateral	$	1,084	$	1,354

The liquidity of the parent company, Central Valley Community Bancorp, is primarily dependent on the payment of cash dividends by its subsidiary, Central Valley Community Bank, subject to limitations imposed by the regulations.

OFF-BALANCE SHEET ITEMS

In the ordinary course of business, the Company is a party to financial instruments with off-balance risk. These financial instruments include commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received. For an expanded discussion of these financial instruments, refer to Note 8 of the Notes to

Consolidated Financial Statements included herein and Note 11 of the Notes to Consolidated Financial Statements in the Company s 2010 Annual Report to Shareholders on Form 10-K.

In the ordinary course of business, the Company is party to various operating leases. For a fuller discussion of these financial instruments, refer to Note 11 of the Notes to Consolidated Financial Statements in the Company s 2010 Annual Report to Shareholders on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, management, including the Company s Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures with respect to the information generated for use in this Quarterly Report. The evaluation was based in part upon reports provided by a number of executives. Based upon, and as of the date of that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures, as so amended, were effective to provide reasonable assurances that information required to be disclosed in the reports the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that information required to be disclosed by the Company in the reports that it files or submits is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

Table of Contents

There was no change in the Company s internal controls over financial reporting during the quarter ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, the Company s internal controls over financial reporting.

In designing and evaluating disclosure controls and procedures, the Company s management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurances of achieving the desired control objectives and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

PART II OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

None to report.

ITEM 1A RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2 CHANGES IN SECURITIES AND USE OF PROCEEDS

None to report.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None to report.

ITEM 4 REMOVED AND RESERVED

ITEM 5 OTHER INFORMATION

None to report.

ITEM 6 EXHIBITS

None to report.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Central Valley Community Bancorp

Date: May 13, 2011	/s/ Daniel J. Doyle Daniel J. Doyle President and Chief Executive Officer
Date: May 13, 2011	/s/ David A. Kinross David A. Kinross Senior Vice President and Chief Financial Officer