2010
Annual Report

Banking **Your Way**

To The Shareholders

Daniel J. Doyle
President, CEO and Director
Central Valley Community Bancorp
Central Valley Community Bank

Daniel N. Cunningham
Director, Quinn Group, Inc.
Founding Director and Chairman of the Board
Central Valley Community Bancorp

Success In A Year Of Economic Challenge

Despite another year of economic volatility, the Company achieved several encouraging highlights. We earned a profit each quarter throughout the recession, improved our loan quality trends, and demonstrated growth in both assets and deposits while expanding our presence in Modesto and Merced. While the Bank did not fully achieve its financial goals, 2010 will be remembered as a year of growth and outperforming its peers by most measures.

Most business owners felt 2010 was very much like 2009. Foreclosures and bankruptcies continued at high levels, despite the stabilization of residential real estate values. And due to lower rents, higher vacancies and cap rates, commercial real estate values continued to decline.

The banking industry remained troubled in 2010, with bank closures rising from 140 in 2009 to 157 in 2010 – an increase of 12%. Banks considered to be "in trouble" more than doubled, rising from 400 in 2009 to 860 in 2010. Currently, there are 884 troubled banks – more than 10% of the total banks in the U.S. Additionally, 60% of the banks in California are under some form of regulatory order. Fortunately, our Bank is not a part of these groups.

Due to continued strong performance versus other banks in California and the Western U.S., our Bank is in much better shape than most others. Still, the strength and soundness of our Company will be tested in 2011, as it promises to be another challenging year.

Sound Earnings & Financial Performance

The Company has shown profits throughout the recession and we were profitable for each quarter in 2010, ending the year with increased earnings over 2009. However, the overall economy is still a challenge for many of our clients and, coupled with the uncertain length of the current economic cycle, the Bank has chosen to continue increasing reserves and capital.

We are encouraged that certain business sectors such as agriculture are doing well, and that real estate values are stabilizing. And we remain thankful that our loyal customers have seen the benefit of our 31 years of financial advocacy, and have chosen not only to remain with our Bank but also to provide new business referrals.

Our non-interest income was negatively impacted due to changes in Regulation E, which affects overdraft services. To mitigate most of this lost revenue, we made changes to our suite of checking accounts and are planning additional services for 2011.

We remained diligent in reducing non-performing loans from the peak of the recession and continued to build our reserves, liquidity and capital in 2010. Our biggest challenge in 2010 was increasing quality loans, as many customers were hesitant to increase their debt during continued economic uncertainty. Additionally, as current loans were paid down, it was challenging to replace them with new loans to help our earnings. However, Central Valley Community Bank fared better in the quality of our loans than many other banks. Our diversified loan portfolio and quality borrowers helped our performance, as well as the fact that we are not as concentrated in construction and investment real estate loans as other banks.

Non-performing assets, including OREO, improved in the year-over-year comparison. And with the advocacy of our seasoned lending team, we have helped many of our business customers make the best of these challenging years. As more customers take a "flight to safety" in the current economic cycle, deposits have grown and the costs of those deposits have decreased.

Shareholder Value Remains Strong

Maximizing shareholder value remains our top priority. While the Company's stock continues to trade below book value, and there appears to be no single reason, we remain committed to raising this value so that we can pursue new growth. We are pleased to report that Sandler O'Neill + Partners, L.P. named our Company stock as one of their "Top Investment Ideas" for both 2010 and 2011.

The Company has been approved by the U.S. Treasury to repay our preferred shares of stock under TARP, subject to regulatory approval. However, we want to be sure this additional capital is not needed immediately for future expansion or bolstering our capital in the uncertain economy.

Shareholders can take heart in the fact that we have passed the 30-year milestone in strong, stable banking. This stability descends largely from our dedicated Board of Directors, which continues to provide value in terms of length of service, guidance and prudent business decisions.

A Milestone Year For The Bank

Beyond the Bank's 30th anniversary celebration, we marked 2010 with two notable expansions. In September, the Bank expanded its presence in Modesto, taking advantage of the closure of another community bank office. We opened a new, full-service branch and hired six local banking professionals, while consolidating the Bank's existing Modesto loan production office into the new larger facility. This expanded office marks our 17th full-service branch in the Valley.

In November, the Merced region experienced its own community bank office closure, and the Bank relocated its existing Merced office to the larger facility vacated by the departing bank. The Bank hired four banking professionals for the newly-expanded branch, providing employment to experienced bankers who would have otherwise lost their jobs. Their strong relationship skills have benefitted the Bank as they have successfully added new customers to the Merced office.

We continue to support our communities not only with financial donations to worthwhile nonprofit organizations, but also with the number of Bank employees who willingly share their expertise, like team member Tom Sommer who chairs the CASA Board of Directors in Fresno. As President and CEO, I personally serve on many local nonprofit boards, and was recently appointed to a three-year term on the Federal Reserve Bank of San Francisco's Twelfth District Community Depository Institutions Advisory Council. I also serve as immediate Past Chairman of the Board for the California Bankers Association.

Other 2010 highlights include the continuation of our popular document shredding events. To demonstrate our commitment to customer privacy and security, we offered free document shredding for customers and the community at large. The events coincided with tax season at 14 of our Central Valley offices, continuing a four-year tradition.

The year also found the Bank making a number of changes to products and services; among them, the fourth quarter launch of a new suite of value-added Personal Checking accounts that offer expanded convenience, savings and identity protection.

We expanded our Cash Management department in 2010 with a seasoned team member in the northern Valley, added Lock Box for business customers, and prepared for a significant upgrade to our business online banking platform in 2011, including enhanced security. To improve future efficiency, we streamlined customer information files, and prepared our personal online platform for a 2011 conversion, allowing customers to "bank their way" in a robust system that provides added convenience and E-Statement service.

Handling Change In The Banking Industry

Congress and the media continued painting the banking industry with a broad and negative brush in 2010. They categorized all banks as Wall Street financial institutions, and suggested banks were bailed out with TARP, even though 75% of those dollars have been repaid to the U.S. Treasury with a handsome profit. As an industry, we continue to support our communities with products and services to help businesses grow and consumers meet their financial goals.

Among the most notable changes affecting the industry in 2010 were overdraft coverage amendments to Regulation E. As a result, the Bank's customers were required to opt-in by August 15, 2010 to authorize the payment of overdrafts at ATMs and points-of-sale to continue using this valuable service.

The Dodd-Frank Wall Street Reform and Consumer Protection Act was enacted on July 21, 2010 bringing more regulations that impact our costs and how we do business. Among its provisions is the creation of the Consumer Financial Protection Bureau, which wields a great deal of power over banks. The exact scope of the bureau's role will be defined over the next few years, and while we are concerned about the consequences that will likely impact our customers, we are committed to following the changes carefully, as we continue to provide the very best products and services to our customers.

Lastly, there were changes in FDIC insurance coverage. As of July 21, 2010 FDIC insurance for bank deposits was permanently increased from $100,000 to $250,000 for all insurable accounts, and its 100% guarantee on non-interest bearing accounts and Interest on Lawyers Trust Accounts was extended to December 31, 2012.

Looking Ahead To 2011 & Beyond

As we look to the future, we see big opportunities ahead for Central Valley Community Bank. Among the most significant is our ability to help customers expand their businesses and gain a competitive edge, since our Bank has the capital to allow us to grow with our customers without being saddled by a large number of problem loans. With our strong capital position and profitability, we also see opportunities to expand the Bank with potential acquisitions.

All in all, we believe the Bank is solidly positioned for the challenging year ahead. Much of that strength comes from our team of bankers, our dedicated Board of Directors and our senior management team, all committed to expanding our unique brand of strong, secure banking in the communities we serve. We also appreciate the strong support of our customers and shareholders, whose trust we strive to earn each day. We thank you for your role in the Company's continued success.

Daniel N. Cunningham
Chairman of the Board

Daniel J. Doyle
President and Chief Executive Officer

Strong. Solid. Unchanging Values.

Board Of Directors

From Left to Right:

Louis C. McMurray
President
Charles McMurray Co.

Edwin S. Darden, Jr.
Principal
Darden Architects, Inc.

Sidney B. Cox
Owner
Cox Communications

Daniel N. Cunningham
Chairman of the Board,
Director
Quinn Group, Inc.

Daniel J. Doyle
President and CEO
Central Valley Community Bancorp,
Central Valley Community Bank

Steven D. McDonald
Secretary of the Board,
President
McDonald Properties, Inc.

William S. Smittcamp
President/Owner
Wawona Frozen Foods

Joseph B. Weirick
Investments

Not Pictured:

Wanda L. Rogers
Director Emeritus,
President
Rogers Helicopters, Inc.

San Joaquin County Advisory Board

An advisory board for the San Joaquin County region market knowledge and assists with strategic growth opportunities for the Bank. Members of the advisory board include:

Sidney Alegre
Judith Buethe
Mary Ghio
Phil Katzakian
George Liepart
Clark Mizuno
Rick Paulsen
Russell Ray
Penny van der Meer

A 31-Year Tradition Of Strong & Secure Banking

Central Valley Community Bancorp (the "Company") was established on November 15, 2000, as the holding company for Central Valley Community Bank (CVCB) and is registered as a bank holding company with the Board of Governors of the Federal Reserve System. The Company currently conducts no operations other than through its ownership of the Bank. The common stock of the Company trades on the NASDAQ stock exchange under the symbol CVCY.

A Strong History Of Steady Growth

Central Valley Community Bank, founded in 1979 as Clovis Community Bank, is a California State chartered bank with deposit accounts insured by the Federal Deposit Insurance Corporation (FDIC). The Bank commenced operations on January 10, 1980, in Clovis, California, with 12 professional bankers and beginning assets of $2,000,000. Currently, CVCB operates 17 full-service offices in Clovis, Fresno, Kerman, Lodi, Madera, Merced, Modesto, Oakhurst, Prather, Sacramento, Stockton and Tracy, plus Commercial, Real Estate, SBA and Agribusiness Lending Departments. Investment services are provided by Investment Centers of America, and Central Valley Community Insurance Services, LLC, provides financial and insurance solutions for businesses. Now with over 200 employees and assets of over $775,000,000 as of December 31, 2010, Central Valley Community Bank has grown into a well-capitalized institution, with a proven track record of financial strength, security and stability. Yet despite the Bank's growth, it has remained true to its original "roots" – a commitment to its core values of integrity, trustworthiness, caring, loyalty, leadership and teamwork.

Central Valley Community Bank distinguishes itself from other financial institutions through its 31-year track record of strength, security, client advocacy and the unchanged values that have guided the Bank since its opening. The Bank's unique brand of personalized service has expanded as the operation has strategically grown throughout the San Joaquin Valley. Guided by a hands-on Board of Directors and a seasoned senior management team, CVCB continues to focus on personalized service and customer and employee satisfaction. The Bank has remained committed to the ongoing addition and retention of high-quality employees, as evidenced by participating and being honored twice by the Business Journal as one of the top four "Best Companies To Work For" in Central California's six-county region in the large-sized business category.

Unparalleled Protection, Unbeatable Convenience

Central Valley Community Bank maintains state-of-the-art data processing and information systems, and offers a complete line of competitive business and personal deposit and loan products. Through FDIC insurance, customer deposits for all insurable accounts are protected up to $250,000. All funds in "noninterest-bearing transaction accounts" and Interest on Lawyers Trust Accounts are insured in full by the FDIC from December 31, 2010 through December 31, 2012. This temporary unlimited coverage is in addition to, and separate from, the coverage of at least $250,000 available to depositors under the FDIC's general deposit insurance rules.

For maximum convenience, Online Banking, Bill Pay and a full range of Cash Management and Remote Deposit services are available at www.cvcb.com. In addition, ATMs are available around the clock at most CVCB offices, BankLine provides 24-hour telephone banking, and extended days and banking hours are offered at select CVCB offices.

Success Built On "Relationship Banking"

Central Valley Community Bank has built a reputation for superior banking service by offering personalized "relationship banking" for businesses, professionals and individuals. Serving the business community has always been a primary focus for CVCB, which continues to expand its commercial banking team to serve even more customers. The Bank's experienced local banking professionals live and work in the local community, and have a deep understanding of the marketplace. As a result, CVCB has remained an active business lender and is proud to be ranked number one SBA 504 Lender for Fresno, Kings and Madera counties for 8 of the past 11 years. Offering a wide range of lending products, CVCB is committed to helping businesses thrive even in the toughest economic times.

The Bank is committed to increasing and enhancing its products and services, while emphasizing needs-based consulting within the branch environment. Serving both new and long-time customers continues to be an important factor in the Bank's growth, as demonstrated in ongoing customer referrals. Dependable values and security have always been important to America's banking customers, and CVCB is well-positioned to provide them, with an ongoing emphasis on privacy, safety and convenience.

Leadership Fully Invested In The Community

The Bank is focused not only on individual customers, but also on investing in the communities it serves. Each year, the Bank donates time, expertise and financial support to a wide variety of local charities and philanthropies. Additionally, the Bank's management currently serves in over 80 different civic and philanthropic organizations in the Valley. This includes President and CEO, Dan Doyle, who currently serves on the Federal Reserve Bank of San Francisco's Twelfth District Community Depository Institutions Advisory Council, and is the immediate Past Chairman of the Board for the California Bankers Association, among many other organizations.

A Proud Past, A Promising Future

Thanks to the vision of Central Valley Community Bancorp, as well as the leadership of its Board of Directors, CVCB has grown steadily and sensibly over the past 31 years, keeping pace with the needs of its customers and the communities it serves. All while retaining the local leadership and values that formed the Bank's firm foundation. Central Valley Community Bank. Strong. Solid. Unchanging Values.

Leading Our **Team**

Central Valley Community Bank Senior Management
From Left: David Kinross, Thomas Sommer, Daniel Doyle, Lydia Shaw and Gary Quisenberry

Mission Statement

As A Full Service Bank, We Are Committed To:

Providing a full range of financial services desired by our customers, while providing superior customer service delivered in a highly professional and personal manner

Maintaining a positive work environment and investing in each individual to"be the best they can be"

Contributing to the quality of life in the communities we serve

Continuing to maximize shareholder value

Being the "Bank of Choice" for customers and employees!

Core Values

Leadership
Integrity
Loyalty
Caring
Teamwork
Trustworthiness

Exceptional Employees

Each year Central Valley Community Bank's top-performing employees are recognized in the Circle of Excellence, and from that group, the best are designated to the Circle of Elite.

The 2010 Circle of Elite included:

Cathy Chatoian
Vice President, Cash Management Manager

Darren Ensign
Retail Administrative Officer

Pam Fisher
Consumer Loan Underwriter/Credit Analyst

Teresa Gilio
Vice President, Central Operations Manager

Crystal Grieco
Customer Service Manager

Donielle Kramer
Human Resources Benefits and Payroll Administrator

Corina Ramon
Financial Service Representative

John Zahorowski
Courier

Officers

Holding Company and Bank Officers:

Daniel J. Doyle
President and Chief Executive Officer

David A. Kinross
Senior Vice President,
Chief Financial Officer

Thomas L. Sommer
Senior Vice President,
Credit Administrator

Bank Officers:

Gary D. Quisenberry
Senior Vice President,
Commercial and Business Banking

Lydia E. Shaw
Senior Vice President,
Retail and Consumer Banking

Shelle Abbott
Vice President,
Branch Manager

Evey Amado
Vice President,
Cash Management Officer

Susan Armstrong
Vice President,
Branch Manager

Jacquie Ashjian
Vice President,
Credit Officer

Patrick Carman
Vice President
Senior Credit Officer

Cyndi Carmichael
Vice President,
Compliance Officer

Jason Carlson
Vice President,
Business Development Officer

Vicki Casares
Vice President,
Branch Manager

Cathy Chatoian
Vice President,
Cash Management Manager

Jenhi Ciapponi
Vice President,
Commercial Loan Officer

Terry Crawford
Vice President,
Agricultural Lending Group Manager

Tom Crawley
Vice President,
Commercial Loan Officer

Stan Davis
Vice President,
Small Business/Consumer Underwriting
Department Manager

Daniel Demmers
Vice President,
Information Services Manager

Ken Dodderer
Vice President,
Commercial Loan Officer

Bob Elledge
Vice President,
Commercial Loan Officer

Steve Freeland
Vice President,
Asset Credit Officer

Rod Geist
Vice President,
Branch Manager

Teresa Gilio
Vice President,
Central Operations Manager

Diane Hamp
Vice President,
Loan Servicing Manager

Tim Harris
Vice President,
Private Banking Manager

Charles Jones
Vice President,
Branch Manager

Bernie Kraus
Vice President,
Commercial Loan Officer

Mari Kroigaard
Vice President,
SBA Department Manager

Shawn Kruitbosch
Vice President,
Credit Review Officer

Marci Madsen
Vice President,
Human Resources Director

Brad Majors
Vice President,
Branch Manager

Gina Manley
Vice President,
Branch Manager

Rona Melkus
Vice President,
Controller

Don Mendenhall
Vice President,
Commercial Loan Officer

Sheryl Michael
Vice President,
Branch Manager

Heather Mills
Vice President,
Private Banking Officer

Autumn Muller-Carrillo
Vice President,
Branch Manager

Linda Ogata
Vice President,
Commercial Loan Officer

Frank Oliver
Vice President,
Commercial Loan Officer

Jean Ornelas
Vice President,
Real Estate Construction Loan Officer

Jeff Pace
Vice President,
Real Estate Department Manager

Shannon Reinard
Vice President,
Branch Manager

John Royal
Vice President,
Commercial Loan Officer

Elizabeth Salas
Vice President,
Branch Manager

Karen Smith
Vice President,
Branch Manager

Ryan Streeter
Vice President,
Commercial Loan Officer

Theodore Thome
Vice President,
Commercial Loan Officer

Ramina Ushana
Vice President,
Branch Manager

Doug Van den Enden
Vice President,
Commercial Loan Officer

Robert Walker
Vice President,
Commercial Loan Officer

Jeannine Welton
Vice President,
Branch Manager

Jennette Williams
Vice President,
Commercial Loan Officer

Carol Worstein
Vice President,
Branch Manager

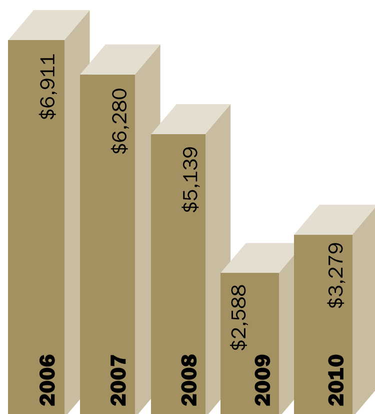
Independent Auditors

Perry-Smith LLP, Sacramento, CA

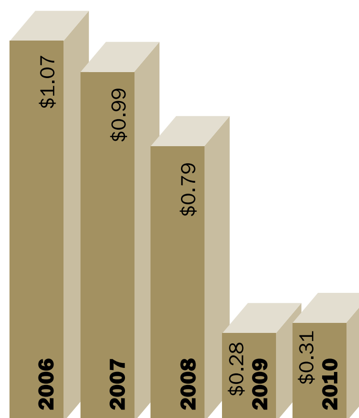
Counsel

Downey Brand LLP, Sacramento, CA

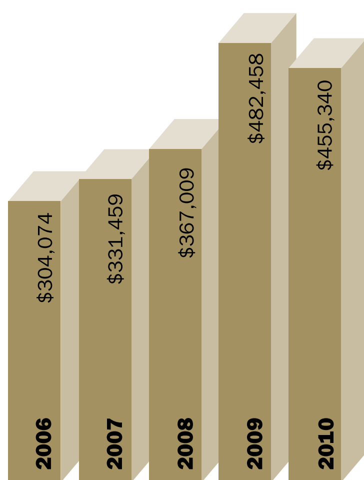
Central Valley Community Bancorp
Trend Analysis



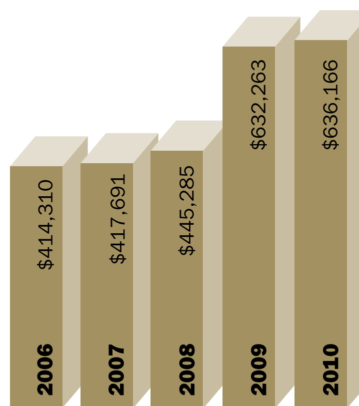
Net Income *(In Thousands)*



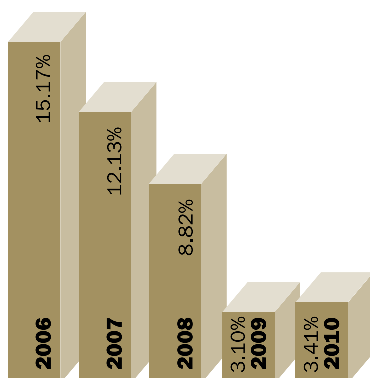
Diluted Earnings Per Share



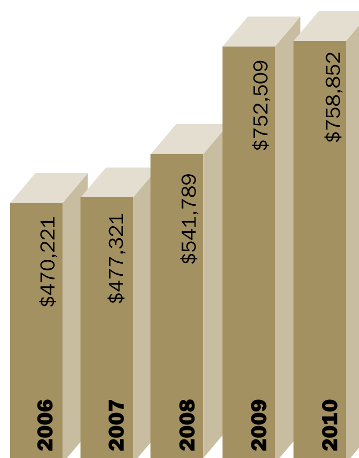
Average Total Loans *(In Thousands)*



Average Total Deposits *(In Thousands)*



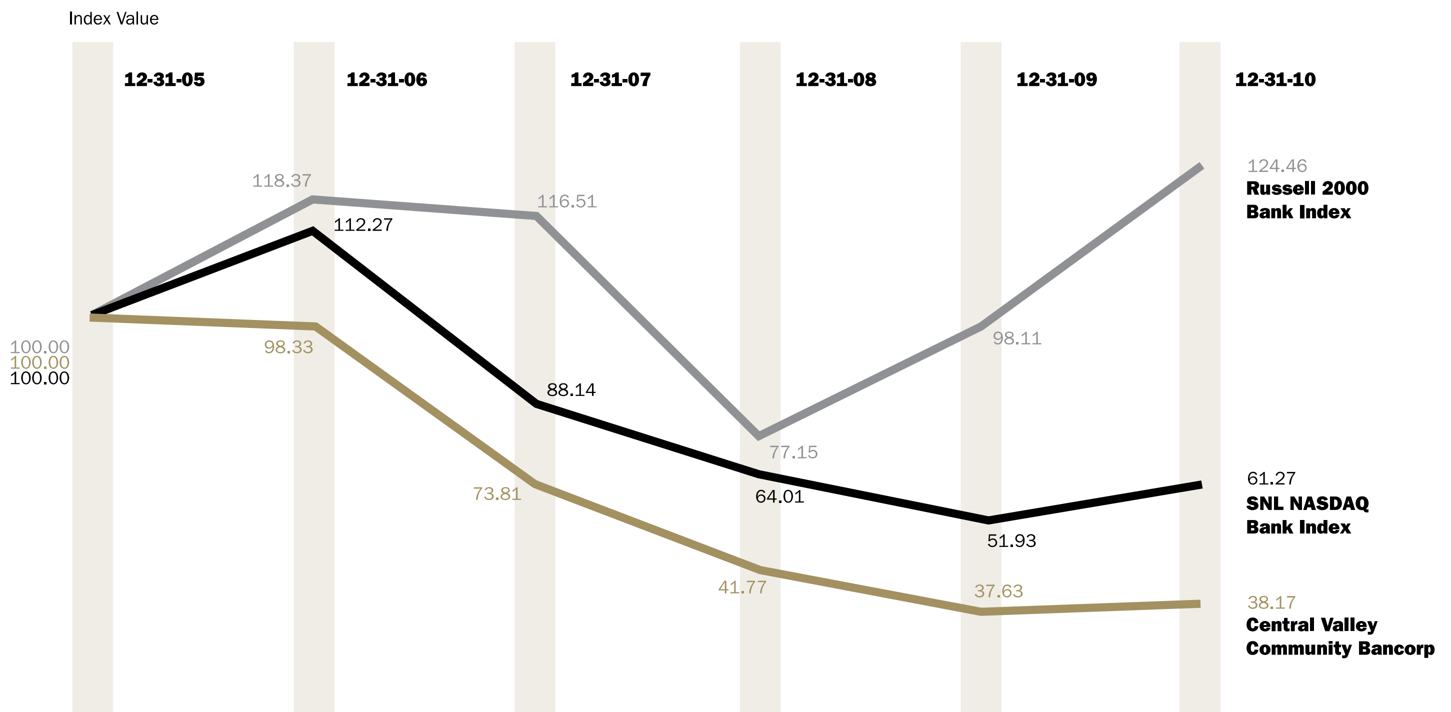
Return on Shareholders' Equity



Average Total Assets *(In Thousands)*

Central Valley Community Bancorp
Comparative Stock Price Appreciation

Total Return Performance



Note: The stock price performance shown in the graphs above should not be indicative of potential future stock price performance.

Source: SNL Financial LC

Consolidated Balance Sheets

December 31, 2010 and 2009 (In thousands, except per share amounts)

ASSETS		2010		2009
Cash and due from banks	$	11,357	$	13,857
Interest-earning deposits in other banks		89,042		34,544
Federal funds sold		600		279
Total cash and cash equivalents		100,999		48,680
Available-for-sale investment securities (Amortized cost of $189,682 at December 31, 2010 and $199,744 at December 31, 2009)		191,325		197,319
Loans, less allowance for credit losses of $11,014 at December 31, 2010 and $10,200 at December 31, 2009		420,583		449,007
Bank premises and equipment, net		5,843		6,525
Other real estate owned		1,325		2,832
Bank owned life insurance		11,390		10,998
Federal Home Loan Bank stock		3,050		3,140
Goodwill		23,577		23,577
Core deposit intangibles		1,198		1,612
Accrued interest receivable and other assets		18,304		21,798
Total assets	$	777,594	$	765,488
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits:				
Non-interest bearing	$	173,867	$	159,630
Interest bearing		476,628		480,537
Total deposits		650,495		640,167
Short-term borrowings		10,000		5,000
Long-term debt		4,000		14,000
Junior subordinated deferrable interest debentures		5,155		5,155
Accrued interest payable and other liabilities		10,553		9,943
Total liabilities		680,203		674,265
Commitments and contingencies (Note 12)				
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 shares issued and outstanding		6,864		6,819
Series B, no par value, issued and outstanding none at December 31, 2010 and 1,359 at December 31, 2009		-		1,317
Common stock, no par value; 80,000,000 authorized; issued and outstanding 9,109,154 at December 31, 2010 and 8,949,754 at December 31, 2009		38,428		37,611
Non-voting common stock, 1,000,000 authorized; issued and outstanding 258,862 at December 31, 2010 and none at December 31, 2009		1,317		-
Retained earnings		49,815		46,931
Accumulated other comprehensive income (loss), net of tax		967		(1,455)
Total shareholders' equity		97,391		91,223
Total liabilities and shareholders' equity	$	777,594	$	765,488

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements
of Income

For the Years Ended December 31, 2010, 2009, and 2008 (In thousands, except per share amounts)

	2010	2009	2008
INTEREST INCOME:			
Interest and fees on loans	$ 27,390	$ 29,920	$ 25,631
Interest on deposits in other banks	110	8	39
Interest on Federal funds sold	2	48	251
Interest and dividends on investment securities:			
Taxable	5,472	7,701	4,806
Exempt from Federal income taxes	3,039	3,057	1,118
Total interest income	36,013	40,734	31,845
INTEREST EXPENSE:			
Interest on deposits	3,713	5,867	6,340
Interest on junior subordinated deferrable interest debentures	102	129	46
Other	468	631	892
Total interest expense	4,283	6,627	7,278
Net interest income before provision for credit losses	31,730	34,107	24,567
PROVISION FOR CREDIT LOSSES	3,800	10,514	1,290
Net interest income after provision for credit losses	27,930	23,593	23,277
NON-INTEREST INCOME:			
Service charges	3,225	3,509	3,350
Appreciation in cash surrender value of bank owned life insurance	392	391	268
Loan placement fees	300	231	111
Gain on disposal of other real estate owned	176	-	-
Net realized (losses) gains on sales and calls of investment securities	(191)	466	165
Total impairment on investment securities	(3,346)	-	-
Increase in fair value recognized in other comprehensive income	1,759	-	-
Net impairment loss recognized in earnings	(1,587)	-	-
Federal Home Loan Bank dividends	11	7	118
Other income	1,395	1,246	1,178
Total non-interest income	3,721	5,850	5,190
NON-INTEREST EXPENSES:			
Salaries and employee benefits	14,871	13,926	11,578
Occupancy and equipment	3,867	3,812	2,890
Regulatory assessments	1,191	1,604	330
Data processing expense	1,197	1,316	848
Advertising	669	722	500
Audit and accounting fees	496	503	390
Legal fees	495	330	141
Other real estate owned	1,071	479	-
Amortization of core deposit intangibles	414	414	231
Loss on sale of assets	10	55	-
Other expense	4,460	4,370	4,068
Total non-interest expenses	28,741	27,531	20,976
Income before provision for income taxes	2,910	1,912	7,491
(BENEFIT FROM) PROVISION FOR INCOME TAXES	(369)	(676)	2,352
Net income	$ 3,279	$ 2,588	$ 5,139
Net income	$ 3,279	$ 2,588	$ 5,139
Preferred stock dividends and accretion	395	365	-
Net income available to common shareholders	$ 2,884	$ 2,223	$ 5,139
Basic earnings per common share	$ 0.31	$ 0.29	$ 0.83
Diluted earnings per common share	$ 0.31	$ 0.28	$ 0.79
Cash dividends per common share	$ -	$ -	$ 0.10

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements
of Changes in Shareholders' Equity

For the Years Ended December 31, 2010, 2009, and 2008 (In thousands, except share and per share amounts)

	Preferred Stock				Common Stock			Accumulated Other Comprehensive (Loss) Income (Net of Taxes)	Total Shareholders' Equity	Total Comprehensive Income
	Series A		Series B				Retained Earnings			
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance, January 1, 2008	-	$ -	-	$ -	5,975,316	$ 13,571	$ 40,483	$ 140	$ 54,194	
Comprehensive income:										
Net income	-	-	-	-	-	-	5,139	-	5,139	$ 5,139
Other comprehensive income, net of tax:										
Net change in unrealized gain on available-for-sale investment securities	-	-	-	-	-	-	-	48	48	48
Total comprehensive income										$ 5,187
Cash dividend - $.10 per share	-	-	-	-	-	-	(598)	-	(598)	
Repurchase and retirement of common stock	-	-	-	-	(5,436)	(56)	-	-	(56)	
Stock issued for acquisition	-	-	-	-	1,628,397	16,600	-	-	16,600	
Stock-based compensation expense	-	-	-	-	-	100	-	-	100	
Stock options exercised and related tax benefit	-	-	-	-	44,003	264	-	-	264	
Cumulative effect of adopting ASC 715-60 (previously EITF 06-04)	-	-	-	-	-	-	(316)	-	(316)	
Balance, December 31, 2008	-	-	-	-	7,642,280	30,479	44,708	188	75,375	
Comprehensive income:										
Net income	-	-	-	-	-	-	2,588	-	2,588	$ 2,588
Other comprehensive income, net of tax:										
Net change in unrealized gain (loss) on available-for- sale investment securities	-	-	-	-	-	-	-	(1,643)	(1,643)	(1,643)
Total comprehensive income	-	-	-	-	-	-	-	-	-	$ 945
Issuance of preferred stock Series A, net of discount	7,000	6,775			-	-	-	-	6,775	
Issuance of preferred stock Series B, net of issuance cost	-	-	1,359	1,317	-	-	-	-	1,317	
Issuance of common stock, net of issuance costs	-	-	-	-	1,264,952	6,441	-	-	6,441	
Issuance of common stock warrants	-	-	-	-	-	225	-	-	225	
Stock-based compensation expense	-	-	-	-	-	284	-	-	284	
Stock options exercised and related tax benefit	-	-	-	-	42,522	182	-	-	182	
Preferred stock dividends and accretion of discount	-	44	-	-	-	-	(365)	-	(321)	
Balance, December 31, 2009	7,000	6,819	1,359	1,317	8,949,754	37,611	46,931	(1,455)	91,223	
Comprehensive income:										
Net income	-	-	-	-	-	-	3,279	-	3,279	$ 3,279
Other comprehensive income, net of tax:										
Net change in unrealized gain (loss) on available-for-sale investment securities	-	-	-	-	-	-	-	2,422	2,422	2,422
Total comprehensive income										$ 5,701
Stock-based compensation expense	-	-	-	-	-	239	-	-	239	
Conversion of preferred stock Series B, to common stock - non-voting	-	-	(1,359)	(1,317)	258,862	1,317	-	-	-	
Stock options exercised and related tax benefit	-	-	-	-	159,400	578	-	-	578	
Preferred stock dividends and accretion	-	45	-	-	-	-	(395)	-	(350)	
Balance, December 31, 2010	7,000	$ 6,864	-	$ -	9,368,016	$ 39,745	$ 49,815	$ 967	$ 97,391	

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements
of Cash Flows

For the Years Ended December 31, 2010, 2009, and 2008 (In thousands)

	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 3,279	$ 2,588	$ 5,139
Adjustments to reconcile net income to net cash provided by operating activities:			
Net increase (decrease) in deferred loan fees	107	174	(370)
Depreciation	1,262	1,367	1,028
Accretion	(983)	(1,796)	(445)
Amortization	2,014	414	231
Stock-based compensation	239	284	100
Tax benefit from exercise of stock options	(28)	(7)	(57)
Provision for credit losses	3,800	10,514	1,290
Net other than temporary impairment losses on investment securities	1,587	300	-
Net realized losses (gains) on sales and calls of available-for-sale investment securities	191	(942)	(165)
Net realized losses on sales of held-to-maturity investment securities	-	176	-
Net loss on sale and disposal of equipment	10	55	-
Net gain on sale of other real estate owned	(66)	-	-
Write down of other real estate owned and other property	638	356	-
Increase in bank owned life insurance, net of expenses	(392)	(190)	(269)
Federal Home Loan Bank stock dividends	-	-	(118)
Net decrease (increase) in accrued interest receivable and other assets	3,281	(1,106)	(426)
Net decrease (increase) in prepaid FDIC assessments	981	(3,740)	-
Net increase (decrease) in accrued interest payable and other liabilities	594	(2,259)	294
(Benefit) provision for deferred income taxes	(2,337)	788	(556)
Net cash provided by operating activities	14,177	6,976	5,676
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash and cash equivalents acquired in acquisition	-	-	2,132
Purchases of available-for-sale investment securities	(39,985)	(82,178)	(57,484)
Purchases of held-to-maturity investment securities	-	(410)	(7,466)
Proceeds from sales or calls of available-for-sale investment securities	19,594	40,407	12,327
Proceeds from calls of held-to-maturity investment securities	-	1,474	-
Proceeds from maturity of available-for-sale investment securities	157	2,923	9,000
Proceeds from principal repayments of available-for-sale investment securities	27,901	29,954	18,525
Proceeds from principal repayments of held-to-maturity investment securities	-	2,793	501
Net decrease (increase) in loans	21,214	14,379	(24,666)
Proceeds from sale of other real estate owned	4,203	-	-
Purchases of premises and equipment	(595)	(991)	(1,092)
Proceeds from sale of premises and equipment	5	-	-
Federal Home Loan Bank stock redeemed	90	-	-
Proceeds from bank owned life insurance	-	430	-
Net cash provided by (used in) investing activities	32,584	8,781	(48,223)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in demand, interest-bearing and savings deposits	33,877	16,415	26,676
Net (decrease) increase in time deposits	(23,548)	(11,306)	12,332
Proceeds from issuance of Series A preferred stock and warrants	-	7,000	-
Net proceeds from issuance of Series B preferred stock	-	1,317	-
Net proceeds from issuance of common stock	-	6,441	-
Proceeds from short-term borrowings from Federal Home Loan Bank	-	10,000	135,500
Proceeds from long-term borrowings from Federal Home Loan Bank	-	-	19,000
Repayments of short-term borrowings to Federal Home Loan Bank	(5,000)	(10,000)	(165,500)
Net increase in short-term borrowings	-	-	2,803
Repayments of borrowings from other financial institutions	-	(6,367)	-
Share repurchase and retirement	-	-	(56)
Proceeds from exercise of stock options	550	175	207
Tax benefit from exercise of stock options	28	7	57
Cash dividend payments on common stock	-	-	(598)
Cash dividend payments on preferred stock	(349)	(277)	-
Net cash provided by financing activities	5,558	13,405	30,421
Increase (decrease) in cash and cash equivalents	52,319	29,162	(12,126)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	48,680	19,518	31,644
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 100,999	$ 48,680	$ 19,518
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 4,485	$ 6,983	$ 6,926
Income taxes	$ 301	$ 690	$ 3,209
NON-CASH INVESTING ACTIVITIES:			
Net pre-tax change in unrealized gain (loss) on available-for-sale investment securities	$ 4,068	$ (2,738)	$ 79
Cumulative effect of adopting ASC 715-60 (previously EITF 06-04)	-	-	(316)
NON-CASH FINANCING ACTIVITIES:			
Transfer of loans to other real estate owned	$ 3,467	$ 3,921	$ -
Accrued preferred stock dividends	$ 45	$ 44	$ -
SUPPLEMENTAL SCHEDULE RELATED TO ACQUISITIONS:			
Acquisition of Service 1st Bancorp:			
Deposits			$ 193,488
Fed funds purchased			3,565
Short-term borrowings from Federal Home Loan Bank			10,000
Junior subordinated deferrable interest debentures			5,155
Other liabilities			4,220
Loans, net			(116,028)
Goodwill and intangibles			(16,239)
Premises and equipment			(1,070)
Federal Home Loan Bank stock			(1,000)
Investment securities			(83,099)
Other assets			(9,644)
Bank owned life insurance			(3,816)
Stock issued			16,600
Cash and cash equivalents acquired, net of cash paid			$ 2,132

The accompanying notes are an integral part of these consolidated financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General - Central Valley Community Bancorp (the "Company") was incorporated on February 7, 2000 and subsequently obtained approval from the Board of Governors of the Federal Reserve System to be a bank holding company in connection with its acquisition of Central Valley Community Bank (the "Bank"). The Company became the sole shareholder of the Bank on November 15, 2000 in a statutory merger, pursuant to which each outstanding share of the Bank's common stock was exchanged for one share of common stock of the Company.

The Bank of Madera County (BMC) was merged with and into the Bank on January 1, 2005. The transaction was a combination of cash and stock and was accounted for under the purchase method of accounting. BMC had two branches in Madera County which continue to be operated by the Bank.

Service 1st Bancorp (Service 1st) and Service 1st Bank (S1 Bank) were merged with and into the Company and the Bank, respectively, on November 13, 2008. The transaction was a combination of cash and stock and was accounted for under the purchase method of accounting. Accordingly, the operating results of the Company only include the operations of Service 1st subsequent to the acquisition. Service 1st Bank had three branches in Tracy, Stockton and Lodi, California, which continue to be operated by the Bank.

Service 1st Capital Trust I (the "Trust") is a business trust formed by Service 1st for the sole purpose of issuing trust preferred securities. The Company succeeded to all the rights and obligations of Service 1st in connection with the acquisition of Service 1st. The Trust is a wholly-owned subsidiary of the Company.

The Bank operates 17 full service offices in Clovis, Fresno, west and northeast Fresno County, Madera County, Tracy, Stockton, Lodi, Merced, Modesto, and Sacramento, California. The Bank's primary source of revenue is providing loans to customers who are predominately small and middle-market businesses and individuals.

The deposits of the Bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to applicable legal limits. The FDIC implemented unlimited deposit insurance coverage on non-interest bearing transaction accounts beginning December 31, 2010, and ending December 31, 2012, as mandated by the Dodd-Frank Act. This coverage replaces the unlimited coverage under the Transaction Account Guarantee Program. Coverage under this program is confined to non-interest bearing accounts and does not cover interest-bearing NOW accounts but does include Interest on Lawyers Trust Accounts (IOLTAs). Coverage on all other accounts including interest bearing NOW accounts is limited to $250,000 beginning January 1, 2011.

The accounting and reporting policies of Central Valley Community Bancorp and Subsidiary conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Management has determined that because 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.

Certain reclassifications have been made to prior years' balances to conform to classifications used in 2010.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and the consolidated accounts of its wholly-owned subsidiary, the Bank.

For financial reporting purposes, Service 1st Capital Trust I, a wholly-owned subsidiary acquired in the merger of Service 1st Bancorp (see Note 2) and formed for the exclusive purpose of issuing trust preferred securities, is not consolidated into the Company's consolidated financial statements and, accordingly, is accounted for under the equity method. The Company's investment in the Trust is included in accrued interest receivable and other assets on the consolidated balance sheet. The junior subordinated deferrable interest debentures issued and guaranteed by the Company and held by the Trust are reflected as debt in the consolidated balance sheet.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 these estimates.

Cash and Cash Equivalents - For the purpose of the statement of cash flows, cash, due from banks and Federal funds sold are considered to be cash equivalents. Generally, Federal funds are sold for one-day periods.

Investment Securities - Investments are classified into the following categories:

- Available-for-sale securities, reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.
- Held-to-maturity securities, which management has the positive intent and ability to hold to maturity, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value. For the year ended December 31, 2010, there were no transfers between categories. During 2009, one security was transferred from held-to-maturity to available-for-sale. At December 31, 2010, the Company had no held-to-maturity securities.

Gains or losses on the sale of investment securities are computed on the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums.

An investment security is impaired when its carrying value is greater than its fair value. Investment securities that are impaired are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether such a decline in their fair value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Company to retain its investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary, and management does not intend to sell the security or it is more likely than not that the Company will not be required to sell the security before recovery, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive income. If management intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovering its forecasted cost, the entire impairment loss is recognized as a charge to earnings.

Loans - Loans are stated at principal balances outstanding. Interest is accrued daily based upon outstanding loan balances. However, when, in the opinion of management, loans are considered impaired and the future collectibility of interest and principal is in serious doubt, a loan is placed on nonaccrual status and the accrual of interest income is suspended. Any interest accrued but unpaid is charged against income. Payments received are applied to reduce principal to ensure collection. Subsequent payments on these loans, or payments received on nonaccrual loans for which the ultimate collectibility of principal is not in doubt, are applied first to principal until fully collected and then to interest.

Substantially all loan origination fees, commitment fees, direct loan origination costs and purchase premiums and discounts on loans are deferred and recognized as an adjustment of yield, and amortized to interest income over the contractual term of the loan. The unamortized balance of deferred fees and costs is reported as a component of net loans.

The Company may acquire loans through a business combination or a purchase for which differences may exist between the contractual cash flows and the cash flows expected to be collected due, at least in part, to credit quality. When the Company acquires such loans, the yield that may be accreted (accretable yield) is limited to the excess of the Company's estimate of undiscounted cash flows expected to be collected over the Company's initial investment in the loan. The excess of contractual cash flows over cash flows

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

expected to be collected may not be recognized as an adjustment to yield, loss, or a valuation allowance. Subsequent increases in cash flows expected to be collected generally are recognized prospectively through adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected are recognized as an impairment. The Company does not "carry over" or create a valuation allowance in the initial accounting for loans acquired under these circumstances.

At December 31, 2010, the Company has loans that were acquired through the merger with Service 1st for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected.

Loans acquired for which it was probable at acquisition that all contractually required payments would not be collected are as follows (in thousands):

Contractually required payments at acquisition:	
Commercial	$ 1,582
Real estate	10,650
Consumer	149
Outstanding balance at acquisition	$ 12,381
Fair value at acquisition	$ 8,927

Subsequent to the acquisition, all of these loans were placed on nonaccrual status. In 2010, the Bank foreclosed on one loan and the current carrying value is included in other real estate owned (OREO) at December 31, 2010. In 2009, the Bank foreclosed on one loan and the carrying value was included in OREO at December 31, 2009. The property was sold in 2010 and is not included in OREO at December 31, 2010. The outstanding contractual balance and carrying amount of loans and OREO acquired through the merger with Service 1st for which the carrying value was adjusted due to credit quality are as follows at December 31, 2010 and 2009 (in thousands):

	2010	2009
Commercial	$ 1,479	$ 1,479
Real estate	2,455	5,185
Consumer	147	147
Outstanding contractual balance	$ 4,081	$ 6,811
Carrying amount at December 31 included in loans	$ 1,385	$ 3,620
Carrying amount at December 31 included in OREO	745	2,464
Total at December 31	$ 2,130	$ 6,084

Allowance for Credit Losses - The allowance for credit losses is an estimate of credit losses inherent in the Company's loan portfolio that have been incurred as of the balance-sheet date. The allowance is established through a provision for credit losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance. The overall allowance consists of two primary components, specific reserves related to impaired loans and general reserves for inherent losses related to loans that are not impaired.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the original agreement. Loans determined to be impaired are individually evaluated for impairment. When a loan is impaired, the Company measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, it may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the Company for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Restructured workout loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

The determination of the general reserve for loans that are not impaired is based on estimates made by management, including but not limited to, consideration of historical losses by portfolio segment, internal asset classifications, and qualitative factors including economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan portfolio, and probable losses inherent in the portfolio taken as a whole.

The Company maintains a separate allowance for each portfolio segment. These portfolio segments include commercial and industrial, agricultural land and production, owner occupied real estate, real estate construction (including land and development loans), commercial real estate, equity loans and lines of credit, consumer loans and financing leases. The allowance for credit losses attributable to each portfolio segment, which includes both impaired loans and loans that are not impaired, is combined to determine the Company's overall allowance, which is included on the consolidated balance sheet.

The Company assigns a risk rating to all loans, except pools of homogeneous loans, and periodically performs detailed reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by independent specialists engaged by the Company and the Company's regulators. During these internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate and the fair values of collateral securing these loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, defined as follows:

Pass - A pass loan is a strong credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention - A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Company's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard - A substandard loan is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well defined weaknesses include a project's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time or the project's failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans. Doubtful classification is considered temporary and short term.

Loss - Loans classified as loss are considered uncollectible and charged off immediately.

The general reserve component of the allowance for loan losses also consists of reserve factors that are based on management's assessment of the following for

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

each portfolio segment: (1) inherent credit risk, (2) historical losses and (3) other qualitative factors. Inherent credit risk and qualitative reserve factors are inherently subjective and are driven by the repayment risk associated with each class of loans described below.

Commercial:

Commercial and industrial - Commercial and industrial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Agricultural land and production - Loans secured by crop production and livestock are especially vulnerable to two risk factors that are largely outside the control of Company and borrowers: commodity prices and weather conditions.

Lease Financing Receivables - Participations either acquired in the Service 1st acquisition; principally funding airplanes or self transport of personal property. Also funds provided to fund solar applications. Continued funding in this category has significantly decreased and assessment of risk is found in increased fuel costs. In addition unemployment, "Green" environmental influences and other key economic indicators are closely tied to credit quality.

Real Estate:

Owner Occupied - Real estate collateral secured by commercial or professional properties with repayment arising from the owner's business cash flow. To meet this classification, the owner's operation must occupy no less than 50% of the real estate held. Financial profitability and capacity to meet the cyclical nature of the industry and related real estate market over a significant timeframe is essential.

Real estate construction and other land loans - Land and construction loans generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within specified cost and time lines. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

Commercial real estate - Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments, except land and construction loans. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for properties to produce sufficient cash flow to service debt obligations.

Other Real Estate - Primarily Loans secured by agricultural real estate for development and production of permanent plantings have not reached maximum yields. Also real estate loans where agricultural vertical integration exists in packing and shipping of commodities. Risk is primarily based on liquidity of borrower to sustain payment during the development period. In addition weather conditions and commodity prices within obligor's existing agricultural production may affect repayment.

Consumer:

Equity loans and lines of credit - The degree of risk in residential real estate lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Consumer and installment - An installment loan portfolio is usually comprised of a large number of small loans scheduled to be amortized over a specific period. Most installment loans are made directly for consumer purchases, but business loans granted for the purchase of heavy equipment or industrial vehicles may also be included. Consumer loans included credit card and other open ended unsecured consumer receivables. Credit card receivables and open ended unsecured receivables generally have a higher rate of default than all other portfolio segments and are also impacted by weak economic conditions and trends. Credit card receivables and open ended unsecured receivables in homogeneous loan portfolio segments are not evaluated for specific impairment.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the adequacy of the allowance, including consideration of the relative risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Company's primary regulators, the FDIC and California Department of Financial Institutions, as an integral part of their examination process, review the adequacy of the allowance. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

Bank Premises and Equipment - Bank premises and equipment are carried at cost. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of Bank premises are estimated to be between twenty and forty years. The useful lives of improvements to Bank premises, furniture, fixtures and equipment are estimated to be three to ten years. Leasehold improvements are amortized over the life of the asset or the term of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred.

The Bank evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Other Real Estate Owned - Other real estate owned (OREO) is comprised of property acquired through foreclosure proceedings or acceptance of deeds-in-lieu of foreclosure. Losses recognized at the time of acquiring property in full or partial satisfaction of debt are charged against the allowance for credit losses. OREO is initially recorded at fair value less estimated disposition costs. Fair value of OREO is generally based on an independent appraisal of the property. Subsequent to initial measurement, OREO is carried at the lower of the recorded investment or fair value less costs to sell. Revenues and expenses associated with OREO, and subsequent adjustment to the fair value of the property and to the estimated costs of disposal, are realized and reported as a component of noninterest expense when incurred.

Goodwill - Business combinations involving the Bank's acquisition of the equity interests or net assets of another enterprise give rise to goodwill. Total goodwill at December 31, 2010 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 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.

In conjunction with the Company's annual review during the third quarter of 2010, management 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 fourth quarter of 2010, so goodwill was not required to be retested.

Intangible Assets - The intangible assets at December 31, 2010 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 using the straight-line method over an estimated life of seven years from the date of acquisition. The carrying value of intangible assets at December 31, 2010 was $1,198,000, net of $1,702,000 in accumulated amortization expense. The carrying value at December 31, 2009 was $1,612,000, net of $1,288,000 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. Management engaged an independent valuation specialist to perform an annual impairment test on core deposit intangibles as of September 30, 2010 and determined no impairment was necessary. Amortization expense recognized was $414,000 for 2010 and 2009, and $231,000 for 2008.

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 (benefit from) 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 balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is "more likely than not" that all or a portion of the deferred tax assets will not be realized. "More likely than not" is defined as greater than a 50% chance. All available evidence, both positive and negative is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed. Based upon our analysis of available evidence, we have determined that it is "more likely than not" that all of our deferred income tax assets as of December 31, 2010 and 2009 will be fully realized and therefore no valuation allowance was recorded.

Accounting for Uncertainty in Income Taxes - The Company uses a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the consolidated statement of income.

Earnings Per Share - Basic earnings per share (EPS), which excludes dilution, is computed by dividing income available to common shareholders (net income after deducting dividends on preferred stock and accretion of discount) 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, result in the issuance of common stock which shares in the earnings of the Company. All data with respect to computing earnings per share is retroactively adjusted to reflect stock dividends and splits and the treasury stock method is applied to determine the dilutive effect of stock options in computing diluted EPS.

Share-Based Compensation - The Company has two share-based compensation plans, the Central Valley Community Bancorp 2005 Omnibus Incentive Plan and the 2000 Stock Option Plan, all of which were approved by the shareholders of the Company. The Plans do not provide for the settlement of awards in cash and new shares are issued upon option exercise or restricted share grants. These plans are more fully described in Note 14. The 1992 Stock Option Plan no longer has any options outstanding.

In 2010, the Company granted options to purchase 83,000 shares of common stock. In 2009, the Company granted options to purchase 13,500 shares of common stock. All options were granted with an exercise price equal to the fair market value on the grant date.

In December 2008, the Company cancelled options to purchase 90,550 shares of the Company's common stock granted on October 17, 2007 and options to purchase 15,000 shares of common stock granted on October 1, 2007, and on December 17, 2008 granted options to purchase 105,550 shares of common stock to the directors, senior managers and other employees. The modification affected 57 employees and eight directors and the total incremental compensation cost recognized for the modification in 2008 was $38,000. In addition, the Company granted options to purchase 15,000 shares of common stock during 2008. All options were granted with an exercise price equal to the fair market value on the grant date.

The cash flows from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) are classified as cash flows from financing activity in the statement of cash flows. Excess tax benefits for the years ended December 31, 2010, 2009, and 2008 were $28,000, $7,000, and $57,000, respectively.

The Company bases the fair value of the options previously granted on the date of grant using a Black-Scholes-Merton option pricing model that uses assumptions based on expected option life, the level of estimated forfeitures, expected stock volatility and the risk-free interest rate. 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 and the expected term of the options. Historical data is used to determine the expected term of its stock options.

The fair value of each option is estimated on the date of grant using the following assumptions.

	2010	2009	2008
Dividend yield	0.00%	0.10%	0.10%
Expected volatility	40% - 44%	31% - 38%	31%
Risk-free interest rate	1.47% - 2.43%	1.52% - 1.87%	2.29%
Expected option term	6.5 years	6.5 years	6.5 years

Adoption of New Financial Accounting Standards

Transfers of Financial Assets

In June 2009, the Financial Accounting Standards Board ("FASB") issued FASB Accounting Standards Update ("ASU") 2009-16, *Accounting for Transfers of Financial Assets (Statement 166)*, which amends previously issued accounting guidance to enhance accounting and reporting for transfers of financial assets, including securitizations or continuing exposure to the risks related to transferred financial assets. Prior to the issuance of Statement 166, transfers under participation agreements and other partial loan sales fell under the general guidance for transfers of financial assets. Statement 166 introduces a new definition for a participating interest along with the requirement for partial loan sales to meet the definition of a participating interest for sale treatment to occur. If a participation or other partial loan sale does not meet the definition, the portion sold should remain on the books and the proceeds recorded as a secured borrowing until the definition is met. Additionally, existing provisions that require the transferred assets to be isolated from the originating institution (transferor), that the transferor does not maintain effective control through certain agreements to repurchase or redeem the transferred assets and that the purchasing institution (transferee) has the right to pledge or exchange the assets acquired were retained. The new provisions became effective on January 1, 2010 and early adoption was not permitted. The impact of adoption was not material to the Company's financial position, results of operation or cash flows.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

In January 2010, the FASB issued FASB ASU 2010-06, *Improving Disclosures about Fair Value Measurements,* which amends and clarifies existing standards to require additional disclosures regarding fair value measurements. Specifically, the standard requires disclosure of the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers, the reasons for any transfers in or out of Level 3, and information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. This standard clarifies that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities - previously separate fair value disclosures were required for each major category of assets and liabilities. This standard also clarifies the requirement to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. Except for the requirement to disclose information about purchases, sales, issuances, and settlements in the reconciliation of recurring Level 3 measurements on a gross basis, these disclosures are effective for the year ended December 31, 2010. The requirement to separately disclose purchases, sales, issuances, and settlements of recurring Level 3 measurements becomes effective for the Company for the year beginning on January 1, 2011. The Company adopted this new accounting standard as of January 1, 2010 and the impact of adoption was not material to the Company's financial position, results of operation or cash flows.

Disclosures about Credit Quality

In July 2010, the FASB issued FASB ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.* ASU 2010-20 requires more robust and disaggregated disclosures about the credit quality of loans and allowances for loan losses, including disclosure about credit quality indicators, past due information and modifications of finance receivables. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on and after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance has significantly expanded disclosure requirements related to accounting policies and disclosures related to the allowance for loan losses but did not have an impact on the Company's financial position, results of operation or cash flows.

2. MERGER OF SERVICE 1ST BANCORP INTO CENTRAL VALLEY COMMUNITY BANCORP

After the close of business on November 12, 2008, the Company and Service 1st completed their previously announced merger and Service 1st was merged into the Company, and the Service 1st subsidiary, S1 Bank merged into the Bank. The Company acquired 100% of the outstanding common shares of Service 1st and the results of Service 1st's operations have been included in the consolidated financial statements beginning November 13, 2008.

As of the date of acquisition, Service 1st had total assets at fair value of $221,283,000, comprised of $6,626,000 in cash and due from banks, $83,099,000 in investment securities, $116,028,000 in loans (net of allowance for credit losses of $2,786,000), $1,070,000 in premises and equipment, $3,816,000 in bank owned life insurance and $10,644,000 in other assets. Total liabilities acquired at fair value amounted to $216,428,000, including $193,488,000 in deposits, $13,565,000 in short-term borrowings, and $5,155,000 in long-term borrowings.

The accompanying consolidated financial statements include the accounts of Service 1st since November 13, 2008. The following supplemental pro forma information discloses selected financial information for the period indicated as though the Service 1st merger had been completed as of the beginning of the period reported. These results are not necessarily indicative of the results that could have been achieved had the companies operated on a combined basis nor does it include any synergies or cost savings that could have been implemented. Dollars are in thousands except per share data. 2008 pro forma net income includes non-recurring merger expenses for legal, accounting and other professional fees, net of tax, totaling $595,000.

	Year Ended December 31, 2008
Revenue	$ 49,666
Net income	$ 1,689
Diluted earnings per share	$ 0.22

3. FAIR VALUE MEASUREMENTS

The estimated carrying and fair values of the Company's financial instruments are as follows:

	December 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial assets:				
Cash and due from banks	$ 11,357	$ 11,357	$ 13,857	$ 13,857
Interest-earning deposits in other banks	89,042	89,042	34,544	34,544
Federal funds sold	600	600	279	279
Available-for-sale investment securities	191,325	191,325	197,319	197,319
Loans, net	420,583	405,876	449,007	460,238
Bank owned life insurance	11,390	11,390	10,998	10,998
Federal Home Loan Bank stock	3,050	3,050	3,140	3,140
Accrued interest receivable	3,467	3,467	3,608	3,608
Financial liabilities:				
Deposits	$ 650,495	$ 651,668	$ 640,167	$ 641,279
Short-term borrowings	10,000	10,000	5,000	5,000
Long-term debt	4,000	4,256	14,000	14,487
Junior subordinated deferrable interest debentures	5,155	2,320	5,155	2,616
Accrued interest payable	475	475	416	416

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, Federal Home Loan Bank (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

3. FAIR VALUE MEASUREMENTS (Continued)

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 accounting guidance, the Company groups its assets and liabilities measured at fair value into 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.

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 year ended December 31, 2010 management transferred one CMO security totaling $3,078,000 from Level 3 to Level 2 and other equity securities totaling $7,588,000 from Level 3 to Level 1. The transfers occurred to correct misclassification errors in prior periods.

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 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 and liabilities 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)	$ -

3. FAIR VALUE MEASUREMENTS (Continued)

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.

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 and liabilities 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 years ended December 31, 2010 and 2009.

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.

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, 2009:

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 December 31, 2009 (in thousands).

Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities				
Debt Securities:				
U.S. Government agencies	$ 363	$ -	$ 363	$ -
Obligations of states and political subdivisions	70,812	-	70,812	-
U.S. Government agencies collateralized by mortgage obligations	85,955	-	85,955	-
Other collateralized mortgage obligations	31,270	-	25,546	5,724
Corporate debt securities	1,314	-	529	785
Other equity securities	7,605	17	-	7,588
Total assets and liabilities measured at fair value	$ 197,319	$ 17	$ 183,205	$ 14,097

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, which include debt securities of U.S. Governmental agencies, obligations of states and political subdivisions, collateralized mortgage obligations and corporate debt securities are based on quoted market prices for similar securities. The securities in Level 3 are not actively traded and therefore the pricing is internally calculated using matrix pricing.

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, 2009 (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							
Obligations of states and political subdivisions	$ 1,045	$ -	$ -	$ -	$ -	$ (1,045)	$ -
U.S. Government agencies collateralized by mortgage obligations	5,685	192		(2,317)		(3,560)	-
Other collateralized mortgage obligations	7,062	91	641	(4,400)	2,646	(316)	5,724
Corporate debt securities	785			-			785
Other equity securities	1,587	-	168	5,833	-	-	7,588
Total assets and liabilities measured at fair value	$ 16,164	$ 283	$ 809	$ (884)	$ 2,646	$ (4,921)	$ 14,097

3. FAIR VALUE MEASUREMENTS (Continued)

Gains and losses (realized and unrealized) included in earnings (or changes in net assets) for the year ended December 31, 2009 totaled $283,000 and were included in non-interest income.

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, 2009 (in thousands).

Description	Fair Value	Level 1	Level 2	Level 3	Total Losses in the year
Impaired loans					
Commercial and industrial	$ 582	$ -	$ -	$ 582	$ (702)
Other Real estate	2,506	-	-	2,506	(960)
Real estate construction and other land loans	1,605	-	-	1,605	-
Consumer	58	-	-	58	(1,591)
Total impaired loans	4,751	-	-	4,751	(3,253)
Other real estate owned	2,832	-	-	2,832	(356)
Other	47	-	-	47	(50)
Total assets and liabilities measured at fair value on a non-recurring basis	$ 7,630	$ -	$ -	$ 7,630	$ (3,659)

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.

Impaired loans with a carrying value of $9,112,000 were written down to their fair value of $4,751,000 at December 31, 2009. For the period ended December 31, 2009 impairment charges were $3,253,000, which included $2,501,000 in charge offs and specific reserves of $752,000. The valuation allowance represents specific allocations of the allowance for credit losses for impaired loans.

Other real estate properties with carrying amounts totaling $3,189,000 at foreclosure were subsequently written down to their fair values of $2,832,000, resulting in a loss of $356,000 which was included in other expense for the period. Other repossessed assets with carrying amounts totaling $97,000 were written down to their fair values of $47,000, resulting in a loss of $50,000 which was included in other expense for the period ended December 31, 2009. In 2010, these other repossessed assets were disposed of and the Company realized losses of $47,000 which was included in other expense for the year ended December 31, 2010.

4. INVESTMENT SECURITIES

The investment portfolio consists primarily of agency securities, mortgage backed securities, and municipal securities all of which are classified as available-for-sale. As of December 31, 2010, $129,968,000 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 $1,643,000 at December 31, 2010 compared to an unrealized loss of $2,425,000 at December 31, 2009.

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

	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

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities				
Debt Securities:				
U.S. Government agencies	$ 353	$ 10	$ -	$ 363
Obligations of states and political subdivisions	68,708	3,050	(946)	70,812
U.S. Government agencies collateralized by mortgage obligations	85,530	1,283	(858)	85,955
Other collateralized mortgage obligations	36,280	403	(5,413)	31,270
Corporate debt securities	1,228	86	-	1,314
Other equity securities	7,645	-	(40)	7,605
	$ 199,744	$ 4,832	$ (7,257)	$ 197,319

4. INVESTMENT SECURITIES (Continued)

Investment securities with unrealized losses at December 31, 2010 and 2009 are summarized and classified according to the duration of the loss period as follows (in thousands):

	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)

	December 31, 2009					
	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	$ 9,001	$ (295)	$ 4,911	$ (651)	$ 13,912	$ (946)
U.S. Government agencies collateralized by mortgage obligations	40,691	(856)	331	(2)	41,022	(858)
Other collateralized mortgage obligations	3,474	(446)	19,878	(4,967)	23,352	(5,413)
Other securities	7,605	(40)	-	-	7,605	(40)
	$ 60,771	$ (1,637)	$ 25,120	$ (5,620)	$ 85,891	$ (7,257)

As of November 30, 2010, 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). Under ASC 320-10, the portion of the impairment that is attributable to a shortage in the present value of expected future cash flows relative to the amortized cost should be recorded as a current period charge to earnings. The discount rate in this analysis is the expected yield at purchase.

In accordance with the Company's OTTI policy, management evaluated all available-for-sale investment securities with an unrealized loss at November 30, 2010 and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at November 30, 2010 greater than 10% of the recorded book value on that date, or which had an unrealized loss of more than $10,000. Management also analyzed any securities that may have been down graded by credit rating agencies. Management retained the services of a third party in December 2010 to provide independent valuation and OTTI analysis of private label residential mortgage-backed securities (PLRMBS).

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.

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 November 30, 2010. 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 PLRMBS are primarily driven by higher projected collateral losses, wider credit spreads, and changes in interest rates. 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 December 31, 2010, the Company held one U.S. Government agency security and it was not in a loss position.

Obligations of States and Political Subdivisions - At December 31, 2010, the Company held 163 obligations of states and political subdivision securities of which 47 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 primarily caused by interest rate changes. Because the decline in market value is primarily attributable to changes in interest rates, 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 December 31, 2010.

U.S. Government Agencies Collateralized by Mortgage Obligations - At December 31, 2010, the Company held 135 U.S. Government agency securities collateralized by mortgage obligation securities of which ten were in a loss position for less than 12 months and none were in a loss position for 12 months or more. The unrealized losses on the Company's investments in U.S. government agencies collateralized by mortgage obligations were primarily 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 December 31, 2010.

4. INVESTMENT SECURITIES (Continued)

Other Collateralized Mortgage Obligations - At December 31, 2010, the Company had a total of 36 PLRMBS with a remaining principal balance of $18,661,000 and a net unrealized loss of approximately $823,000. 12 of these securities account for $1,329,000 of the unrealized loss at December 31, 2010 offset by 24 of these securities with gains totaling $506,000. The Company continues to perform extensive analyses on all PLRMBS. 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. 11 of these PLRMBS with a remaining principal balance of $11,785,000 had credit ratings below investment grade. The table below lists those securities with below investment grade credit ratings at December 31, 2010. Based on the analyses performed, 9 of the PLRMBS with credit ratings below investment grade, with a remaining principal balance of $11,460,000, were considered to be other-than-temporarily impaired at December 31, 2010. An OTTI charge to earnings of $1,587,000 was recorded during the year ended December 31, 2010. This charge was taken to reflect ongoing and increasing deterioration of credit quality and increasing loss severities of the underlying mortgages. The cumulative unrealized loss on these securities decreased during the year ended December 31, 2010 primarily due to a declining interest rate environment. This change in unrealized loss was recognized in other comprehensive income and is also presented in the income statement as a component of non-interest income in the presentation of other-than-temporary impairment losses.

Investment securities as of December 31, 2010 with credit ratings below investment grade are summarized in the table below (dollars in thousands):

Description	Book Value	Market Value	Unrealized Loss	Rating	Agency	12 Month Historical Prepayment Rates %	Projected CDR Rates %	Projected Severity Rates %	Original Purchase Price %	Current Credit Enhancement %
PHHAM	$ 2,936	$ 2,494	$ (442)	C	Fitch	13.44	6.5	50.00	97.25	3.75
RAST	2,192	2,014	(178)	D	Fitch	13.32	7.4	70.00	98.50	(0.26)
CWALT 1	876	710	(166)	C	Fitch	10.75	5.8	60.00	100.73	7.04
CWALT 2	394	378	(16)	C	Fitch	9.60	4.3	50.00	101.38	5.63
CWALT 3	1,950	1,803	(147)	CCC	S&P	9.51	5.2	60.00	100.25	10.00
CWHL	73	75	2	BB-	S&P	18.10	1.2	39.00	97.42	7.16
CHASE	252	250	(2)	CC	Fitch	19.69	4.7	49.00	93.25	4.40
FHAMS	2,499	2,162	(337)	C	Fitch	12.47	4.0	55.00	95.00	1.97
ABFS	345	329	(16)	D	S&P	6.70	7.8	75.00	97.46	0.00
CONHE	87	81	(6)	B3	Moody's	2.90	1.0	60.00	86.39	0.064
BOAA	181	162	(19)	Ca	Moody's	7.33	2.0	70.00	97.25	5.28
TOTALS	$ 11,785	$ 10,458	$ (1,327)							

All securities in the above table are private label residential collateralized mortgage obligations.

Corporate Debt and Other Securities - At December 31, 2010 the Company's corporate debt and other securities consisted of one investment in corporate debt securities and equity investments in a CRA qualified mutual fund that invests in government agency issued mortgaged backed securities and collateralized mortgage obligations. None of the investments were in a loss position at December 31, 2010.

Net unrealized gains (losses) on available-for-sale investment securities totaling $1,643,000 and $(2,425,000) are recorded net of $(676,000) and $970,000 in tax (liabilities) benefits as accumulated other comprehensive income within shareholders' equity at December 31, 2010 and 2009, respectively.

Proceeds and gross realized gains (losses) on investment securities for the years ended December 31, 2010, 2009 and 2008 are shown below.

	Years Ended December 31, 2010	2009	2008
	(In thousands)		
Available-for-Sale Securities			
Proceeds from sales or calls	$ 19,594	$ 40,407	$ 12,327
Net realized (losses) gains from sales	$ (191)	$ 942	$ 165

	Years Ended December 31, 2010	2009	2008
	(In thousands)		
Held-to-Maturity			
Proceeds from sales or calls	$ -	$ 1,474	$ -
Net realized losses from sales or calls	$ -	$ (176)	$ -

In 2009, one security was transferred from held-to-maturity to available-for-sale at its fair value based on management's intent to sell, and subsequent to the transfer, a $300,000 charge to earnings was recorded as OTTI expense. There were no sales or transfers of held-to-maturity investment securities for the years ended December 31, 2010 or 2008. The Company did not have any held-to-maturity securities at December 31, 2010 or 2009.

The following table provides a roll forward for the year ended December 31, 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.

(In thousands)	For the years ended December 31, 2010	December 31, 2009
Beginning balance	$ 300	$ -
Amounts related to credit loss for which an OTTI charge was not previously recognized	1,587	300
Increases to the amount related to credit loss for which OTTI was previously recognized	-	-
Realized losses for securities sold	(500)	-
Ending balance	$ 1,387	$ 300

4. INVESTMENT SECURITIES (Continued)

The amortized cost and estimated fair value of investment securities at December 31, 2010 and 2009 by contractual maturity are shown below (in thousands). 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.

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
	$ 189,682	$ 191,325

December 31, 2009	Amortized Cost	Estimated Fair Value
After one year through five years	$ 1,522	$ 1,571
After five years through ten years	18,573	19,365
After ten years	50,194	51,553
	70,289	72,489
Investment securities not due at a single maturity date:		
U.S. Government agencies collateralized by mortgage obligations	85,530	85,955
Other collateralized mortgage obligations	36,280	31,270
Other equity securities	7,645	7,605
Total	$ 199,744	$ 197,319

Investment securities with amortized costs totaling $127,293,000 and $124,512,000 and fair values totaling $129,968,000 and $126,585,000 were pledged to secure public deposits, other contractual obligations and short-term borrowings at December 31, 2010 and 2009, respectively.

5. LOANS

Outstanding loans are summarized as follows:

Loan Type	December 31, 2010	% of Total loans	December 31, 2009	% of Total loans
	(Dollars in thousands)			
Commercial:				
Commercial and industrial	$ 104,387	24.1%	$ 107,726	23.5%
Agricultural land and production	38,787	9.0%	35,796	7.8%
Total commercial	143,174	33.1%	143,522	31.3%
Real estate:				
Owner occupied	111,888	25.9%	111,006	24.1%
Real estate - construction and other land loans	32,039	7.4%	47,233	10.3%
Commercial real estate	63,627	14.7%	71,977	15.7%
Other	38,354	8.9%	38,532	8.4%
Total real estate	245,908	56.9%	268,748	58.5%
Consumer:				
Equity loans and lines of credit	34,521	8.0%	36,110	7.8%
Consumer and installment	8,493	2.0%	11,219	2.4%
Total consumer	43,014	10.0%	47,329	10.2%
Deferred loan fees, net	(499)		(392)	
Total gross loans	431,597	100.0%	459,207	100.0%
Allowance for credit losses	(11,014)		(10,200)	
Total loans	$ 420,583		$ 449,007	

At December 31, 2010 and 2009, loans originated under Small Business Administration (SBA) programs totaling $30,775,000 and $29,698,000, respectively, were included in the real estate and commercial categories.

Salaries and employee benefits totaling $305,000, $229,000, and $285,000 have been deferred as loan origination costs for the years ended December 31, 2010, 2009, and 2008, respectively.

6. ALLOWANCE FOR CREDIT LOSSES

Changes in the allowance for credit losses were as follows:

	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
Balance, beginning of year	$ 10,200	$ 7,223	$ 3,887
Provision charged to operations	3,800	10,514	1,290
Losses charged to allowance	(4,122)	(7,926)	(851)
Recoveries	1,136	389	111
Allowance from merger with Service 1st	-	-	2,786
Balance, end of year	$ 11,014	$ 10,200	$ 7,223

6. ALLOWANCE FOR CREDIT LOSSES (Continued)

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 tables show 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 Land and Production	Owner Occupied	Real Estate Construction and Other Land Loans	Commercial Real Estate	Other Real Estate	Lease Financing Receivables
Grade:							
Pass	$ 84,438	$ 37,181	$ 100,278	$ 10,287	$ 49,294	$ 30,408	$ 7,799
Special Mention	4,305	502	6,336	6,330	3,118	2,713	-
Substandard	7,735	1,104	5,274	15,422	11,215	5,233	110
Doubtful	-	-	-	-	-	-	-
Total	$ 96,478	$ 38,787	$ 111,888	$ 32,039	$ 63,627	$ 38,354	$ 7,909

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

6. ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table shows an ageing analysis of the loan portfolio by the time past due at December 31, 2010 (amounts 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	$ -

The following table shows information related to impaired loans at and for the year ended December 31, 2010 (amounts 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	5,487	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	-
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	10,230	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	$ -

6. ALLOWANCE FOR CREDIT LOSSES (Continued)

At December 31, 2009, the recorded investment in impaired loans was $18,959,000. The Company had $752,000 of specific allowance for loan losses on impaired loans at December 31, 2009. The average outstanding balance of impaired loans for the years ended December 31, 2009 and 2008 was $13,117,000 and $2,724,000, respectively, and no income was recognized as interest income on a cash basis in any year.

Nonaccrual loans totaled $18,561,000 and $18,959,000 at December 31, 2010 and 2009, respectively. Foregone interest on nonaccrual loans totaled $1,153,000, $371,000, and $8,000 for the years ended December 31, 2010, 2009, and 2008, respectively. There were no accruing loans past due 90 days or more at December 31, 2010 or 2009.

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.

7. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following:

	December 31,	
	2010	2009
	(In thousands)	
Land	$ 580	$ 580
Buildings and improvements	3,091	3,091
Furniture, fixtures and equipment	7,263	6,958
Leasehold improvements	3,569	3,571
	14,503	14,200
Less accumulated depreciation and amortization	(8,660)	(7,675)
	$ 5,843	$ 6,525

Depreciation and amortization included in occupancy and equipment expense totaled $1,262,000. $1,367,000 and $1,028,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

8. OTHER REAL ESTATE OWNED

At December 31, 2010 and 2009 the Company had $1,325,000 and $2,832,000, respectively invested in properties acquired through foreclosure. The properties are described in the following paragraph. These properties are carried at their fair value. Fair value is based on recently obtained third-party appraisals or recent offers on like properties. The table below provides a summary of the change in other real estate owned (OREO) balances for the years ended December 31, 2010 and 2009.

	Year Ended December 31, 2010	Year Ended December 31, 2009
	(In thousands)	
Balance, December 31, 2009	$ 2,832	$ -
Additions	3,467	3,188
Dispositions	(4,450)	-
Write-downs	(591)	(356)
Gain on disposition	176	-
Loss on disposition	(109)	-
Balance, December 31, 2010	$ 1,325	$ 2,832

As of December 31, 2010, OREO consisted of two properties. The Bank was a participant with an independent bank in a loan collateralized by 24 units of a medical office condominium project. On April 30, 2010, the lead bank foreclosed on the loan and the Bank recorded the property as OREO at a net realizable value of $1,656,000 for their portion of the loan. Net realizable value was based on a third-party appraisal using a discounted as-is bulk value of the 24 units. As of December 31, 2010, 12 of the 24 units were sold. Sales proceeds totaled $911,000. At December 31, 2010 the recorded investment in this property was $745,000. On May 28, 2010, the Bank foreclosed on a loan collateralized by a property containing a gas station, convenience store and restaurant. The Company recorded the property at a net realizable value of $889,000 based on a third-party appraisal. Subsequent to foreclosure, the Company recorded a valuation allowance of $309,000 to reduce the value to an estimated realizable value of $580,000.

In 2010, the Bank foreclosed on three other loans collateralized by real estate with net realizable values totaling $923,000. The properties were all sold in 2010. The Company realized a loss on sale of one of the properties totaling $14,000 and realized a $176,000 net recovery from the sale of another. The Company sold the third property for its carrying value.

At December 31, 2009, OREO consisted of two properties. The Bank participated with an independent bank in a loan collateralized by an RV Park. In 2009, the Bank foreclosed on the loan and recorded the property as OREO at a net realizable value of $2,550,000 based on a third-party appraisal. Subsequent to foreclosure, the Company recorded an additional valuation allowance of $86,000 to reduce the value to an estimated realizable value of $2,464,000 at December 31, 2009. In April 2010, the RV Park was sold. Prior to the sale in April 2010, the Company recorded a valuation allowance of $283,000. In July 2009, the Company foreclosed on a construction loan for a commercial building and recorded the property at net realizable value of $638,000 based on a third-party appraisal. Subsequent to foreclosure and based on an updated appraisal, the Company recorded an additional impairment charge of $270,000 to reduce the estimated realizable value to $368,000. This property was sold in October 2010 for an additional loss of $95,000.

9. DEPOSITS

Interest-bearing deposits consisted of the following:

	December 31,	
	2010	2009
	(In thousands)	
Savings	$ 27,678	$ 24,446
Money market	157,345	142,917
NOW accounts	114,473	112,493
Time, $100,000 or more	119,503	134,964
Time, under $100,000	57,629	65,717
	$ 476,628	$ 480,537

Aggregate annual maturities of time deposits are as follows (in thousands):

Years Ending December 31,	
2011	$ 145,146
2012	23,698
2013	1,711
2014	271
2015	6,306
	$ 177,132

9. DEPOSITS (Continued)

Interest expense recognized on interest-bearing deposits consisted of the following:

	Years Ended December 31,		
	2010	2009	2008
		(In thousands)	
Savings	$ 52	$ 49	$ 65
Money market	1,035	1,262	2,098
NOW accounts	447	722	214
Time certificates of deposit	2,179	3,834	3,963
	$ 3,713	$ 5,867	$ 6,340

10. BORROWING ARRANGEMENTS

Federal Home Loan Bank Advances - Advances from the Federal Home Loan Bank (FHLB) of San Francisco at December 31, 2010 and 2009 consisted of the following:

2010 Amount	2010 Rate	2010 Maturity Date	2009 Amount	2009 Rate	2009 Maturity Date
(Dollars in thousands)			(Dollars in thousands)		
$ 5,000	3.00%	February 7, 2011	$ 5,000	2.73%	February 5, 2010
5,000	3.10%	February 14, 2011	5,000	3.00%	February 7, 2011
4,000	3.59%	February 12, 2013	5,000	3.10%	February 14, 2011
			4,000	3.59%	February 12, 2013
14,000			19,000		
(10,000)	Less short-term portion		(5,000)	Less short-term portion	
$ 4,000	Long-term debt		$ 14,000	Long-term debt	

FHLB advances are secured by investment securities with amortized costs totaling $31,918,000 and $45,239,000 and market values totaling $33,214,000 and $44,808,000 at December 31, 2010 and 2009, respectively. The Bank's credit limit varies according to the amount and composition of the investment and loan portfolios pledged as collateral.

Lines of Credit - The Bank had unsecured lines of credit with its correspondent banks which, in the aggregate, amounted to $39,000,000 at December 31, 2010 and 2009, at interest rates which vary with market conditions. The Bank also had a line of credit in the amount of $1,321,000 and $917,000 with the Federal Reserve Bank of San Francisco at December 31, 2010 and 2009, respectively which bears interest at the prevailing discount rate collateralized by investment securities with amortized costs totaling $1,322,000 and $922,000 and market values totaling $1,354,000 and $956,000, respectively. At December 31, 2010 and 2009, the Bank had no outstanding short-term borrowings under these lines of credit.

11. JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

Service 1st Capital Trust I is a Delaware business trust formed by Service 1st. The Company succeeded to all of the rights and obligations of Service 1st in connection with the merger with Service 1st as of November 12, 2008. The Trust was formed on August 17, 2006 for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by Service 1st. 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 December 31, 2010, all of the trust preferred securities that have been issued qualify as Tier 1 capital. The trust preferred securities mature on October 7, 2036, are redeemable at the Company's option beginning after five years, and require quarterly distributions by the Trust to the holder of the trust preferred securities at a variable interest rate which will adjust quarterly to equal the three month LIBOR plus 1.60%.

The Trust used the proceeds from the sale of the trust preferred securities to purchase approximately $5,155,000 in aggregate principal amount of Service 1st's junior subordinated notes (the Notes). The Notes bear interest at the same variable interest rate during the same quarterly periods as the trust preferred securities. The Notes are redeemable by the Company on any January 7, April 7, July 7, or October 7 on or after October 7, 2011 or at any time within 90 days following the occurrence of certain events, such as: (i) a change in the regulatory capital treatment of the Notes (ii) in the event the Trust is deemed an investment company or (iii) upon the occurrence of certain adverse tax events. In each such case, the Company may redeem the Notes for their aggregate principal amount, plus any accrued but unpaid interest.

The Notes may be declared immediately due and payable at the election of the trustee or holders of 25% of the aggregate principal amount of outstanding Notes in the event that the Company defaults in the payment of any interest following the nonpayment of any such interest for 20 or more consecutive quarterly periods.

Holders of the trust preferred securities are entitled to a cumulative cash distribution on the liquidation amount of $1,000 per security. For each January 7, April 7, July 7 or October 7 of each year, the rate will be adjusted to equal the three month LIBOR plus 1.60%. As of December 31, 2010, the rate was 1.89%. Interest expense recognized by the Company for the years ended December 31, 2010, 2009 and 2008 was $102,000, $129,000 and $46,000, respectively.

12. INCOME TAXES

The provision for (benefit from) income taxes for the years ended December 31, 2010, 2009, and 2008 consisted of the following:

	Federal	State	Total
		(In thousands)	
2010			
Current	$ 1,472	$ 496	$ 1,968
Deferred	(1,677)	(660)	(2,337)
Benefit from income taxes	$ (205)	$ (164)	$ (369)
2009			
Current	$ (1,374)	$ (90)	$ (1,464)
Deferred	804	(16)	788
Benefit from income taxes	$ (570)	$ (106)	$ (676)
2008			
Current	$ 1,851	$ 556	$ 2,407
Deferred	108	(163)	(55)
Provision for income taxes	$ 1,959	$ 393	$ 2,352

The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is more likely than not that all or a portion of the deferred tax asset will not be realized. More likely than not is defined as greater than a 50% chance. All available evidence, both positive and negative is considered to determine whether, based on the weight of the evidence, a valuation allowance is needed. Based upon our analysis of available evidence, we have determined that it is more likely than not that all of our deferred income tax assets as of December 31, 2010 and 2009 will be fully realized and therefore no valuation allowance was recorded.

12. INCOME TAXES (Continued)

Deferred tax assets (liabilities) consisted of the following:

	December 31, 2010	December 31, 2009
	(In thousands)	
Deferred tax assets:		
Allowance for credit losses	$ 4,370	$ 3,913
Deferred compensation	3,445	2,975
Net operating loss carryover from acquisition	1,959	2,706
Bank premises and equipment	907	681
Mark to market adjustment	551	674
Other deferred taxes	682	147
Other than temporary impairment	653	124
Other real estate	566	197
Loan and investment impairment	383	311
State Enterprise Zone credit carry-forward	343	149
State capital loss carry-forward	120	100
Alternative minimum tax credit	138	51
State taxes	144	1
Other reserves	10	-
Partnership income	39	-
Unrealized loss on available-for-sale investment securities	-	970
Total deferred tax assets	14,310	12,999
Deferred tax liabilities:		
Finance leases	(2,581)	(2,372)
Unrealized gain on available-for-sale investment securities	(676)	-
Core deposit intangible	(493)	(663)
FHLB stock	(254)	(262)
Loan origination costs	(189)	(192)
Other deferred taxes	-	(25)
State tax refunds	-	(59)
Total deferred tax liabilities	(4,193)	(3,573)
Net deferred tax assets	$ 10,117	$ 9,426

The provision for income taxes differs from amounts computed by applying the statutory Federal income tax rates to operating income before income taxes. The significant items comprising these differences for the years ended December 31, 2010, 2009 and 2008 consisted of the following:

	2010	2009	2008
Federal income tax, at statutory rate	34.0 %	34.0 %	34.0 %
State taxes, net of Federal tax benefit	(3.7)%	(3.7)%	3.4 %
Tax exempt investment security income, net	(34.7)%	(52.4)%	(4.7)%
Bank owned life insurance, net	(4.6)%	(6.9)%	(1.4)%
Solar credits	(5.4)%	(15.7)%	-
Change in uncertain tax positions	(1.3)%	7.7 %	-
Other	3.0 %	1.7 %	0.1 %
Effective tax rate	(12.7)%	(35.3)%	31.4 %

At December 31, 2010, the Company had Federal and California net operating loss (NOLs) carry-forward of approximately $4,509,000 and $5,949,000, respectively from the Service 1st acquisition, subject to an Internal Revenue Code (IRC) Sec. 382 annual limitation of $1,133,000. Management expects to fully utilize the Service 1st Federal and California NOL carry-forward. Federal NOL will begin to expire in 2028. California suspended utilization of NOLs for 2008, 2009 and 2010 tax years for taxpayers with business income in excess of $500,000. The California NOL will begin to expire in 2019.

The Company and its Subsidiary file income tax returns in the U.S. federal and California jurisdictions. The Company conducts all of its business activities in the State of California. As of December 31, 2010, there are currently no pending U.S. federal, state or local income tax examinations by those taxing authorities. The Company is no longer subject to the examination by U.S. federal taxing authorities for the years ended before December 31, 2007 and by the state and local taxing authorities for the years ended before December 31, 2006.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance at January 1, 2010	$ 310
Additions based on tax positions related to the current year	52
Reductions for tax positions of prior years	(151)
Balance at December 31, 2010	$ 211

During the years ended December 31, 2010 and 2008, the Company did not recognize any interest and penalties related to uncertain tax positions. In 2009, the Company recognized $32,000 of interest related to the pending state tax examination and no penalties related to uncertain tax positions.

13. COMMITMENTS AND CONTINGENCIES

Leases - The Bank leases certain of its branch facilities and administrative offices under noncancelable operating leases. Rental expense included in occupancy and equipment and other expenses totaled $1,922,000, $1,796,000 and $1,244,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

Future minimum lease payments on noncancelable operating leases are as follows (in thousands):

Years Ending December 31,	
2011	$ 1,893
2012	1,774
2013	1,708
2014	1,722
2015	1,643
Thereafter	6,070
	$ 14,810

Federal Reserve Requirements - Banks are required to maintain reserves with the Federal Reserve Bank equal to a percentage of their reservable deposits. The amount of such reserve balances required at December 31, 2010 and 2009 was $25,000.

Correspondent Banking Agreements - The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. Uninsured deposits totaled $7,411,000 at December 31, 2010.

Financial Instruments With Off-Balance-Sheet Risk - The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of 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 on the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and standby letters of credit as it does for loans included on the balance sheet.

13. COMMITMENTS AND CONTINGENCIES (Continued)

The following financial instruments represent off-balance-sheet credit risk:

	December 31,	
	2010	2009
	(In thousands)	
Commitments to extend credit	$ 123,311	$ 130,899
Standby letters of credit	$ 369	$ 240

Commitments to extend credit consist primarily of unfunded commercial loan commitments and revolving lines of credit, single-family residential equity lines of credit and commercial real estate construction loans. Construction loans are established under standard underwriting guidelines and policies and are secured by deeds of trust, with disbursements made over the course of construction. Commercial revolving lines of credit have a high degree of industry diversification. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are generally secured and are issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2010 and 2009. The Company recognizes these fees as revenue over the term of the commitment or when the commitment is used.

At December 31, 2010, commercial loan commitments represent approximately 56% of total commitments and are generally secured by collateral other than real estate or unsecured. Real estate loan commitments represent 28% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 80%. Consumer loan commitments represent the remaining 16% of total commitments and are generally unsecured. In addition, the majority of the Bank's loan commitments have variable interest rates.

Concentrations of Credit Risk - At December 31, 2010, in management's judgment, a concentration of loans existed in commercial loans and real-estate-related loans, representing approximately 96.3% of total loans of which 31.3% were commercial and 65.0% were real-estate-related.

At December 31, 2009, in management's judgment, a concentration of loans existed in commercial loans and real-estate-related loans, representing approximately 96.3% of total loans of which 30.0% were commercial and 66.4% were real-estate-related.

Management believes the loans within these concentrations have no more than the typical risks of collectibility. However, in light of the current economic environment, additional declines in the performance of the economy in general or a continued decline in real estate values in the Company's primary market area, in particular, could have an adverse impact on collectibility, increase the level of real-estate-related nonperforming loans, or have other adverse effects which alone or in the aggregate could have a material adverse effect on the financial condition, results of operations and cash flows of the Company.

Contingencies - 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.

14. SHAREHOLDERS' EQUITY

Regulatory Capital - The Company and the Bank are subject to certain regulatory capital requirements administered by the Board of Governors of the Federal Reserve System and the FDIC. Failure to meet these minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

Under capital adequacy guidelines, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. These quantitative measures are established by regulation and require that minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets be maintained. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Bank is also subject to additional capital guidelines under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. The most recent notification from the FDIC categorized the Bank as well capitalized under these guidelines. There are no conditions or events since that notification that management believes have changed the Bank's category.

Management believes that the Company and the Bank met all their capital adequacy requirements as of December 31, 2010 and 2009. There are no conditions or events since those notifications that management believes have changed those categories.

	December 31, 2010		December 31, 2009	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Tier 1 Leverage Ratio				
Central Valley Community Bancorp and Subsidiary	$ 70,669	9.48%	$ 67,547	9.30%
Minimum regulatory requirement	$ 29,832	4.00%	$ 29,056	4.00%
Central Valley Community Bank	$ 69,457	9.32%	$ 66,624	9.20%
Minimum requirement for "Well-Capitalized" institution	$ 37,264	5.00%	$ 36,210	5.00%
Minimum regulatory requirement	$ 29,811	4.00%	$ 28,968	4.00%
Tier 1 Risk-Based Capital Ratio				
Central Valley Community Bancorp and Subsidiary	$ 70,669	14.16%	$ 67,547	12.28%
Minimum regulatory requirement	$ 19,965	4.00%	$ 21,998	4.00%
Central Valley Community Bank	$ 69,457	13.92%	$ 66,624	12.12%
Minimum requirement for "Well-Capitalized" institution	$ 29,929	6.00%	$ 32,977	6.00%
Minimum regulatory requirement	$ 19,953	4.00%	$ 21,985	4.00%
Total Risk-Based Capital Ratio				
Central Valley Community Bancorp and Subsidiary	$ 76,982	15.42%	$ 74,463	13.54%
Minimum regulatory requirement	$ 39,931	8.00%	$ 43,996	8.00%
Central Valley Community Bank	$ 75,766	15.19%	$ 73,535	13.38%
Minimum requirement for "Well-Capitalized" institution	$ 49,881	10.00%	$ 54,962	10.00%
Minimum regulatory requirement	$ 39,905	8.00%	$ 43,970	8.00%

Dividends - No dividends on common shares were declared in 2010 or 2009. On February 20, 2008, the Board of Directors declared a $0.10 per share cash dividend for shareholders of record as of March 11, 2008, payable on March 31, 2008.

The Company's primary source of income with which to pay cash dividends are dividends from the Bank. The California Financial Code restricts the total amount of dividends payable by a bank at any time without obtaining the prior approval of the California Department of Financial Institutions to the lesser of (1) the bank's retained earnings or (2) the bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. At December 31, 2010, retained earnings of $5,836,000 were free of such restrictions. Dividends on common stock in 2011 will also be limited without the prior approval of the United States Treasury due to the Company's participation in the Capital Purchase Program.

Share Repurchase Plan - No shares were repurchased under a repurchase plan during 2010, 2009 or 2008. In 2008, the Company repurchased 5,436 shares of

14. SHAREHOLDERS' EQUITY (Continued)

common stock from shareholders who perfected their dissenters' rights related to the acquisition of Service 1st at an average price of $10.30 for a total cost of $56,000.

Stock Purchase Agreements - On December 23, 2009, the Company entered into Stock Purchase Agreements (Agreements) with a limited number of accredited investors (collectively, the "Purchasers") to sell to the Purchasers a total of 1,264,952 shares of common stock, (Common Stock) at $5.25 per share and 1,359 shares of non-voting Series B Convertible Adjustable Rate Non-Cumulative Perpetual Preferred Stock (Series B Preferred Stock) at $1,000 per share, for an aggregate gross purchase price of $8,000,000 (the "Offering") offset by issuance costs totaling $242,000. The Offering closed on December 23, 2009, and the Company issued an aggregate of 1,264,952 shares of its Common Stock and an aggregate of 1,359 shares of its Preferred Stock upon its receipt of consideration in cash.

The Series B Preferred Stock was eligible to receive a semi-annual non-cumulative preferred dividend with an initial annualized coupon of 10%, payable at the end of the first six months the shares are outstanding. The annual dividend rate would have increased to 15% for the second six month period and 20% for each six month period thereafter. Dividends may not be paid on any other class or series of the Company's stock unless dividends are currently paid on the Preferred Stock in any period.

In May 2010, the shareholders of the Company approved an amendment to the Company's governing instruments to create a series of non-voting common stock. In June 2010, the Company exercised its option to require the Purchasers to exchange 1,359 shares of Series B Preferred Stock for 258,862 shares of non-voting common stock.

Capital Purchase Program - Troubled Asset Relief Program - On January 30, 2009, the Company entered into a Letter Agreement (the Purchase Agreement) with the United States Department of the Treasury (the Treasury), pursuant to which the Company issued and sold (i) 7,000 shares of the Company's Series A Fixed Rate Cumulative Perpetual Preferred Stock (the Series A Preferred Stock) and (ii) a warrant (the Warrant) to purchase 158,133 shares of the Company's common stock, no par value, (the Common Stock) for an aggregate purchase price of $7,000,000 in cash.

The Series A Preferred Stock will qualify as Tier 1 capital and will pay cumulative dividends quarterly at a rate of 5% per annum for the first five years, and 9% per annum thereafter. The Series A Preferred Stock may be redeemed by the Company after three years. Prior to the end of three years, the Series A Preferred Stock may be redeemed by the Company only with proceeds from the sale of qualifying equity securities of the Company (a Qualified Equity Offering). Preferred stock dividends paid in 2010 totaled $349,000.

The Warrant has a 10-year term and is immediately exercisable upon its issuance, with an exercise price, subject to anti-dilution adjustments, equal to $6.64 per share of the Common Stock.

According to the agreement, if the Company received aggregate gross cash proceeds of not less than $7,000,000 from Qualified Equity Offerings on or prior to December 31, 2009, the number of shares of Common Stock issuable pursuant to the Treasury's exercise of the Warrant could be reduced by one half of the original number of shares, taking into account all adjustments, underlying the Warrant. On December 23, 2009, the Company received $8,000,000, as a result of entering into Stock Purchase Agreements to sell a total of 1,264,952 shares of common stock, without par value at $5.25 per share and 1,359 shares of non-voting Series B Convertible Adjustable Rate Non-Cumulative Perpetual Preferred Stock at $1,000 per share, for an aggregate gross purchase price of $8,000,000. The Company submitted a request to the Treasury to cancel one half of the outstanding Warrants and received confirmation from the Treasury that the number of warrants was reduced to 79,067. Pursuant to the Purchase Agreement, the Treasury has agreed not to exercise voting power with respect to any shares of Common Stock issued upon exercise of the Warrant.

The Series A Preferred Stock and the Warrant were issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. Upon the request of the Treasury at any time, the Company has agreed to promptly enter into a deposit arrangement pursuant to which the Preferred Stock may be deposited and depositary shares (the Depositary Shares) representing fractional shares of the Preferred Stock, may be issued. The Company has agreed to register the Series A Preferred Stock, the Warrant, the shares of Common Stock underlying the Warrant (the Warrant Shares), and Depository Shares, as soon as practicable after the date of the issuance of the Series A Preferred Stock and the Warrant in accordance with the terms of the Purchase Agreement. Neither the Series A Preferred Stock nor the Warrant will be subject to any contractual restrictions on transfer, except that the Treasury may only transfer or exercise an aggregate of one-half of the Warrant Shares.

The Series A Preferred Stock is non-voting, other than class voting rights on (i) any authorization or issuance of shares ranking senior to the Series A Preferred Stock, (ii) any amendment to the rights of the Series A Preferred Stock, or (iii) any merger, exchange or similar transaction which would adversely affect the rights of the Series A Preferred Stock.

If dividends on the Series A Preferred Stock are not paid in full for six dividend periods, whether or not consecutive, the holders of the Series A Preferred Stock will have the right to elect 2 directors. The right to elect directors will end when full dividends have been paid for four consecutive dividend periods. The Company has paid all scheduled dividend payments as of December 31, 2010.

In the Purchase Agreement, the Company agreed that, until such time as the Treasury ceases to own any debt or equity securities of the Company acquired pursuant to the Purchase Agreement, the Company will take all necessary action to ensure that its benefit plans with respect to its senior executive officers comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008 (the EESA) as implemented by any guidance or regulation under the EESA that has been issued and is in effect as of the date of issuance of the Series A Preferred Stock and the Warrant, and has agreed to not adopt any benefit plans with respect to, or which cover, its senior executive officers that do not comply with the EESA, and the applicable executives have consented to the foregoing. Furthermore, the Purchase Agreement allows the Treasury to unilaterally amend the terms of the agreement.

With respect to dividends on the Company's common stock, the Treasury's consent shall be required for any increase in common dividends per share until the third anniversary of the date of its investment unless prior to such third anniversary the Series A Preferred Stock is redeemed in whole or the Treasury has transferred all of the Series A Preferred Stock to third parties. Furthermore, for as long as any Series A Preferred Stock is outstanding, no dividends may be declared or paid on junior preferred shares, preferred shares ranking pari passu with the Series A Preferred Stock, or common shares (other than in the case of pari passu preferred shares, dividends on a pro rata basis with the Series A Preferred Stock), nor may the Company repurchase or redeem any junior preferred shares, preferred shares ranking pari passu with the Series A Preferred Stock or common shares, unless all accrued and unpaid dividends for all past dividend periods on the Series A Preferred Stock are fully paid.

The Company allocated the proceeds received from the U.S. Treasury between the Series A Preferred Stock and the Warrant issued based on the estimated relative fair values of each. The fair value of the Series A Preferred Stock was determined using a net present value calculation for preferred stock. The fair value of the Warrant was estimated based on a Black-Scholes-Merton model. The recorded investment in Series A Preferred Stock initially was $6,775,000 and the fair value allocated to the Warrant was $225,000. The discount recorded on the Series A Preferred Stock was equal to the fair value of the imbedded Warrant and is amortized using the level-yield method over five years.

The following table identifies the amount of the proceeds allocated to the Series A Preferred Stock and the Warrant based on their relative fair values.

	Series A Preferred Stock	Warrant	Total Fair Value
Fair value per share	$ 820.86	$ 1.21	$ -
Number of shares	7,000	158,133	-
Fair value	$ 5,746,000	$ 191,000	$ 5,937,000
Percent of total fair value	96.78%	3.22%	-
Allocation of $7,000,000 proceeds based on percent of total fair value	$ 6,775,000	$ 225,000	$ 7,000,000

The Company calculated the fair value of the Series A Preferred Stock using a net present value calculation for preferred stock with a five year call option, with

14. SHAREHOLDERS' EQUITY (Continued)

an annual dividend rate of 5.0% and a 10.0% discount rate. Management determined the discount rate of 10.0% was appropriate based on the Company's risk profile using a Capital Asset Pricing model (CAPM).

The Company based the fair value of the Warrant granted using a Black-Scholes-Merton pricing model that uses assumptions based on estimated expected life, expected stock volatility and a discount rate based on the risk-free interest rate. 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 Warrant in effect at the time of grant. The fair value of the Warrant was estimated on the date of grant using: i) dividend yield of 0.10%; ii) expected volatility of 32.13%; iii) 1.52% risk-free interest rate; iv) expected term of six and one half years and v) expected vesting of the contingently exercisable portion of the Warrant of 85%.

Earnings Per Share - A reconciliation of the numerators and denominators of the basic and diluted earnings per share computations is as follows:

	For the Years Ended December 31,		
	2010	2009	2008
	(In thousands, except share and per share amounts)		
Basic Earnings Per Share:			
Net income	$ 3,279	$ 2,588	$ 5,139
Less: Preferred stock dividends and accretion	(395)	(365)	-
Income available to common shareholders	$ 2,884	$ 2,223	$ 5,139
Weighted average shares outstanding	9,209,858	7,685,789	6,212,199
Net income per share	$ 0.31	$ 0.29	$ 0.83
Diluted Earnings Per Share:			
Net income	$ 3,279	$ 2,588	$ 5,139
Less: Preferred stock dividends and accretion	(395)	(365)	-
Income available to common shareholders	$ 2,884	$ 2,223	$ 5,139
Weighted average shares outstanding	9,209,858	7,685,789	6,212,199
Effect of dilutive stock options and warrants	80,813	117,975	257,037
Weighted average shares of common stock and common stock equivalents	9,290,671	7,803,764	6,469,236
Net income per diluted share	$ 0.31	$ 0.28	$ 0.79

Outstanding options and warrants of 531,996 were not factored into the calculation of dilutive stock options because they were anti-dilutive.

15. SHARE-BASED COMPENSATION

On December 31, 2010, the Company had two share-based compensation plans, which are described below.

On November 15, 2000, the Company adopted, and subsequently amended on December 20, 2000, the Central Valley Community Bancorp 2000 Stock Option Plan (2000 Plan) for which 599,229 shares remain reserved for issuance for options already granted to employees and directors under incentive and nonstatutory agreements. The plan expired on November 15, 2010. Outstanding options under this plan are exercisable until their expiration, however, no new options will be granted under this plan. The plan required that the option price may not be less than the fair market value of the stock at the date the option was granted, and that the option price must be paid in full at the time it is exercised. The options under the plan expire on dates determined by the Board of Directors, but not later than 10 years from the date of grant. The vesting period was determined by the Board of Directors and was generally over five years.

In May 2005, the Company adopted the Central Valley Community Bancorp 2005 Omnibus Incentive Plan (2005 Plan). The plan provides for awards in the form of incentive stock options, non-statutory stock options, stock appreciation rights, and restricted stock. The plan also allows for performance awards that may be in the form of cash or shares of the Company, including restricted stock. The maximum number of shares that can be issued with respect to all awards under the plan is 476,000. Currently under the 2005 Plan, there are 107,900 shares reserved for issuance for options already granted to employees and 368,100 remain reserved for future grants as of December 31, 2010. The 2005 plan requires that the exercise price may not be less than the fair market value of the stock at the date the option is granted, and that the option price must be paid in full at the time it is exercised. The options and awards under the plan expire on dates determined by the Board of Directors, but not later than 10 years from the date of grant. The vesting period for the options and option related stock appreciation rights is determined by the Board of Directors and is generally over five years.

In 2010, options to purchase 15,200 shares of the Company's common stock were granted from the 2000 Plan at an exercise price of $5.76 and options to purchase 67,800 shares of common stock were granted from the 2005 Plan at exercise prices between $5.30 and $5.76. In 2009, options to purchase 13,500 shares of the Company's common stock were granted at exercise prices of between $5.06 and $6.40 from the 2005 Plan. All options were granted with an exercise price equal to the market value on the grant date.

In December 2008, the Company cancelled options to purchase 90,550 shares of the Company's common stock previously granted from the 2000 Plan on October 17, 2007 and options to purchase 15,000 shares of the Company's common stock previously granted from the 2005 Plan on October 1, 2007 and, on December 17, 2008, granted options to purchase 90,550 shares of the Company's common stock from the 2000 Plan and options to purchase 15,000 shares of the Company's common stock from the 2005 Plan at an exercise price of $6.70, the fair market value on the grant date. Also, from the 2005 Plan, new options to purchase 15,000 shares of the Company's common stock were granted in 2008 at an exercise price of $6.70.

For the years ended December 31, 2010, 2009, and 2008, the compensation cost recognized for share based compensation was $239,000, $284,000, and $100,000, respectively. The recognized tax benefit for share based compensation expense was $42,000, $44,000, and $50,000 for 2010, 2009, and 2008, respectively.

15. SHARE-BASED COMPENSATION (Continued)

A summary of the combined activity of the Plans for the years ended December 31, 2010, 2009 and 2008 follows:

	Number of Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
	(Dollars in thousands, except per share amounts)			
Options outstanding at January 1, 2008	861,834			
Options granted	120,550	$ 6.70		
Options exercised	(44,003)	$ 4.71		
Options canceled	(114,500)	$ 12.10		
Options outstanding at December 31, 2008	823,881	$ 6.60	4.03	$ 990
Options vested or expected to vest at December 31, 2008	799,710	$ 6.50	4.95	$ 990
Options exercisable at December 31, 2008	673,381	$ 6.03	3.18	$ 990
Options outstanding at January 1, 2009	823,881			
Options granted	13,500	$ 5.21		
Options exercised	(42,522)	$ 4.11		
Options canceled	(4,925)	$ 8.10		
Options outstanding at December 31, 2009	789,934	$ 6.70	3.29	$ 668
Options vested or expected to vest at December 31, 2009	757,726	$ 6.60	4.46	$ 668
Options exercisable at December 31, 2009	679,507	$ 6.46	2.65	$ 668
Options outstanding at January 1, 2010	789,934			
Options granted	83,000	$ 5.75		
Options exercised	(159,400)	$ 3.45		
Options canceled	(6,405)	$ 8.59		
Options outstanding at December 31, 2010	707,129	$ 7.31	3.78	$ 350
Options vested or expected to vest at December 31, 2010	687,832	$ 7.34	6.04	$ 350
Options exercisable at December 31, 2010	568,891	$ 7.62	4.34	$ 350

The weighted-average grant-date fair value of options granted during 2010, 2009, and 2008 was $2.58, $1.33, and $2.00, respectively.

The total intrinsic value of options exercised in the years ended December 31, 2010, 2009, and 2008 was $349,000, $51,000, and $142,000, respectively.

Cash received from options exercised for the years ended December 31, 2010, 2009, and 2008 was $550,000, $175,000, and $207,000, respectively. The tax benefit realized for the tax deductions from options exercised totaled $28,000, $7,000, and $57,000 for the years ended December 31, 2010, 2009, and 2008, respectively.

As of December 31, 2010, there was $413,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the 2000 and 2005 Plans. The cost is expected to be recognized over a weighted average period of 3.0 years. The total fair value of options vested was $260,000 and $252,000 for the years ended December 31, 2010 and 2009, respectively.

16. EMPLOYEE BENEFITS

401(k) and Profit Sharing Plan - The Bank has established a 401(k) and profit sharing plan. The 401(k) plan covers substantially all employees who have completed a six-month period in which they are credited with at least 1,000 hours of service. Participants in the profit sharing plan are eligible to receive employer contributions after completion of two years of service. Bank contributions to the profit sharing plan are determined at the discretion of the Board of Directors. Participants are automatically vested 100% in all employer contributions. The Bank did not contribute to the profit sharing plan in 2010 or 2009 and contributed $157,000 to the profit sharing plan in 2008.

Additionally, the Bank may elect to make a matching contribution to the participants' 401(k) plan accounts. The amount to be contributed is announced by the Bank at the beginning of the plan year. For the years ended December 31, 2010, 2009, and 2008, the Bank made a 100% matching contribution on all deferred amounts up to 3% of eligible compensation and a 50% matching contribution on all deferred amounts above 3% to a maximum of 5%. For the years ended December 31, 2010, 2009, and 2008, the Bank made matching contributions totaling $336,000, $301,000, and $254,000, respectively.

Deferred Compensation Plan - The Bank has a nonqualified Deferred Compensation Plan which provides directors with an unfunded, deferred compensation program. Under the plan, eligible participants may elect to defer some or all of their current compensation or director fees. Deferred amounts earn interest at an annual rate determined by the Board of Directors (5.25% at December 31, 2010). At December 31, 2010, and 2009, the total net deferrals included in accrued interest payable and other liabilities were $2,038,000 and $1,992,000, respectively.

In connection with the implementation of the above plan, single premium universal life insurance policies on the life of each participant were purchased by the Bank, which is beneficiary and owner of the policies. The cash surrender value of the policies totaled $3,106,000, $3,006,000 and $2,909,000 at December 31, 2010, 2009, and 2008, respectively. Income recognized on these policies, net of related expenses, for the years ended December 31, 2010, 2009, and 2008 was $100,000, $97,000, and $99,000, respectively.

Salary Continuation Plans - The Board of Directors approved salary continuation plans for certain key executives during 2002 and subsequently amended the plans in 2006. Under these plans, the Bank is obligated to provide the executives with annual benefits for fifteen years after retirement. These benefits are substantially equivalent to those available under split-dollar life insurance policies purchased by the Bank on the life of the executives. In addition, the estimated present value of these future benefits are accrued from the effective date of the plans until the executives' expected retirement date based on a discount rate of 6.00%. The expense recognized under these plans for the years ended December 31, 2010, 2009, and 2008 totaled $450,000, $407,000, and $389,000, respectively. Accrued compensation payable under the salary continuation plan totaled $3,574,000, $3,201,000 and $2,865,000 at December 31, 2010, 2009 and 2008, respectively

In connection with these plans, the Bank purchased single premium life insurance policies with cash surrender values totaling $4,366,000, $4,214,000 and $4,064,000 at December 31, 2010, 2009 and 2008, respectively. Income recognized on these policies, net of related expense, for the years ended December 31, 2010, 2009, and 2008 totaled $152,000, $155,000, and $157,000, respectively.

In connection with the acquisition of Service 1st Bank, the Bank assumed a liability for the estimated present value of future benefits payable to former key executives of Service 1st. The liability relates to change in control benefits associated with Service 1st's salary continuation plans. The benefits are payable to the individuals when they reach retirement age. At December 31, 2010 and 2009, the total amount of the liability was $1,636,000 and $1,581,000, respectively. Expense recognized by the Bank in 2010, 2009 and 2008 associated with these plans was $95,000, $22,000 and $5,000, respectively. These benefits

16. EMPLOYEE BENEFITS (Continued)

are substantially equivalent to those available under split-dollar life insurance policies acquired. These single premium life insurance policies had cash surrender values totaling $3,918,000, $3,778,000 and $3,835,000 at December 31, 2010, 2009 and 2008, respectively. Income recognized on these policies, net of related expenses, for the year ended December 31, 2010, 2009 and 2008 was $140,000, $139,000 and $12,000, respectively.

The current annual tax-free interest rate on all life insurance policies is 5.48%.

17. LOANS TO RELATED PARTIES

During the normal course of business, the Bank enters into loans with related parties, including executive officers and directors. These loans are made with substantially the same terms, including rates and collateral, as loans to unrelated parties. The following is a summary of the aggregate activity involving related party borrowers (in thousands):

Balance, January 1, 2010	$ 837
Disbursements	180
Amounts repaid	(208)
Balance, December 31, 2010	$ 809
Undisbursed commitments to related parties, December 31, 2010	$ 1,407

18. COMPREHENSIVE INCOME

Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of other comprehensive income (loss) that historically has not been recognized in the calculation of net income. The Company's only source of other comprehensive income (loss) is unrealized gains and losses on the Company's available-for-sale investment securities. Total comprehensive income and the components of accumulated other comprehensive income (loss) are presented in the consolidated statement of changes in shareholders' equity.

At December 31, 2010, 2009 and 2008, the Company held securities classified as available-for-sale which had net unrealized gains or losses as follows:

	Before Tax	Tax Expense	After Tax
		(In thousands)	
For the Year Ended December 31, 2010			
Other comprehensive income:			
Unrealized holding gains	$ 2,290	$ (927)	$ 1,363
Less reclassification adjustment for net losses included in net income	(1,778)	719	(1,059)
Total other comprehensive income	$ 4,068	$ (1,646)	$ 2,422
For the Year Ended December 31, 2009			
Other comprehensive loss:			
Unrealized holding losses	$ (1,971)	$ 788	$ (1,183)
Less reclassification adjustment for net gains included in net income	767	(307)	460
Total other comprehensive loss	$ (2,738)	$ 1,095	$ (1,643)
For the Year Ended December 31, 2008			
Other comprehensive income:			
Unrealized holding gains	$ 244	$ (97)	$ 147
Less reclassification adjustment for net gains included in net income	165	(66)	99
Total other comprehensive income	$ 79	$ (31)	$ 48

19. PARENT ONLY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS
December 31, 2010 and 2009
(In thousands)

ASSETS	2010	2009
Cash and cash equivalents	$ 1,071	$ 859
Investment in Subsidiary	101,346	95,370
Other assets	305	301
Total assets	$ 102,722	$ 96,530
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Junior subordinated debentures due to subsidiary grantor trust	$ 5,155	$ 5,155
Other liabilities	175	152
Total liabilities	5,330	5,307
Shareholders' equity:		
Preferred stock, Series A	6,864	6,819
Preferred stock, Series B	-	1,317
Common stock	39,745	37,611
Retained earnings	49,815	46,931
Accumulated other comprehensive income (loss), net of taxes	967	(1,455)
Total shareholders' equity	97,391	91,223
Total liabilities and shareholders' equity	$ 102,722	$ 96,530

CONDENSED STATEMENTS OF INCOME
For the Years Ended December 31, 2010, 2009 and 2008
(In thousands)

	2010	2009	2008
Income:			
Dividends declared by Subsidiary - eliminated in consolidation	$ -	$ -	$ 6,100
Other income	3	13	2
Total income	3	13	6,102
Expenses:			
Interest on junior subordinated deferrable interest debentures	102	129	46
Professional fees	147	30	104
Other expenses	329	295	231
Total expenses	578	454	381
(Loss) income before equity in undistributed net income of Subsidiary	(575)	(441)	5,721
Equity in undistributed net income of Subsidiary, net of distributions	3,657	2,871	(692)
Income before income tax benefit	3,082	2,430	5,029
Benefit from income taxes	197	158	110
Net income	3,279	2,588	5,139
Preferred stock dividend and accretion of discount	395	365	-
Income available to common shareholders	$ 2,884	$ 2,223	$ 5,139

19. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2010, 2009 and 2008
(In thousands)

	2010	2009	2008
Cash flows from operating activities:			
Net income	$ 3,279	$ 2,588	$ 5,139
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Undistributed net income of subsidiary, net of distributions	(3,657)	(2,871)	692
Stock-based compensation	239	284	100
Tax benefit from exercise of stock options	(28)	(7)	(57)
Decrease in other assets	170	1,765	265
Net decrease (increase) in other liabilities	23	(140)	116
(Benefit) provision for deferred income taxes	(43)	68	-
Net cash (used in) provided by operating activities	(17)	1,687	6,255
Cash flows used in investing activities:			
Investment in subsidiary	-	(16,578)	(6,233)
Cash flows from financing activities:			
Net proceeds from issuance of common stock	-	6,441	-
Proceeds from issuance of Series A preferred stock and warrants	-	7,000	-
Proceeds from issuance of Series B preferred stock	-	1,317	-
Cash dividend payments on preferred stock	(349)	(277)	-
Cash dividend payments on common stock	-	-	(598)
Share repurchase and retirement	-	-	(56)
Proceeds from exercise of stock options	550	175	207
Tax benefit from exercise of stock options	28	7	57
Net cash provided by (used in) financing activities	229	14,663	(390)
Increase (decrease) in cash and cash equivalents	212	(228)	(368)
Cash and cash equivalents at beginning of year	859	1,087	1,455
Cash and cash equivalents at end of year	$ 1,071	$ 859	$ 1,087
Cash paid during the year for interest	$ 101	$ 182	$ -
Non-Cash Investing Activities:			
Net pre-tax change in unrealized gain (loss) on available-for-sale investment securities	$ 4,068	$ (2,738)	$ 79
Fair market value of common stock issued in acquisition of subsidiary	$ -	$ -	$ 16,600
Non-Cash Financing Activities:			
Accrued Preferred Stock Dividend	$ 45	$ 44	$ -

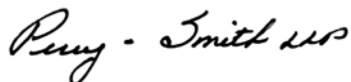
Report of
Independent Registered Public Accounting Firm

The Shareholders and Board of Directors
Central Valley Community Bancorp and Subsidiary

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

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

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



Sacramento, California
March 16, 2011

Selected
Consolidated Financial Data

Statements of Income	Years Ended December 31, (In thousands, except per share amounts) 2010	2009	2008	2007	2006
Total interest income	$ 36,013	$ 40,734	$ 31,845	$ 32,566	$ 30,932
Total interest expense	4,283	6,627	7,278	8,058	6,559
Net interest income before provision for credit losses	31,730	34,107	24,567	24,508	24,373
Provision for credit losses	3,800	10,514	1,290	480	800
Net interest income after provision for credit losses	27,930	23,593	23,277	24,028	23,573
Non-interest income	3,721	5,850	5,190	4,518	5,177
	31,651	29,443	28,467	28,546	28,750
Non-interest expenses	28,741	27,531	20,976	19,099	18,541
Income before (benefit from) provision for income taxes	2,910	1,912	7,491	9,447	10,209
(Benefit from) provision for income taxes	(369)	(676)	2,352	3,167	3,298
Net income	3,279	2,588	5,139	6,280	6,911
Preferred stock dividends and accretion of discount	395	365	—	—	—
Net income available to common shareholders	$ 2,884	$ 2,223	$ 5,139	$ 6,280	$ 6,911
Basic earnings per share	$ 0.31	$ 0.29	$ 0.83	$ 1.05	$ 1.16
Diluted earnings per share	$ 0.31	$ 0.28	$ 0.79	$ 0.99	$ 1.07
Cash dividends declared per common share	$ —	$ —	$ 0.10	$ 0.10	$ —

Balances at end of year:	December 31, (In thousands) 2010	2009	2008	2007	2006
Investment securities, Federal funds sold and deposits in other banks	$ 280,967	$ 232,142	$ 194,215	$ 98,909	$ 128,463
Net loans	420,583	449,007	477,015	337,241	318,853
Total deposits	650,495	640,167	635,058	402,562	440,627
Total assets	777,594	765,488	752,713	483,685	500,059
Shareholders' equity	97,392	91,223	75,375	54,194	49,778
Earning assets	713,971	696,914	681,280	441,825	453,211
Average balances:					
Investment securities, Federal funds sold and deposits in other banks	$ 231,761	$ 199,425	$ 125,932	$ 103,253	$ 125,702
Net loans	444,418	473,850	362,333	327,665	300,591
Total deposits	636,166	632,263	445,285	417,691	414,310
Total assets	758,852	752,509	541,789	477,321	470,221
Shareholders' equity	96,174	83,400	58,251	51,754	45,564
Earning assets	672,804	671,906	492,414	436,564	431,368

Data from 2008 reflects the partial year impact of the acquisition of Service 1st Bancorp and its subsidiary, Service 1st Bank.

Unaudited Quarterly Statement of Operations Data (Dollars in thousands, except per share data)

	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Net interest income	$ 7,641	$ 8,173	$ 7,930	$ 7,986	$ 8,220	$ 8,654	$ 8,748	$ 8,485
Provision for credit losses	900	1,300	1,000	600	2,864	3,233	2,500	1,917
Net interest income after provision for credit losses	6,741	6,873	6,930	7,386	5,356	5,421	6,248	6,568
Total non-interest income	347	1,293	747	1,334	1,103	1,608	1,401	1,738
Total non-interest expense	6,986	7,409	7,142	7,204	6,616	6,946	7,129	6,840
(Benefit from) Provision for income taxes	(517)	(107)	31	224	(643)	(296)	56	207
Net income	$ 619	$ 864	$ 504	$ 1,292	$ 486	$ 379	$ 464	$ 1,259
Net income available to common shareholders	$ 520	$ 766	$ 405	$ 1,193	$ 416	$ 268	$ 329	$ 1,210
Basic earnings per share	$ 0.06	$ 0.08	$ 0.04	$ 0.13	$ 0.05	$ 0.04	$ 0.04	$ 0.16
Diluted earnings per share	$ 0.06	$ 0.08	$ 0.04	$ 0.13	$ 0.05	$ 0.03	$ 0.04	$ 0.16

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

Management's discussion and analysis should be read in conjunction with the Company's audited Consolidated Financial Statements, including the Notes thereto, in Item 8 of this Annual Report.

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 (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 Annual Report the words "anticipate," "estimate," "expect," "project," "intend," "commit," "believe" 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 Annual Report. 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. See also risk factors discussed in Item 1A Risk Factors in the Company's December 31, 2010 Form 10-K.

INTRODUCTION

Central Valley Community Bancorp (NASDAQ: CVCY) (the Company) was incorporated on February 7, 2000. The formation of the holding company offered the Company more flexibility in meeting the long-term needs of customers, shareholders, and the communities it serves. The Company currently has one bank subsidiary, Central Valley Community Bank (the Bank) and one business trust subsidiary, Service 1st Capital Trust 1. The Bank of Madera County (BMC) was merged with and into the Bank on January 1, 2005. BMC had two branches in Madera County which continue to be operated by the Bank. After the close of business on November 12, 2008, Service 1st Bancorp (Service 1st) was merged with and into the Company, and Service 1st Bank was merged with and into the Bank. Service 1st Bank had three branches in Stockton, Tracy, and Lodi which continue to be operated by the Bank. Service 1st Capital Trust 1 (the Trust) is a business trust formed for the purpose of issuing trust preferred securities. The Company succeeded to all the rights and obligations of Service 1st in connection with the acquisition of Service 1st. The Trust is a subsidiary of the Company. The Company's market area includes the central valley area from Sacramento, California to Bakersfield, California.

During 2010, we focused on asset quality and capital adequacy due to the uncertainty created by the economy. We also focused on assuring that competitive products and services were made available to our clients while adjusting to the many new laws and regulations that affect the banking industry. In 2010, the Company expanded the existing Modesto loan production office opened in 2007, into a larger full-service branch. In 2009, we opened a new full service office in Merced, California and relocated our Oakhurst office to a new smaller facility in a more desirable location. During 2008 the Company acquired Service 1st Bancorp and its banking subsidiary adding three strategically located branches and we relocated our Herndon and Fowler branch from an in-store location to a new larger facility. During 2007, we relocated our Kerman branch to a new larger facility. During 2006, the Bank opened two full service retail offices in Fresno, one in the downtown area and one in the Sunnyside area of Fresno. In 2006, the Company consolidated its administrative offices into a single location in Fresno. The Bank now operates 17 full-service offices. The Bank has a Real Estate Division, an Agribusiness Center and an SBA Lending Division in Fresno. All real estate related transactions are conducted and processed through the Real Estate Division, including interim construction loans for single family residences and commercial buildings. We offer permanent single family residential loans through our mortgage broker services.

ECONOMIC CONDITIONS

The economy in California's Central Valley has been negatively impacted by the recession that began in 2007 and the related real estate market and the slowdown in residential construction. The recession has impacted most industries in our market area. During the past three years, housing values throughout the nation and especially in the Central Valley have decreased dramatically, which in turn has negatively affected the personal net worth of much of the population in our service area. Housing in the Central Valley continues to be relatively more affordable than the major metropolitan areas in California.

Agriculture and agricultural related businesses remain a critical part of the Central Valley's economy. The Valley's agricultural production is widely diversified, producing nuts, vegetables, fruit, cattle, dairy products, and cotton. The continued future success of agriculture related businesses is highly dependant on the availability of water and is subject to fluctuation in worldwide commodity prices and demand.

OVERVIEW

Diluted earnings per share (EPS) for the year ended December 31, 2010 was $0.31compared to $0.28 and $0.79 for the years ended December 31, 2010, 2009 and 2008, respectively. Net income for 2010 was $3,279,000 compared to $2,588,000 and $5,139,000 for the years ended December 31, 2010, 2009 and 2008, respectively. The increase in net income and EPS was primarily driven by lower provision for credit losses, partially offset by decreases in net interest income and non-interest income, and an increase in non-interest expenses in 2010 compared to 2009. Total assets at December 31, 2010 were $777,594,000 compared to $765,488,000 at December 31, 2009.

Return on average equity for 2010 was 3.41% compared to 3.10% and 8.82% for 2010, 2009 and 2008, respectively. Return on average assets for 2010 was 0.43% compared to 0.34% and 0.95% for 2010, 2009 and 2008, respectively. Total equity was $97,391,000 at December 31, 2010 compared to $91,223,000 at December 31, 2009. The increase in assets and equity in 2010 compared to 2009 is due to an increase in deposits and increases in other comprehensive income and retained earnings and the exercise of stock options. The increase in 2009 assets and equity compared to 2008 was mainly due to capital raising activities including our participation in the Treasury Capital Purchase Program under the Emergency Economic Stabilization Act under which the Company issued preferred stock and a Warrant to issue common stock in consideration of $7,000,000 and the private sale of equity to certain accredited investors who purchased preferred and common shares for a total of $8,000,000.

Average total loans decreased $27,118,000 or 5.62% to $455,340,000 in 2010 compared to $482,458,000 in 2009. In 2010, we recorded a provision for credit losses of $3,800,000 compared to $10,514,000 in 2009 and $1,290,000 in 2008. The Company had nonperforming assets totaling $19,984,000 at December 31, 2010. Nonperforming assets included nonaccrual loans totaling $18,561,000, other real estate owned of $1,325,000 and $98,000 in other assets. At December 31, 2009 nonperforming assets totaled $21,838,000 consisting of $18,959,000 in nonaccrual loans, other real estate owned of $2,832,000 and $47,000 in other assets. Net charge-offs for 2010 were $2,986,000 compared to $7,537,000 for 2009 and $740,000 for 2008. Refer to "Asset Quality" below for further information.

OVERVIEW **(Continued)**

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

Return to Our Stockholders

Our return to our stockholders is measured in a ratio that measures the return on average equity (ROE). Our ROE was 3.41% for the year ended 2010 compared to 3.10% and 8.82% for the years ended 2009 and 2008, respectively. In 2010, compared to 2009 we experienced an increase in net income and an increase in capital due to increases in other comprehensive income and retained earnings, and the exercise of stock options. During 2009, compared to 2008 we experienced a decrease in our net income and an overall increase in the level of capital due to the issuance of preferred stock in connection with the U. S. Treasury Capital Purchase Program, and a private placement of our common and preferred stock.

Our net income for the year ended December 31, 2010 increased $691,000 compared to 2009. Net income decreased $2,551,000 for 2009 compared to 2008 and decreased $1,141,000 for 2008 compared to 2007. During 2010 net income increased primarily due to a decrease in the provision for credit losses partially offset by decreases in net interest income and non-interest income, and an increase in non-interest expenses in 2010 compared to 2009. Net interest income decreased because interest income decreased more relative to the decrease in interest expense. Non-interest income decreased due to an increase in Other-Than-Temporary-Impairment (OTTI) charges of $1,587,000, a decrease in net realized gains on sales and calls of investment securities of $657,000 and a decrease in customer service charges of $284,000.

Non-interest expenses increased in 2010 compared to 2009 primarily due to increases in OREO expenses of $592,000, legal fees of $165,000, and salaries and employee benefits of $945,000, partially offset by decreases in regulatory assessments of $413,000 and data processing expenses of $119,000. The 2009 period included a $353,000 FDIC one-time special assessment in addition to the recurring regulatory assessments. During 2010, our net interest margin (NIM) decreased 36 basis points compared to 2009. Basic EPS was $0.31 for 2010 compared to $0.29 and $0.83 for 2009 and 2008, respectively. Diluted EPS was $0.31 for 2010 compared to $0.28 and $0.79 for 2009 and 2008, respectively. The increase in EPS in 2010 was due primarily to the increase in net income.

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 ROA for the year ended 2010 was 0.43% compared to 0.34% and 0.95% for the years ended December 31, 2009 and 2008, respectively. The 2010 increase in ROA is due to the increase in net income partially offset by an increase in average assets. Annualized ROA for our peer group was −0.26% at September 30, 2010. Peer group information from SNL Financial data includes bank holding companies in central California with assets from $300M to $950M that are not subchapter S corporations.

Development of Core Earnings

Over the past several years, we have focused on not only our net income, but improving the consistency of our core earnings 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 through loan generation and retention. We minimized the effects of the recent interest rate decline on our net interest margin by focusing on core deposits and managing the cost of funds. Our net interest margin (fully tax equivalent basis) was 4.95% for the year ended December 31, 2010, compared to 5.31% and 5.13% for the years ended December 31, 2009 and 2008, respectively. The decrease in net interest margin compared to 2009 is principally due to a decrease in our yield on earning assets which was greater than the decrease in our cost of funds. In comparing the two periods, the effective yield on total earning assets decreased 71 basis points, while the cost of total interest-bearing liabilities decreased 45 basis points and the cost of total deposits decreased 35 basis points. Our cost of total deposits in 2010 was 0.58% compared to 0.93% for the same period in 2009 and 1.42% for the year ended December 31, 2008. Our net interest income before provision for credit losses decreased $2,377,000 or 6.97% to $31,730,000 for the year ended 2010 compared to $34,107,000 and $24,567,000 for the years ended 2009 and 2008, respectively.

Our non-interest income is generally made up of service charges and fees on deposit accounts, fee income from loan placements, appreciation in cash surrender value of bank owned life insurance, and net gains from sales and calls of investment securities. Non-interest income in 2010 decreased 2,129,000 or 36.39% to $3,721,000 compared to $5,850,000 in 2009 and $5,190,000 in 2008. Customer service charges decreased $284,000 or 8.09% to $3,225,000 in 2010 compared to $3,509,000 and $3,350,000 in 2009 and 2008, respectively. Further detail on 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 percentage of total loans and total assets, and is a key element in estimating the future earnings of a company. Total nonperforming assets were $19,984,000 and $21,838,000 at December 31, 2010 and 2009, respectively. Nonperforming assets included nonaccrual loans totaling $18,561,000 or 4.30% of gross loans as of December 31, 2010 and $18,959,000 or 4.13% of gross loans as of December 31, 2009. At December 31, 2010, other nonperforming assets included other real estate owned totaling $1,325,000 and other assets of $98,000 compared to $2,832,000 and $47,000 on December 31, 2009, respectively. 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.

Asset Growth

As revenues from both net interest income and non-interest income are a function of asset size, the continued 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 increased 1.58% during 2010 to $777,594,000 as of December 31, 2010 from $765,488,000 as of December 31, 2009. Total gross loans decreased 6.01% to $431,597,000 as of December 31, 2010, compared to $459,207,000 at December 31, 2009. Total investment securities and Federal funds sold decreased 2.87% to $191,925,000 as of December 31, 2010 compared to $197,598,000 as of December 31, 2009. Total deposits increased 1.61% to $650,495,000 as of December 31, 2010 compared to $640,167,000 as of December 31, 2009. Our loan to deposit ratio at December 31, 2010 was 66.35% compared to 71.73% at December 31, 2009. The loan to deposit ratio of our peers was 82.47% at September 30, 2010.

Capital Adequacy

At December 31, 2010, we had a total capital to risk-weighted assets ratio of 15.42%, a Tier 1 risk-based capital ratio of 14.16% and a leverage ratio of 9.48%. At December 31, 2009, we had a total capital to risk-weighted assets ratio of 13.54%, a Tier 1 risk-based capital ratio of 12.28% and a leverage ratio of 9.30%. At December 31, 2010, on a stand-alone basis, the Bank had a total

OVERVIEW **(Continued)**

risk-based capital ratio of 15.19%, a Tier 1 risk based capital ratio of 13.92% and a leverage ratio of 9.32%. At December 31, 2009, the Bank had a total risk-based capital ratio of 13.38%, Tier 1 risk-based capital of 12.12% and a leverage ratio of 9.20%. The improvement in 2010 is due to an increase in risk adjusted capital while risk weighted assets decreased. Note 12 of the audited Consolidated Financial Statements provides more detailed information concerning the Company's capital amounts and ratios.

Operating Efficiency

Operating efficiency is the measure of how efficiently earnings before taxes are generated as a percentage of revenue. A lower ration is better. 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 net gains and losses from sale of securities) was 73.18% for 2010 compared to 67.31% for 2009 and 70.10% for 2008. The decline in the efficiency ratio in 2010 is due to an increase in operating expenses and a decrease in net interest income. The efficiency ratio in 2009 improved due to an increase in net interest income and non-interest income. The deterioration in the efficiency ratio in 2008 was due to the increase in operating expenses due to our acquisition and expansion in 2008. The Company's net interest income before provision for credit losses plus non-interest income decreased 11.2% to $35,451,000 in 2010 compared to $39,957,000 in 2009 and $29,757,000 in 2008, while operating expenses increased 4.40% in 2010, 31.25% in 2009, and 9.8% in 2008.

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 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 and advances from the Federal Home Loan Bank of San Francisco. We have available unsecured lines of credit with correspondent banks totaling approximately $39,000,000 and secured borrowing lines of approximately $114,659,000 with the Federal Home Loan Bank. 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.

We had liquid assets (cash and due from banks, interest-earning deposits in other banks, Federal funds sold and available-for-sale securities) totaling $292,324,000 or 37.59% of total assets at December 31, 2010 and $245,999,000 or 32.14% of total assets as of December 31, 2009.

RESULTS OF OPERATIONS

NET INCOME

Net income was $3,279,000 in 2010 compared to $2,588,000 and $5,139,000 in 2009 and 2008, respectively. Basic earnings per share was $0.31, $0.29, and $0.83 for 2010, 2009, and 2008, respectively. Diluted earnings per share was $0.31, $0.28, and $0.79 for 2010, 2009 and 2008, respectively. ROE was 3.41% for 2010 compared to 3.10% for 2009 and 8.82% for 2008. ROA for 2010 was 0.43% compared to 0.34% for 2009 and 0.95% for 2008.

The increase in net income for 2010 compared to 2009 can be attributed to the decrease in the provision for credit losses, partially offset by decreases in net interest income and non-interest income, and an increase non-interest expenses and a decrease in the benefit from income taxes. The decrease in net interest income for 2010 compared to 2009 was due primarily to the 36 basis point reduction in the net interest margin. The decrease in net income for 2009 compared to 2008 was due mainly to increases in the provision for credit losses and non-interest expenses, partially offset by increases in net interest income and non-interest income, and a decrease in the provision for income taxes.

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 portfolios 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.

INTEREST INCOME AND EXPENSE (Continued)

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 nonaccrual loans are not included as interest-earning assets for purposes of this table.

SCHEDULE OF AVERAGE BALANCES AND AVERAGE YIELDS AND RATES (Dollars in thousands)	Year Ended December 31, 2010			Year Ended December 31, 2009		
	Average Balance	Interest Income/Expense	Average Interest Rate	Average Balance	Interest Income/Expense	Average Interest Rate
ASSETS						
Interest-earning deposits in other banks	$ 42,047	$ 110	0.26%	$ 3,008	$ 8	0.27%
Securities						
Taxable securities	124,163	5,472	4.41%	114,465	7,701	6.73%
Non-taxable securities (1)	64,838	4,605	7.10%	64,325	4,632	7.20%
Total investment securities	189,001	10,077	5.33%	178,790	12,333	6.90%
Federal funds sold	713	2	0.28%	17,627	48	0.27%
Total securities	231,761	10,189	4.40%	199,425	12,389	6.21%
Loans (2) (3)	437,959	27,390	6.25%	469,341	29,920	6.37%
Federal Home Loan Bank stock	3,084	11	0.36%	3,140	7	0.22%
Total interest-earning assets	672,804	$ 37,590	5.59%	671,906	$ 42,316	6.30%
Allowance for credit losses	(10,922)			(8,608)		
Nonaccrual loans	17,381			13,117		
Other real estate owned	2,972			2,553		
Cash and due from banks	16,479			17,401		
Bank premises and equipment	6,089			6,629		
Other non-earning assets	54,049			49,511		
Total average assets	$ 758,852			$ 752,509		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities:						
Savings and NOW accounts	$ 142,350	$ 498	0.35%	$ 131,818	$ 771	0.58%
Money market accounts	157,761	1,036	0.66%	136,104	1,262	0.93%
Time certificates of deposit, under $100,000	69,066	866	1.25%	90,614	1,922	2.12%
Time certificates of deposit, $100,000 and over	114,043	1,313	1.15%	120,579	1,912	1.59%
Total interest-bearing deposits	483,220	3,713	0.77%	479,115	5,867	1.22%
Other borrowed funds	19,634	570	2.90%	29,987	760	2.53%
Total interest-bearing liabilities	502,854	$ 4,283	0.85%	509,102	$ 6,627	1.30%
Non-interest bearing demand deposits	152,946			153,148		
Other liabilities	6,878			6,859		
Shareholders' equity	96,174			83,400		
Total average liabilities and shareholder's equity	$ 758,852			$ 752,509		
Interest income and rate earned on average earning assets		$ 37,590	5.59%		$ 42,316	6.30%
Interest expense and interest cost related to average interest-bearing liabilities		4,283	0.85%		6,627	1.30%
Net interest income and net interest margin (4)		$ 33,307	4.95%		$ 35,689	5.31%

(1) Calculated on a fully tax equivalent basis, which includes Federal tax benefits relating to income earned on municipal bonds totaling $1,566 and $1,575 in 2010 and 2009, respectively.

(2) Loan interest income includes loan fees of $460 in 2010 and $544 in 2009.

(3) Average loans do not include nonaccrual 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 $2,530,000 or 8.46% in 2010 compared to 2009. Interest and fee income increased $4,289,000 or 16.73% in 2009 compared to 2008. The decrease in 2010 is attributable to a decrease in average total loans outstanding and a 12 basis point decrease in the yield on loans. The increase in 2009 is attributable to an increase in average total loans outstanding combined with a 69 basis point decrease in yield on loans in 2009 compared to 2008. Average total loans for 2010 decreased $27,118,000 to $455,340,000 compared to $482,458,000 for 2009 and $367,009,000 for 2008. The yield on loans for 2010 was 6.25% compared to 6.37% and 7.06% for 2009 and 2008, respectively.

Interest income from total investments, (total investments include investment securities, Federal funds sold, interest-bearing deposits in other banks, and other securities) not on a fully tax equivalent basis, decreased $2,191,000 or 20.26% in 2010 compared to 2009 primarily due to a $32,336,000 increase in the average balance to $231,761,000 in 2010 compared to $199,425,000 in 2009, coupled with a decrease in yield on investments of 181 basis points. In 2009, total investment income increased $4,600,000 or 74.02% from 2008 primarily due to a 58.36% increase in the average balances of these investments and a 82 basis point increase in the yields earned. Average total investments for 2009 were $199,425,000 compared to $125,932,000, for 2008. The increase in the investment portfolio in 2009 was due primarily to the acquisition of Service 1st.

INTEREST INCOME AND EXPENSE (Continued)

A significant portion of the investment portfolio is mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs). At December 31, 2010, we held $107,915,000 or 56.40% of the total market value of the investment portfolio in MBS and CMOs with an average yield of 4.42%. 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 market value of the available-for-sale investment portfolio was a gain of $967,000 and is reflected in the Company's equity. At December 31, 2010, the average life of the investment portfolio was 7.4 years and the market value reflected a pre-tax gain of $1,643,000. Management reviews market value declines on individual investment securities to determine whether they represent other-than-temporary impairment (OTTI) and recorded a $1,587,000 OTTI loss for the year ended December 31, 2010. Future deterioration in the market values of our investment securities may require the Company to recognize additional 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 December 31, 2010, an immediate rate increase of 200 basis points would result in an estimated decrease in the market value of the investment portfolio by approximately $14,516,000. Conversely, with an immediate rate decrease of 200 basis points, the estimated increase in the market value of the investment portfolio is $10,284,000. The modeling environment assumes management would take no action during an immediate shock of 200 basis points. The likelihood of immediate changes of 200 basis points is contrary to expectation, as evidenced by the historical changes in interest rates that occurred in 2007 and 2008, which were in 25, 50 and 75 basis point increments. 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 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 in 2010 decreased $4,721,000 to $36,013,000 compared to $40,734,000 in 2009 and $31,845,000 in 2008. The decrease was due to the 71 basis point decrease in the tax equivalent yield on average interest earning assets and a change in the mix of interest earning assets. The yield on interest earning assets decreased to 5.59% for the year ended December 31, 2010 from 6.30% for the year ended December 31, 2009. Average interest earning assets increased slightly to $672,804,000 for the year ended December 31, 2010 compared to $671,906,000 for the year ended December 31, 2009. Average interest-earning deposits in other banks increased $39,039,000 comparing 2010 to 2009. Average yield on these deposits was 0.26%. Average Investments increased $10,211,000 but the tax equivalent yield on average investments decreased 181 basis points. Average loans decreased $27,118,000 and the yield on average loans decreased 12 basis points.

The increase in total interest income in 2009 was due to the 36.5% increase in the average balance of interest-earning assets partially offset by the 31 basis point decrease in the yield on those assets. The yield on interest-earning assets decreased to 6.30% for the year ended December 31, 2009 from 6.61% for the year ended December 31, 2008. Average interest-earning assets increased to $671,906,000 for the year ended December 31, 2009 compared to $492,414,000 for the year ended December 31, 2008. The $179,492,000 increase in average earning assets in 2009 can be attributed to the Service 1st acquisition.

Interest expense on deposits in 2010 decreased $2,154,000 or 36.71% to $3,713,000 compared to $5,867,000 in 2009 and $6,340,000 in 2008. The decrease in interest expense in 2010 compared to 2009 was primarily due to the repricing of interest-bearing deposits which decreased 45 basis points to 0.77% in 2010 from 1.22% in 2009. This decrease was partially offset by a $4,105,000 or 0.86% increase in average interest-bearing deposits. The decrease in interest expense in 2009 compared to 2008 was due to repricing of interest-bearing deposits, which decreased 81 basis points to 1.22% in 2009 from 2.03% in 2008, as a result of the decreases in the Federal funds interest rate. Average interest-bearing deposits were $483,220,000 for 2010 compared to $479,115,000 and $313,541,000 for 2009 and 2008, respectively. The increases in average interest-bearing deposits in 2009 and 2008 were the result of our own organic growth and the acquisition of Service 1st in November 2008.

Average other borrowings decreased to $19,634,000 with an effective rate of 2.90% for 2010 compared to $29,987,000 with an effective rate of 2.53% for 2009. In 2008, the average other borrowings were $32,526,000 with an effective rate of 2.89%. Included in other borrowings are the junior subordinated deferrable interest debentures acquired from Service 1st, advances on lines of credit and advances from the Federal Home Loan Bank (FHLB). The FHLB advances are fixed rate short-term and long-term borrowings. Advances were utilized as part of a leveraged strategy in the first quarter of 2008 to purchase investment securities. The effective rate of the FHLB advances was 3.20% for 2010 and 3.08% for 2009 and 2008.

The cost of all of our interest-bearing liabilities decreased 45 basis points to 0.85% for 2010 compared to 1.30% for 2009 and 2.11% for 2008. The cost of total deposits decreased to 0.58% for the year ended December 31, 2010 compared to 0.93% and 1.42% for the years ended December 31, 2009 and 2008, respectively. Average demand deposits decreased 0.13% to $152,946,000 in 2010 compared to $153,148,000 for 2009 and $131,744,000 for 2008. The ratio of non-interest demand deposits to total deposits decreased to 24.04% for 2010 compared to 24.22% and 29.59% for 2009 and 2008, respectively.

NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES

Net interest income before provision for credit losses for 2010 decreased $2,377,000 or 6.97% to $31,730,000 compared to $34,107,000 for 2009 and $24,567,000 for 2008. The decrease in 2010 was due to the 36 basis point decrease in our net interest margin (NIM). Yield on interest earning assets decreased 71 basis points while the effective rate on interest bearing liabilities only decreased 45 basis points. The change in the mix of average interest earning assets also affected NIM. Interest-earning deposits in other banks and investment securities, which tend to have lower effective yields, increased while higher yielding loans decreased as previously discussed. Net interest income before provision for credit losses increased $9,540,000 in 2009 compared to 2008 mainly due to an increase in average total interest-earning assets of 36.5% along with an 18 basis point increase in our NIM partially offset by an increase in interest-bearing liabilities of 47.1%. Average interest-earning assets were $672,804,000 for the year ended December 31, 2010 with a net interest margin (NIM) of 4.95% compared to $671,906,000 with a NIM of 5.31% in 2009, and $492,414,000 with a NIM of 5.13% in 2008. For a discussion of the repricing of our assets and liabilities, refer to 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

PROVISION FOR CREDIT LOSSES (Continued)

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)	December 31, 2010	% of Total Loans	December 31, 2009	% of Total Loans
Commercial & industrial	$ 2,425	24.1%	$ 2,909	23.5%
Agricultural land and production	405	9.0%	708	7.8%
Real estate:				
Owner occupied	1,978	25.9%	1,382	24.1%
Real estate - construction and other land loans	1,808	7.4%	836	10.3%
Commercial real estate	1,387	14.7%	1,131	15.7%
Other	1,594	8.9%	1,300	8.4%
Total real estate	6,767	56.9%	4,649	58.5%
Equity loans and lines of credit	797	8.0%	334	7.8%
Consumer & installment	382	2.0%	423	2.4%
Unallocated reserves	238		1,177	
Total allowance for credit losses	$ 11,014		$ 10,200	

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 December 31, 2009 were higher because Q factors were applied to the portfolio as a whole.

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.

The provisions for credit losses in 2010, 2009 and 2008 were $3,800,000, $10,514,000, and $1,290,000, respectively. 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 year ended December 31, 2010, the Company had net charge offs totaling $2,986,000 compared to $7,537,000 and $740,000 for the same periods in 2009 and 2008, respectively. The decrease in provision for credit losses in 2010 compared to 2009 resulted from a decrease in the level of outstanding loans and a decrease in net charge offs. The net charge off ratio, which reflects net charge-offs to average loans, was 0.66%, 1.56% and 0.20% for 2010, 2009, and 2008, respectively.

Nonperforming loans were $18,561,000 and $18,959,000 at December 31, 2010 and 2009, respectively. Nonperforming loans as a percentage of total loans were 4.30% at December 31, 2010 compared to 4.13% at December 31, 2009. Other real estate owned at December 31, 2010 was $1,325,000 net of a valuation allowance of $309,000 compared to $2,832,000 net of a valuation allowance of $356,000 in 2009.

Losses in the commercial and industrial and real estate segments of the loan portfolio in 2010 decreased compared to 2009. We had loans past due, not including non accrual loans, totaling $3,421,000 at December 31, 2010 compared to $3,522,000 at December 31, 2009. Losses in the loan portfolio and non-accruing balances remain elevated relative to historical periods and an increase in the level of charge-offs and the number and dollar volume of past due and nonperforming loans may result in further provisions to the allowance for credit losses.

We believe the significant economic downturn that has continued throughout 2010 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. Negative economic trends contributed substantially to increases in the required allowance to cover potential losses in the loan portfolio resulting in additional provisions.

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 in the future. 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 December 31, 2010, 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 of $3,800,000 in 2010, $10,514,000 in 2009, and $1,290,000 in 2008, was $27,930,000 for 2010 compared to $23,593,000 and $23,277,000 for 2009 and 2008, respectively.

NON-INTEREST INCOME

Non-interest income is comprised of customer service charges, gains on sales and calls of investment securities, income from appreciation in cash surrender value of bank owned life insurance, loan placement fees, Federal Home Loan Bank dividends, and other income. Non-interest income was $3,721,000 in 2010 compared to $5,850,000 and $5,190,000 in 2009 and 2008, respectively. The $2,129,000 or 36.39% decrease in non-interest income was due to decreases in gains on sales and calls of investment securities, an other-than-temporary impairment write down on certain investment securities, and a decrease in customer service charges. The $660,000 increase in non-interest income comparing 2009 to 2008 was due to increases in customer service charges, gains on sales and calls of investment securities, appreciation in cash surrender value of bank owned life insurance, loan placement fees, and other income.

Customer service charges decreased $284,000 to $3,225,000 in 2010 compared to $3,509,000 in 2009 and $3,350,000 in 2008. The decrease in 2010 is mainly due to a decrease in overdraft fee income. The increase in 2009 compared to 2008 is mainly due to an increase in the activity level as the average number of transaction accounts increased organically and as a result of the Service 1st acquisition, as have the fees generated by the overdraft protection program.

During the year ended December 31, 2010, we realized net losses on sales and calls of investment securities of $191,000 from net losses from sales and calls of securities. Net gains on sales and calls of securities were $466,000 and $165,000 for the same periods in 2009 and 2008, respectively. In 2009, investment securities that had been marked to market when we acquired Service

NON-INTEREST INCOME (Continued)

1st were subsequently called at par value resulting in gains. For the year ended December 31, 2010, we realized a $1,587,000 other-than-temporary impairment write down on certain investment securities. See Footnote 4 to the audited Consolidated Financial Statements for more detail.

Income from the appreciation in cash surrender value of bank owned life insurance (BOLI) totaled $392,000 in 2010 compared to $391,000 and $268,000 in 2009 and 2008, respectively. The $123,000 or 45.9% increase comparing the year ended December 31, 2009 with the same period in 2008 is due to an increase in the average balance in this portfolio as a result of the Service 1st acquisition. The Bank's salary continuation and deferred compensation plans and the related BOLI are used as a retention tool for directors and key executives of the Bank.

We earn loan placement fees from the brokerage of single-family residential mortgage loans provided for the convenience of our customers. Loan placement fees increased $69,000 in 2010 to $300,000 compared to $231,000 in 2009 and $111,000 in 2008. In 2010 and 2009, refinancing and new mortgage activity increased due to the historically low mortgage rates, a decline in housing values and first time home buyer tax incentives.

The Bank holds stock from the Federal Home Loan Bank in relationship with its borrowing capacity and generally receives quarterly dividends. As of December 31, 2010 we held $3,050,000 in FHLB stock compared to $3,140,000 at December 31, 2009. Dividends in 2010 increased to $11,000 compared to $7,000 in 2009 and $118,000 in 2008.

Other income increased to $1,395,000 in 2010 compared to $1,246,000 and $1,178,000 in 2009 and 2008, respectively. The period-to-period increases in 2010 compared to 2009 and 2008 were due to an increases in electronic funds transfer fee income.

NON-INTEREST EXPENSES

Salaries and employee benefits, occupancy, regulatory assessments, data processing expenses, and professional services are the major categories of non-interest expenses. Non-interest expenses increased $1,210,000 or 4.40% to $28,741,000 in 2010 compared to $27,531,000 in 2009, which was an increase of $6,555,000 in 2009 compared to $20,976,000 in 2008.

Our efficiency ratio, measured as the percentage of non-interest expenses (exclusive of amortization of core deposit intangibles and other real estate owned expenses) to net interest income before provision for credit losses plus non-interest income (exclusive of realized gains or losses on sale and calls of investments) was 73.18% for 2010 compared to 67.31% for 2009 and 70.10% for 2008. The decline in the efficiency ratio in 2010 resulted from decreases in net interest income and non-interest income as well as an increase in operating expenses. Our efficiency ratio improved in 2009 compared to 2008 due to a 35.31% increase in net interest income plus non-interest income.

Salaries and employee benefits increased $945,000 or 6.79% to $14,871,000 in 2010 compared to $13,926,000 in 2009 and $11,578,000 in 2008. The increase in salaries and employee benefits for the 2010 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 217 at December 31, 2010 compared to 194 at December 31, 2009. The increase in 2009 compared to 2008 can be attributed to the addition of personnel in connection with the Service 1st acquisition and the opening of the new Merced office along with normal cost increases for salaries and employee benefits.

At December 31, 2010 we had two share based compensation plans under which compensation expense is recognized based on the estimated fair value of the awards at the date of the grant. The Central Valley Community Bancorp 2000 Stock Option Plan (2000 Plan) for which 599,229 shares remain reserved for issuance for options already granted under incentive and nonstatutory agreements. This plan expired in November 2010 and no new options will be granted under this plan. The Central Valley Community Bancorp 2005 Omnibus Incentive Plan (2005 Plan) provides for awards in the form of incentive stock options, non-statutory stock options, stock appreciation rights, and restricted stock. Currently under the 2005 Plan, there are 107,900 shares reserved for issuance for options already granted to employees and directors.

The Company bases the fair value of the options previously granted on the date of grant using a Black-Scholes Merton option pricing model that uses assumptions based on expected option life, the level of estimated forfeitures, expected stock volatility and the risk-free interest rate. 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 and the expected term of the options. The expected term of the options represents the period that the Company's options are expected to be outstanding.

For the years ended December 31, 2010, 2009 and 2008, the compensation cost recognized for share based compensation was $239,000, $284,000 and $100,000, respectively.

As of December 31, 2010, there was $413,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the two plans. The cost is expected to be recognized over a weighted average period of 3.0 years. See Notes 1 and 14 to the audited Consolidated Financial Statements for more detail.

In 2010, options to purchase 15,200 shares of the Company's common stock were granted from the 2000 Plan at an exercise price of $5.76 and options to purchase 67,800 shares of common stock were granted from the 2005 Plan at exercise prices between $5.30 and $5.76. In 2009, options to purchase 13,500 shares of the Company's common stock were granted at exercise prices of between $5.06 and $6.40 from the 2005 Plan. All options were granted with an exercise price equal to the market value on the grant date.

In December 2008, the Company cancelled options to purchase 90,550 shares of common stock granted on October 17, 2007 and options to purchase 15,000 shares of common stock granted on October 1, 2007, and on December 17, 2008 the Company granted new options to purchase 105,550 shares of common stock to the directors, senior managers and other employees. The modification affected 57 employees and eight directors and the total incremental compensation cost recognized for the modification in 2008 was $38,000. The grant date of the new options was December 17, 2008 and the options were granted with an exercise price equal to the fair market value on the grant date of $6.70 per share. The Board of Directors of the Company also granted new options to purchase 15,000 shares of common stock during 2008 at an exercise price of $6.70, the fair market value on the grant date.

The Board considered the general decline in stocks of financial institutions as a whole in reaching their decision to cancel and reissue options in 2008. The cancellation of previously issued options reflects the Board's desire to ensure that options continue to provide proper incentive to key personnel.

Occupancy and equipment expense increased $55,000 or 1.44% to $3,867,000 in 2010 compared to $3,812,000 in 2009 and $2,890,000 in 2008. The increase in 2010 can be principally attributed to the expansion of our Modesto loan production office to a full service office and the relocation of our Merced and Oakhurst offices to larger facilities. The increase in 2009 was primarily due to the addition of three new branch locations in Tracy, Stockton and Lodi California as a result of the Service 1st acquisition in the fourth quarter of 2008 and the new Merced office opened in 2009.

Regulatory assessments decreased $413,000 or 25.75% to $1,191,000 in 2010 compared to $1,604,000 and $330,000 in 2009 and 2008, respectively. There was no special assessment in 2010 which is the main reason for the decrease comparing 2010 to 2009. The increase in 2009 was due to the increase in FDIC insurance premiums as a result of an increase in deposit balances due to the Service 1st acquisition, an increase in the assessment rates enacted by the FDIC, and an FDIC imposed Special Assessment of $343,000 that was effective during the second quarter of 2009. With the three year prepayment of FDIC premiums in the fourth quarter of 2009, we expect that regulatory assessments will remain at historically high levels for the foreseeable future.

Data processing expenses were $1,197,000 in 2010 compared to $1,316,000 in 2009 and $848,000 in 2008. The $119,000 or 9.04% decrease in 2010 is a result of a reduction in terms of our core processing contract. The $468,000 increase in 2009 compared to 2008 was due to the Service 1st acquisition and the addition of new branch locations.

Legal fees increased $165,000 or 50.00% to $495,000 for the year ended December 31, 2010 compared to $330,000 and $141,000 in 2009 and 2008, respectively. The increases in 2010 and 2009 are primarily due to issues related to nonperforming assets and other loan related legal expenses.

Total other real estate owned (OREO) expenses increased $592,000 or 123.59% to $1,071,000 for the year ended December 31, 2010 compared to $479,000 for the same period in 2009. The increase in 2010 is primarily the result of the write downs of several OREO properties to their estimated fair value resulting in a valuation expense totaling $591,000. Carrying costs and property taxes totaled $371,000 related to the OREO portfolio and we realized a

NON-INTEREST EXPENSES (Continued)

$109,000 loss on disposition of OREO property for the year ended December 31, 2010. We had no OREO expenses in 2008.

Amortization of cored deposit intangibles was $414,000 for the years ended December 31, 2010 and 2009 and $231,000 in 2008. The $183,000 increase in amortization of core deposit intangibles (CDI) in 2009 compared to 2008 was due to the CDI associated with the acquisition of Service 1st.

Other non-interest expenses increased $90,000 or 2.06% to $4,460,000 in 2010 compared to $4,370,000in 2009 and $4,068,000 in 2008.

The following table describes significant components of other non-interest expense as a percentage of average assets.

	For the years ended December 31,					
	2010		2009		2008	
	Other Expense	% Average Assets	Other Expense	% Average Assets	Other Expense	% Average Assets
	(Dollars in thousands)					
ATM/debit card expenses	$ 354	0.05%	$ 419	0.06%	$ 308	0.06%
Telephone	305	0.04%	272	0.04%	205	0.04%
License and maintenance contracts	275	0.04%	251	0.03%	170	0.03%
Stationery and supplies	271	0.04%	271	0.04%	226	0.04%
Postage	218	0.03%	233	0.03%	178	0.03%
Consulting	212	0.03%	454	0.06%	192	0.04%
Director fees and related expenses	209	0.03%	205	0.03%	173	0.03%
Amortization of software	195	0.03%	194	0.03%	101	0.02%
Appraisal fees	165	0.02%	125	0.02%	4	-
Donations	148	0.02%	99	0.01%	90	0.02%
Education and training	139	0.02%	85	0.01%	96	0.02%
General insurance	130	0.02%	144	0.02%	136	0.03%
Operating losses	44	0.01%	47	0.01%	90	0.02%
Merger expenses	-	-	2	-	447	0.08%
Other	1,795	0.24%	1,569	0.21%	1,652	0.30%
Total other non-interest expense	$ 4,460	0.59%	$ 4,370	0.58%	$ 4,068	0.75%

For the year ended December 31, 2010, the $40,000 increase in appraisal fees was related to nonperforming assets and updating appraisals for certain loans collateralized by real estate. Education and training expenses increased $54,000 mainly due to the implementation of a management training program. In 2009 the $262,000 increase in consulting expenses was related to assistance with renegotiating our core processor contracts. The $120,000 increase in appraisal fees is primarily due to issues related to nonperforming assets and other loan related expenses. The increase in various other expenses was principally due to the addition of the Service 1st offices and the new Oakhurst and Merced offices.

PROVISION FOR INCOME TAXES

Our effective income tax rate was (12.68%) for 2010 compared to (35.35%) for 2009 and 31.39% for 2008. The Company reported an income tax benefit of $369,000 for the year ended December 31, 2010, compared to a benefit totaling $676,000 and provision totaling $2,352,000 for the years ended December 31, 2009 and 2008, respectively. The increase in the effective tax rate in 2010 compared to 2009 was a result of an increase in net income before tax. The decrease in the effective tax rate for the year ended December 31, 2009 compared to 2008 is due primarily to increases, as a percentage of pretax income, in the Federal tax deduction for tax free municipal bonds, solar tax credits, the state tax deduction for loans in designated enterprise zones in California, and state hiring tax credits.

PREFERRED STOCK DIVIDENDS AND ACCRETION

On January 30, 2009, the Company entered into a Letter Agreement with the United States Department of the Treasury (Treasury) under the Capital Purchase Program, and issued and sold 7,000 shares of the Company's Series A Fixed Rate Cumulative Perpetual Preferred Stock (Preferred Stock) and a Warrant to purchase 158,133 shares at $6.64 per share of the Company's common stock, no par value, for an aggregate purchase price of $7,000,000 in cash. According to the agreement, if we received aggregate gross cash proceeds of not less than $7 million from a Qualified Equity Offering (QEO) on or prior to December 31, 2009, the number of shares issuable under the Warrant could be reduced by one half. On December 23, 2009, we received $8,000,000 in gross proceeds from a QEO and subsequently the Treasury agreed to reduce the number of common shares issuable under the Warrant to 79,067. We accrued preferred stock dividends to the Treasury and accretion of the issuance discount in the amount of $395,000 and $365,000 during the years ended December 31, 2010 and 2009, respectively.

FINANCIAL CONDITION

SUMMARY OF CHANGES IN CONSOLIDATED BALANCE SHEETS

December 31, 2010 compared to December 31, 2009

As of December 31, 2010, total assets were $777,594,000 an increase of 1.58%, or $12,106,000 compared to $765,488,000 as of December 31, 2009. Total gross loans decreased 6.01%, or $27,610,000 to $431,597,000 as of December 31, 2010 compared to $459,207,000 as of December 31, 2009. Total investment portfolio decreased 2.87% to $191,925,000. Total deposits increased 1.61%, or $10,328,000 to $650,495,000 as of December 31, 2010 compared to $640,167,000 as of December 31, 2009. Shareholders' equity increased 6.76%, or $6,169,000, to $97,391,000 as of December 31, 2010 compared to $91,223,000 as of December 31, 2009.

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 active 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 3 of the audited Consolidated Financial Statements 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 December 31, 2010, investment securities with a fair value of $129,968,000, or 67.93% 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.

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 December 31, 2010 was 66.35% compared to 71.73% at December 31, 2009. The loan to deposit ratio of our peers was 82.47% at September 30, 2010. The total investment portfolio, including Federal funds sold, decreased 2.87% or $5,673,000 to $191,925,000 at December 31, 2010

INVESTMENTS (Continued)

from $197,598,000 at December 31, 2009 primarily due to sales and calls of securities and principal pay downs. The market value of the portfolio reflected an unrealized gain of $1,643,000 at December 31, 2010 compared to a $2,425,000 loss at December 31, 2009.

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 November 30, 2010, 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). Under ASC 320-10, the portion of the impairment that is attributable to a shortage in the present value of expected future cash flows relative to the amortized cost should be recorded as a current period charge to earnings. The discount rate in this analysis is the expected yield at purchase.

In accordance with the Company's OTTI policy, we evaluated all available-for-sale investment securities with an unrealized loss at November 30, 2010 and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at November 30, 2010 greater than 10% of the recorded book value on that date, or which had an unrealized loss of more than $10,000. We also analyzed any securities that may have been down graded by credit rating agencies. We retained the services of a third party in December 2010 to provide independent valuation and OTTI analysis of private label residential mortgage-backed securities (PLRMBS).

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.

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 November 30, 2010. 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 PLRMBS are primarily driven by higher projected collateral losses, wider credit spreads, and changes in interest rates. Based upon our 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. As of December 31, 2010 management reviewed the data and there were no significant changes.

At December 31, 2010, the Company had a total of 36 PLRMBS with a remaining principal balance of $18,661,000 and a net unrealized loss of approximately $823,000. 12 of these securities account for $1,329,000 of the unrealized loss at December 31, 2010 offset by 24 of these securities with gains totaling $506,000. The Company continues to perform extensive analyses on these securities as well as all PLRMBS. 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. 11 of these PLRMBS with a remaining principal balance of $11,785,000 had credit ratings below investment grade. Based on the analyses performed, 9 of the PLRMBS wi credit ratings below investment grade, with a remaining principal balance of $11,460,000 were considered to be other-than-temporarily impaired at December 31, 2010. An OTTI charge to earnings of $1,587,000 was recorded during the year ended December 31, 2010. This charge was taken to reflect ongoing and increasing deterioration of credit quality and increasing loss severities of the underlying mortgages. The cumulative unrealized loss on these securities decreased during the year ended December 31, 2010 primarily due to a declining interest rate environment. This change in unrealized loss was recognized in other comprehensive income and is also presented in the income statement as a component of non-interest income in the presentation of other-than-temporary impairment losses.

See Note 4 to the audited Consolidated Financial Statements for carrying values and estimated fair values of our investment securities portfolio.

LOANS

Total gross loans have decreased to $431,597,000 as of December 31, 2010 compared to $459,207,000 as of December 31, 2009.

The following table sets forth information concerning the composition of our loan portfolio as of December 31, 2010 and 2009:

Loan Type (Dollars in thousands)	December 31, 2010	% of Total loans	December 31, 2009	% of Total loans
Commercial:				
Commercial and industrial	$ 104,387	24.1%	$ 107,726	23.5%
Agricultural land and production	38,787	9.0%	35,796	7.8%
Total commercial	143,174	33.1%	143,522	31.3%
Real estate:				
Owner occupied	111,888	25.9%	111,006	24.1%
Real estate - construction and other land loans	32,039	7.4%	47,233	10.3%
Commercial real estate	63,627	14.7%	71,977	15.7%
Other	38,354	8.9%	38,532	8.4%
Total real estate	245,908	56.9%	268,748	58.5%
Consumer:				
Equity loans and lines of credit	34,521	8.0%	36,110	7.8%
Consumer and installment	8,493	2.0%	11,219	2.4%
Total consumer	43,014	10.0%	47,329	10.2%
Deferred loan fees, net	(499)		(392)	
Total gross loans	431,597	100.0%	459,207	100.0%
Allowance for credit losses	(11,014)		(10,200)	
Total loans	$ 420,583		$ 449,007	

At December 31, 2010, in management's judgment, a concentration of loans existed in commercial loans and real-estate-related loans, representing approximately 98.0% of total loans of which 33.1% were commercial and 64.9% were real-estate-related. This level of concentration is consistent with the 97.6% at December 31, 2009. Although we believe 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

LOANS (Continued)

values in our primary market areas, in particular, could have an adverse impact on collectibility, increase the level of real estate-related nonperforming 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 December 31, 2010 or December 31, 2009.

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.

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 December 31, 2010, nonperforming assets totaled $19,984,000 compared to $21,838,000 at December 31, 2009. In 2010, nonperforming assets included nonaccrual loans totaling $18,561,000, OREO of $1,325,000, and repossessed assets of $98,000. Nonperforming assets in 2009 consisted of $18,959,000 in nonaccrual loans, OREO of $2,832,000 and repossessed assets of $47,000. At December 31, 2010, we had seven loans considered troubled debt restructurings totaling $6,180,000, which are included in nonaccrual loans. We had seven restructured loans totaling $4,568,000 at December 31, 2009. We have no outstanding commitments to lend additional funds to any of these borrowers.

A summary of nonaccrual, restructured, and past due loans at December 31, 2010 and 2009 is set forth below. The Company had no loans past due more than 90 days and still accruing interest at December 31, 2010 or 2009. Management is not aware of any potential problem loans, which were current and accruing at December 31, 2010, where serious doubt exists as to the ability of the borrower to comply with the present repayment terms. Management can give no assurance that nonaccrual and other nonperforming loans will not increase in the future.

Composition of Nonaccrual, Past Due and Restructured Loans

(Dollars in thousands)	December 31, 2010	December 31, 2009
Nonaccrual Loans		
Commercial and industrial	$ 1,487	$ 3,169
Real Estate	4,772	3,183
Real estate construction and land development	5,634	7,690
Consumer	-	349
Equity loans and lines of credit	488	-
Other	-	-
Restructured loans (non-accruing)		
Commercial and industrial	869	28
Real Estate	3,118	2,326
Real estate construction and land development	2,193	2,214
Total nonaccrual	18,561	18,959
Accruing loans past due 90 days or more	-	-
Total nonperforming loans	$ 18,561	$ 18,959
Nonperforming loans to total loans	4.30%	4.13%
Ratio of nonperforming loans to allowance for credit losses	168.52%	185.87%
Loans considered to be impaired	$ 18,561	$ 18,959
Related allowance for credit losses on impaired loans	$ 2,124	$ 752

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 December 31, 2010 and 2009, we had impaired loans totaling $18,561,000 and $18,959,000, 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. Foregone interest on nonaccrual loans totaled $1,228,000 for the year ended December 31, 2010 of which $376,000 was attributable to troubled debt restructurings. Foregone interest on nonaccrual loans totaled $852,000 and $371,000 for the years ended December 31, 2009 and 2008, respectively of which $404,000 and $139,000 was attributable to troubled debt restructurings, respectively.

LOANS (Continued)

The following table provides a reconciliation of the change in non-accrual loans for the year ended December 31, 2010.

(Dollars in thousands)	Balances December 31, 2009	Additions to Nonaccrual Loans	Net Pay Downs	Transfer to Foreclosed Collateral - OREO	Returns to Accrual Status	Charge Offs	Balances December 31, 2010
Non-accrual loans:							
Commercial and industrial	$ 3,169	$ 1,450	$ (1,402)	$ -	$ (223)	$ (1,507)	$ 1,487
Real estate	3,183	5,724	(1,954)	(1,812)	(126)	(243)	4,772
Real estate construction and land development	7,690	51	(238)	(1,655)	(214)	-	5,634
Consumer	349	177	-	-	-	(526)	-
Equity loans and lines of credit	-	509	(21)	-	-	-	488
Restructured loans (non-accruing):							
Commercial and industrial	28	900	(59)	-	-	-	869
Real estate	2,326	1,834	(1,042)				3,118
Real estate construction and land development	2,214	1,250	(519)	-	-	(752)	2,193
Total non-accrual	$ 18,959	$ 11,895	$ (5,235)	$ (3,467)	$ (563)	$ (3,028)	$ 18,561

The following table provides a summary of the change in the OREO balance:

(Dollars in thousands)	Years Ended December 31, 2010	2009
Balance, December 31, 2009	$ 2,832	-
Additions	3,467	3,188
Dispositions	(4,450)	-
Write-downs	(592)	(356)
Gain on disposition	176	-
Loss on disposition	(108)	-
Balance, December 31, 2010	$ 1,325	$ 2,832

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 two properties with a fair value totaling $1,325,000 at December 31, 2010 and two properties totaling $2,832,000 at December 31, 2009.

The Bank was party to a lawsuit filed by Regent Hotel, LLC against First Bank (Lead Bank), as the lead bank in a loan participation, and East West Bank and Service 1st Bank, which was acquired by the Bank on November 13, 2008, were participating in the loan. In 2009, the Lead Bank purchased the Bank's participating interest in the Regent Hotel loan at a discount and indemnified the Bank against any further actions pursuant to the lawsuit. Included in the merger consideration paid by the Company to acquire Service 1st was $3,500,000 which was placed into an escrow fund to protect the Company and the Bank from all losses and liabilities that related to the loan participation and/or the Regent Litigation. Consequent to the Lead Bank buying the Bank's position, in 2009 the Bank collected $1,046,000 from the escrow fund to cover the portion of the loan that was not recovered, accrued and unpaid interest and other costs. In 2010, settlement agreements between all parties were signed and the bankruptcy court approved the settlement. The appeal period is in effect until April 1, 2011. If no party objects during the appeal period, the settlement will be finalized on April 1, 2011. In accordance with the escrow agreement, once the litigation is completely satisfied the remaining balance in the escrow fund will be disbursed to former Service 1st shareholders after reimbursement to the Bank for any legal and escrow costs.

Allowance for Credit Losses - We have established a methodology for the determination of the allowance 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 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 review, 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.

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.

LOANS (Continued)

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

(Dollars in thousands)	Years Ended December 31, 2010	2009
Balance, beginning of the year	$ 10,200	$ 7,223
Provision charged to operations	3,800	10,514
Losses charged to allowance	(4,122)	(7,926)
Recoveries	1,136	389
Balance, end of year	$ 11,014	$ 10,200
Allowance for credit losses to total loans	2.55%	2.22%

As of December 31, 2010 the balance in the allowance for credit losses was $11,014,000 compared to $10,200,000 as of December 31, 2009. The increase was due to net charge offs during 2010 being less than the amount of the provision for credit losses. Net charge offs totaled $2,986,000 while the provision for credit losses was $3,800,000. The balance of commitments to extend credit on undisbursed construction and other loans and letters of credit was $123,676,000 as of December 31, 2010 compared to $131,139,000 as of December 31, 2009. 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 December 31, 2010 the allowance for credit losses was 2.55% of total gross loans compared to 2.22% as of December 31, 2009. During 2010 there were no major changes in loan concentrations that significantly affected the allowance for credit losses. During the year ended December 31, 2010 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. Of the losses charged to the allowance in 2010 and 2009 of $4,122,000 and 7,926,000, the portion related to overdraft losses on transaction deposit accounts totaled $96,000 and $126,000, respectively.

Nonperforming loans totaled $18,561,000 as of December 31, 2010, and $18,959,000 as of December 31, 2009. The allowance for credit losses as a percentage of nonperforming loans was 59.34% and 53.80% as of December 31, 2010 and 2009, respectively. Management believes the allowance at December 31, 2010 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 Bank's acquisition of the equity interests or net assets of another enterprise give rise to goodwill. Total goodwill at December 31, 2010 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 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.

In conjunction with the Company's annual review during the third quarter of 2010, management 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 fourth quarter of 2010, so goodwill was not required to be retested.

The intangible assets at December 31, 2010 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 using the straight-line method over an estimated life of seven years from the date of acquisition. The carrying value of intangible assets at December 31, 2010 was $1,198,000, net of $1,702,000 in accumulated amortization expense. The carrying value at December 31, 2009 was $1,612,000, net of $1,288,000 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. Management engaged an independent valuation specialist to perform an annual impairment test on core deposit intangibles as of September 30, 2010 and determined no impairment was necessary. Amortization expense recognized was $414,000 for 2010 and 2009, and for 2008 was $231,000.

DEPOSITS AND BORROWINGS

The Bank's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to applicable legal limits. The FDIC implemented unlimited deposit insurance coverage on non-interest bearing transaction accounts beginning December 31, 2010, and ending December 31, 2012, as mandated by the Dodd-Frank Act. Coverage under this program is confined to non-interest bearing accounts and does not cover interest-bearing NOW accounts but does include Interest on Lawyers Trust Accounts (IOLTAs). Coverage on all other accounts including interest bearing NOW accounts is limited to $250,000 beginning January 1, 2011. This coverage replaces the unlimited coverage under the Transaction Account Guarantee Program (TAGP).

Total deposits increased $10,328,000 or 1.61% to $650,495,000 as of December 31, 2010 compared to $640,167,000 as of December 31, 2009. Interest-bearing deposits decreased $3,909,000 or 0.81% to $476,628,000 as of December 31, 2010 compared to $480,537,000 as of December 31, 2009. Non-interest bearing deposits increased $14,237,000 or 8.92% to $173,867,000 as of December 31, 2010 compared to $159,630,000 as of December 31, 2009. Our total market share of deposits in Fresno, Madera, and San Joaquin counties was 3.38% in 2010 compared to 3.50% in 2009 based on FDIC deposit market share information published as of June 30, 2010.

DEPOSITS AND BORROWINGS (Continued)

The composition of the deposits and average interest rates paid at December 31, 2010 and 2009 is summarized in the table below.

(Dollars in thousands)	December 31, 2010	% of Total Deposits	Effective Rate	December 31, 2009	% of Total Deposits	Effective Rate
NOW accounts	$ 114,473	17.6%	0.38%	$ 112,493	17.6%	0.66%
MMA accounts	157,345	24.2%	0.66%	142,917	22.3%	0.93%
Time deposits	177,132	27.2%	1.19%	200,681	31.4%	1.82%
Savings deposits	27,678	4.3%	0.20%	24,446	3.8%	0.22%
Total interest-bearing	476,628	73.3%	0.77%	480,537	75.1%	1.22%
Non-interest bearing	173,867	26.7%		159,630	24.9%	
Total deposits	$ 650,495	100.0%		$ 640,167	100.0%	

Short-term borrowings totaled $10,000,000 as of December 31, 2010 compared to $5,000,000 as of December 31, 2009. Short-term borrowings consist of FHLB advances maturing within one month. The maximum amount of short-term borrowings at any month-end during 2010, 2009 and 2008, was $10,000,000, $5,000,000, and $24,600,000, respectively. We maintain a line of credit with the FHLB collateralized by government securities and loans. Refer to Liquidity section below for further discussion of FHLB advances.

Total long-term debt as of December 31, 2010 was $4,000,000 and consisted of FHLB advances with interest rate of 3.59% maturing in 2013. Long-term debt was $14,000,000 as of December 31, 2009 with rates ranging from 3.00% to 3.59% and a weighted average rate of 3.20%.

The Company succeeded to all of the rights and obligations of Service 1st Capital Trust I, a Delaware business trust, in connection with the acquisition of Service 1st as of November 12, 2008. The Trust was formed on August 17, 2006 for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by Service 1st. 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 December 31, 2010, all of the trust preferred securities that have been issued qualify as Tier 1 capital. The trust preferred securities mature on October 7, 2036, are redeemable at the Company's option beginning after five years, and require quarterly distributions by the Trust to the holder of the trust preferred securities at a variable interest rate which will adjust quarterly to equal the three month LIBOR plus 1.60%.

The Trust used the proceeds from the sale of the trust preferred securities to purchase approximately $5,155,000 in aggregate principal amount of Service 1st's junior subordinated notes (the Notes). The Notes bear interest at the same variable interest rate during the same quarterly periods as the trust preferred securities. The Notes are redeemable by the Company on any January 7, April 7, July 7, or October 7 on or after October 7, 2011 or at any time within 90 days following the occurrence of certain events, such as: (i) a change in the regulatory capital treatment of the Notes (ii) in the event the Trust is deemed an investment company or (iii) upon the occurrence of certain adverse tax events. In each such case, the Company may redeem the Notes for their aggregate principal amount, plus any accrued but unpaid interest.

The Notes may be declared immediately due and payable at the election of the trustee or holders of 25% of the aggregate principal amount of outstanding Notes in the event that the Company defaults in the payment of any interest following the nonpayment of any such interest for 20 or more consecutive quarterly periods. Holders of the trust preferred securities are entitled to a cumulative cash distribution on the liquidation amount of $1,000 per security. For each January 7, April 7, July 7 or October 7 of each year, the rate will be adjusted to equal the three month LIBOR plus 1.60%. As of December 31, 2010, the rate was 1.89%. Interest expense recognized by the Company for the year ended December 31, 2010, 2009 and 2008 was $102,000, $129,000 and $46,000, respectively.

CAPITAL RESOURCES

Capital serves as a source of funds and helps protect depositors and shareholders against potential losses. Historically, the primary source of capital for the Company has been internally generated capital through retained earnings. In addition to net income, capital increased in 2009 from the issuance of preferred stock and warrants under the Treasury Capital Purchase Program and preferred stock and common stock issued to accredited investors. In 2008, in addition to net income, capital increased from common stock issued for the acquisition of Service 1st Bancorp.

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.

Our stockholders' equity increased to $97,391,000 as of December 31, 2010 compared to $91,223,000 as of December 31, 2009. The increase in stockholder's equity is a result of increase in retained earnings from net income of $3,279,000, increase in unrealized gain on the available-for-sale investment securities of $2,422,000, exercise of stock options and related tax benefits, and the effect of share based compensation expense of $239,000, offset by preferred stock dividends and accretion of discount of $349,000.

We participated in the Treasury Capital Purchase Program under the Emergency Economic Stabilization Act. The Company issued preferred stock and a Warrant to issue common stock and received $7,000,000 in cash under this program. The Company agreed to restrict dividend payments on common stock to no more than historic levels while our preferred stock is owned by the Treasury. See Note 13 to the audited Consolidated Financial Statements in this report for a more detailed discussion.

On December 23, 2009, the Company entered into Stock Purchase Agreements with a limited number of accredited investors to sell a total of 1,264,952 shares of common stock, without par value at $5.25 per share, and 1,359 shares of non-voting Series B Convertible Adjustable Rate Non-Cumulative Perpetual Preferred Stock (Series B Preferred Stock) at $1,000 per share, for an aggregate gross purchase price of $8,000,000, offset by issuance expenses totaling $242,000. In May 2010, the shareholders of the Company approved an amendment to the Company's governing instruments to create a series of non-voting common stock. In June 2010, the Company exercised its option to require the Purchasers to exchange 1,359 shares of Series B Preferred Stock for 258,862 shares of non-voting common stock. See Note 13 to the audited Consolidated Financial Statements in this report for a more detailed discussion.

During 2010 and 2009, the Bank did not pay any dividends to the Company. In 2008, the Bank declared and paid cash dividends to the Company of $6,100,000, in connection with the acquisition of Service 1st and stock repurchase agreements approved by the Company's Board of Directors. The Bank would not pay any dividend that would cause it to be deemed not "well capitalized" under applicable banking laws and regulations.

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.

CAPITAL RESOURCES (Continued)

The following table presents the Company's and the Bank's capital ratios as of December 31, 2010 and 2009:

	December 31, 2010		December 31, 2009	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Tier 1 Leverage Ratio				
Central Valley Community Bancorp and Subsidiary	$ 70,669	9.48%	$ 67,547	9.30%
Minimum regulatory requirement	$ 29,832	4.00%	$ 29,056	4.00%
Central Valley Community Bank	$ 69,457	9.32%	$ 66,624	9.20%
Minimum requirement for "Well-Capitalized" institution	$ 37,264	5.00%	$ 36,210	5.00%
Minimum regulatory requirement	$ 29,811	4.00%	$ 28,968	4.00%
Tier 1 Risk-Based Capital Ratio				
Central Valley Community Bancorp and Subsidiary	$ 70,669	14.16%	$ 67,547	12.28%
Minimum regulatory requirement	$ 19,965	4.00%	$ 21,998	4.00%
Central Valley Community Bank	$ 69,457	13.92%	$ 66,624	12.12%
Minimum requirement for "Well-Capitalized" institution	$ 29,929	6.00%	$ 32,977	6.00%
Minimum regulatory requirement	$ 19,953	4.00%	$ 21,985	4.00%
Total Risk-Based Capital Ratio				
Central Valley Community Bancorp and Subsidiary	$ 76,982	15.42%	$ 74,463	13.54%
Minimum regulatory requirement	$ 39,931	8.00%	$ 43,996	8.00%
Central Valley Community Bank	$ 75,766	15.19%	$ 73,535	13.38%
Minimum requirement for "Well-Capitalized" institution	$ 49,881	10.00%	$ 54,962	10.00%
Minimum regulatory requirement	$ 39,905	8.00%	$ 43,970	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 $5,981,000 and $4,918,000 at December 31, 2010 and 2009, 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 flows 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. 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 December 31, 2010, the Company had unpledged securities totaling $61,357,000 available as a secondary source of liquidity and total cash and cash equivalents of $100,399,000. Cash and cash equivalents at December 31, 2010 increased 207% compared to December 31, 2009. Primary uses of funds include withdrawal of and interest payments on deposits, origination 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 loan 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 various correspondent banks. At December 31, 2010 our available borrowing capacity includes approximately $39,000,000 in Federal funds lines with our correspondent banks and $114,659,000 in unused FHLB advances. At December 31, 2010, 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 December 31, 2010 and 2009:

Credit Lines (In thousands)	December 31, 2010	December 31, 2009
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	$ 114,659	$ 113,451
Balance outstanding	$ 14,000	$ 19,000
Collateral pledged	$ 123,717	$ 139,726
Fair value of collateral	$ 126,326	$ 144,903
Federal Reserve Bank (interest rate at prevailing discount interest rate):		
Credit limit	$ 1,321	$ 917
Balance outstanding	$ -	$ -
Collateral pledged	$ 1,322	$ 922
Fair value of collateral	$ 1,354	$ 956

The liquidity of our 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 regulations.

OFF-BALANCE SHEET ITEMS

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. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received. The balance of commitments to extend credit on undisbursed construction and other loans and letters of credit was $123,676,000 as of December 31, 2010 compared to $131,139,000 as of December 31, 2009. For a more detailed discussion of these financial instruments, see Note 12 to the audited Consolidated Financial Statements in this Annual Report.

In the ordinary course of business, the Company is party to various operating leases. For a more detailed discussion of these financial instruments, see Note 12 to the audited Consolidated Financial Statements in this Annual Report.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk (IRR) and credit risk constitute the two greatest sources of financial exposure for insured financial institutions that operate like we do. IRR represents the impact that changes in absolute and relative levels of market interest rates may have upon our net interest income (NII). Changes in the NII are the result of changes in the net interest spread between interest-earning assets and interest-bearing liabilities (timing risk), the relationship between various rates (basis risk), and changes in the shape of the yield curve.

We realize income principally from the differential or spread between the interest earned on loans, investments, other interest-earning assets and the interest incurred on deposits and borrowings. The volumes and yields on loans, deposits and borrowings are affected by market interest rates. As of December 31, 2010, 75.41% of our loan portfolio was tied to adjustable-rate indices. The majority of our adjustable rate loans are tied to prime and reprice within 90 days. However, in the current low rate environment, several of our loans, tied to prime, are at their floors and will not reprice until prime plus the factor is greater than the floor. The majority of our time deposits have a fixed rate of interest. As of

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Continued)

December 31, 2010, 81.94% of our time deposits matures within one year or less. As of December 31, 2010, $10,000,000 of our short term debt and $4,000,000 of our long-term debt was fixed rate. Our long-term debt has maturities through 2013.

Changes in the market level of interest rates directly and immediately affect our interest spread, and therefore profitability. Sharp and significant changes to market rates can cause the interest spread to shrink or expand significantly in the near term, principally because of the timing differences between the adjustable rate loans and the maturities (and therefore repricing) of the deposits and borrowings.

Our management and Board of Directors' Asset/Liability Committees (ALCO) are responsible for managing our assets and liabilities in a manner that balances profitability, IRR and various other risks including liquidity. The ALCO operates under policies and within risk limits prescribed, reviewed, and approved by the Board of Directors.

The ALCO seeks to stabilize our NII by matching rate-sensitive assets and liabilities through maintaining the maturity and repricing of these assets and liabilities at appropriate levels given the interest rate environment. When the amount of rate-sensitive liabilities exceeds rate-sensitive assets within specified time periods, NII generally will be negatively impacted by an increasing interest rate environment and positively impacted by a decreasing interest rate environment. Conversely, when the amount of rate-sensitive assets exceeds the amount of rate-sensitive liabilities within specified time periods, net interest income will generally be positively impacted by an increasing interest rate environment and negatively impacted by a decreasing interest rate environment. The speed and velocity of the repricing of assets and liabilities will also contribute to the effects on our NII, as will the presence or absence of periodic and lifetime interest rate caps and floors.

Simulation of earnings is the primary tool used to measure the sensitivity of earnings to interest rate changes. Earnings simulations are produced using a software model that is based on actual cash flows and repricing characteristics for all of our financial instruments and incorporates market-based assumptions regarding the impact of changing interest rates on current volumes of applicable financial instruments.

Interest rate simulations provide us with an estimate of both the dollar amount and percentage change in NII under various rate scenarios. All assets and liabilities are normally subjected to up to 400 basis point increases and decreases in interest rates in 100 basis point increments. Under each interest rate scenario, we project our net interest income. From these results, we can then develop alternatives in dealing with the tolerance thresholds.

Approximately 75.41% of our loan portfolio is tied to adjustable rate indices and 38.7% of our loan portfolio reprices within 90 days. As of December 31, 2010, we had 635 commercial and real estate loans totaling $188,895,000 with floors ranging from 3.25% to 8.50% and ceilings ranging from 7.00% to 25.00%.

The following table shows the effects of changes in projected net interest income for the twelve months ending December 31, 2011 under the interest rate shock scenarios stated. The table was prepared as of December 31, 2010, using a prime interest rate of 3.25%.

Sensitivity Analysis of Impact of Rate Changes on Interest Income

Hypothetical Change In Rates	Projected Net Interest Income	$ Change From Rates At December 31, 2011	% Change From Rates At December 31, 2011
(Dollars in thousands)			
UP 300 bp	$ 34,111	$ 3,198	10.35%
UP 200 bp	32,906	1,993	6.45%
UP 100 bp	31,770	857	2.77%
UNCHANGED	30,913	-	-
DOWN 25 bp	30,758	(156)	(0.50)%

Assumptions are inherently uncertain, and, consequently, the model cannot precisely measure net interest income or precisely predict the impact of changes in interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes, as well as changes in market conditions and management strategies which might moderate the negative consequences of interest rate deviations.

There is no material change in our current market risk exposure from the market risk exposure we experienced in 2010. The outcome of the sensitivity analysis conducted for 2009 was essentially the same as 2010.

CRITICAL ACCOUNTING POLICIES

The Securities and Exchange Commission (SEC) has issued disclosure guidance for "critical accounting policies." The SEC defines "critical accounting policies" as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in future periods.

Our accounting policies are integral to understanding the results reported. Our significant accounting policies are described in detail in Note 1 in the audited Consolidated Financial Statements. Not all of the significant accounting policies presented in Note 1 of the audited Consolidated Financial Statements in this Annual Report require management to make difficult, subjective or complex judgments or estimates.

Use of Estimates

The preparation of these financial statements requires management to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates the estimates used. Estimates are based upon historical experience, current economic conditions and other factors that management considers reasonable under the circumstances.

These estimates result in judgments regarding the carrying values of assets and liabilities when these values are not readily available from other sources, as well as assessing and identifying the accounting treatments of contingencies and commitments. Actual results may differ from these estimates under different assumptions.

Accounting Principles Generally Accepted in the United States of America

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

We follow accounting policies typical to the commercial banking industry and in compliance with various regulation and guidelines as established by the Public Company Accounting Oversight Board (PCAOB), Financial Accounting Standards Board (FASB), the American Institute of Certified Public Accountants (AICPA), and the Bank's primary federal regulator, the FDIC. The following is a brief description of our current accounting policies involving *significant* management judgments.

Allowance for Credit Losses

Our most significant management accounting estimate is the appropriate level for the allowance for credit losses. The allowance for credit losses is established to absorb known and inherent losses attributable to loans outstanding. The adequacy of the allowance is monitored on an on-going basis and is based on our management's evaluation of numerous factors. These factors include the quality of the current loan portfolio, the trend in the loan portfolio's risk ratings, current economic conditions, loan concentrations, loan growth rates, past-due and nonperforming trends, evaluation of specific loss estimates for all significant problem loans, historical charge-off and recovery experience and other pertinent information. See Note 1 to the audited Consolidated Financial Statements in this Annual Report for more detail regarding our allowance for credit losses.

The calculation of the allowance for credit losses is by nature inexact, as the allowance represents our management's best estimate of the probable losses inherent in our credit portfolios at the reporting date. These credit losses will occur in the future, and as such cannot be determined with absolute certainty at the reporting date.

Impairment of Investment Securities

Investment securities are impaired when the amortized cost exceeds fair value. Investment securities are evaluated for impairment on at least a quarterly basis

CRITICAL ACCOUNTING POLICIES (Continued)

and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Company to retain its investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary and we do not intend to sell the security or it is more likely than not that we will not be required to sell the security before recovery, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive income. If management intends to sell the security or it is more likely than not that we will be required to sell the security before recovering its forecasted cost, the entire impairment loss is recognized as a charge to earnings.

Amortization of Premiums/Discount Accretion on Investments

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.

Goodwill

Business combinations involving the Company's acquisition of the equity interests or net assets of another enterprise or the assumption of net liabilities in an acquisition of branches constituting a business may give rise to goodwill. Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed in transactions accounted for under the purchase method of accounting. The value of goodwill is ultimately derived from the Company's ability to generate net earnings after the acquisition. A decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed for impairment at a reporting unit level at least annually or more often if an event occurs or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. While the Company believes all assumptions utilized in its assessment of goodwill for impairment are reasonable and appropriate, changes could cause the Company to record impairment in the future.

Share-Based Compensation

The Company recognizes compensation expense in an amount equal to the fair value of all share-based payments which consist of stock options granted to directors and employees. The fair value of each option is estimated on the date of grant and amortized over the service period using a Black-Scholes-Merton based option valuation model that requires the use of assumptions to estimate the grant date fair value. The estimates are based on assumptions on the expected option life, the level of estimated forfeitures, expected stock volatility and the risk-free interest rate. The calculation of the fair value of share based payments is by nature inexact, and represents management's best estimate of the grant date fair value of the share based payments. See Note 1 to the audited Consolidated Financial Statements in this Annual Report.

Accounting for 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 balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. The realization of deferred income tax assets is assessed and a valuation allowance is recorded if is "more likely than not" that all or a portion of the deferred tax asset will not be realized. "More likely than not" is defined as greater than a 50% chance. All available evidence, both positive and negative is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed.

Only tax positions that meet the more-likely-than-not recognition threshold are recognized. 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 taken are not offset or aggregated with other positions. 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. Interest expense and penalties associated with unrecognized tax benefits are classified as income tax expense in the consolidated statement of income.

INFLATION

The impact of inflation on a financial institution differs significantly from that exerted on other industries primarily because the assets and liabilities of financial institutions consist largely of monetary items. However, financial institutions are affected by inflation in part through non-interest expenses, such as salaries and occupancy expenses, and to some extent by changes in interest rates.

At December 31, 2010, we do not believe that inflation will have a material impact on our consolidated financial position or results of operations. However, if inflation concerns cause short term rates to rise in the near future, we may benefit by immediate repricing of a portion of our loan portfolio. Refer to Market Risk section for further discussion.

Stock Price
Information

The Company's common stock is listed for trading on the NASDAQ Capital Market under the ticker symbol CVCY. As of March 7, 2011, the Company had approximately 746 shareholders of record.

The following table shows the high and low sales prices for the common stock for each quarter as reported by NASDAQ.

	Sales Prices for the Company's Common Stock	
Quarter Ended	**Low**	**High**
March 31, 2009	$ 3.53	$ 7.34
June 30, 2009	4.05	5.98
September 30, 2009	5.11	5.90
December 31, 2009	5.08	5.75
March 31, 2010	5.30	6.10
June 30, 2010	5.00	8.47
September 30, 2010	5.40	6.45
December 31, 2010	5.25	6.10

The Company did not pay a cash dividend in 2010 or 2009. The Company's primary source of income with which to pay cash dividends are dividends from the Bank. The Bank would not pay any dividend that would cause it to be deemed not "well capitalized" under applicable banking laws and regulations. See Note 14 in the audited Consolidated Financial Statements in this Annual Report.

MARKET MAKERS

Inquiries on Central Valley Community Bancorp stock can be made by calling any of the contacts listed below, or any licensed stockbroker.

Troy Carlson
Keefe Bruyette & Woods
(212) 887-8901

Lisa Gallo
Wedbush Morgan Securities
(866) 491-7228

Jeffrey Mayer
Crowell, Weedon & Co.
(559) 375-7510

Joey Warmenhoven
McAdams Wright Ragen, Inc.
(866) 662-0351

John Cavender
Howe Barnes Hoefer & Arnett
(415) 538-5725

Richard Levenson
Western Financial Corporation
(800) 488-5990

Troy Norlander
Stone & Youngberg
(800) 288-2811

SHAREHOLDER INQUIRIES

Inquiries regarding Central Valley Community Bancorp's accounting, internal accounting controls or auditing concerns should be directed to Steven D. McDonald, chairman of the Board of Directors' Audit Committee, at steve.mcdonald@cvcb.com, anonymously at www.ethicspoint.com or call Ethics Point, Inc. at (866) 294-9588. General inquiries about the Company or the Bank should be directed to Cathy Ponte, Assistant Corporate Secretary at (800) 298-1775.

Investing In So Many Ways

At Central Valley Community Bank we know the value of investing, and not just in the financial sense. In ways large and small, we're deeply invested in the communities we call home. From financial education, to local philanthropies, to worthy projects benefitting the health and economic vitality of the Valley – we are there with a devotion of time, talent and resources. Our greatest desire is earning the trust of our valued customers every day with our unique brand of personal customer service and dedication to help strengthen our Valley by making it a better place to live, work and raise families. That's an investment you can count on from Central Valley Community Bank for many years to come.

Ag Lenders Society of California
Alegria Guild of Children's Hospital
Alzheimer's Foundation of Central California
American Cancer Society
American Heart Association
Boys & Girls Clubs of Fresno County
Boys & Girls Club of Lodi
Bullard High School Boosters
Business Organization of Old Town Clovis
California State University, Fresno Alumni Association
California State University, Fresno Craig School of Business
California State University, Fresno Foundation
California State University, Fresno Maddy Institute
Camp Sunshine Dreams
Cen Cal Business Finance Group
Center For Advanced Research and Technology (CART)
CenterStage Clovis Community Theatre
Central Valley Business Incubator
Child Abuse Prevention Council
Children's Home of Stockton
Children's Hospital Central California
City of Kerman
Clovis Chamber Orchestra
Clovis District Chamber of Commerce
Clovis Rodeo Association
Community Medical Foundation
Court Appointed Special Advocates of Fresno & Madera Counties
Creative Fresno
Cultural Arts Rotary Club of Fresno
Doug McDonald Scholarship
Downtown Association of Fresno
East Fresno Kiwanis Club
Easter Seals Central California
Economic Development Corporation
Exceptional Parents Unlimited
Fresno Area Hispanic Chamber of Commerce
Fresno Business Council
Fresno Forward Foundation
Fresno Urban Neighborhood Development Corporation
Foundation for Clovis Schools
Fresno Area Crime Stoppers
Fresno Art Museum
Fresno City & County Historical Society
Fresno Sunrise Rotary
Fresno West Coalition for Economic Development
Friends of Madera Animal Shelter
Gene Ahner Memorial Charitable Foundation
Give Every Child A Chance
Greater Fresno Area Chamber of Commerce
Helping One Woman
Hospice of San Joaquin Butterfly Auxiliary
Hume Lake Christian Camps
JR Achievement
Junior League of Fresno
Kerman 4-H Club
Kerman Chamber of Commerce
Kerman Community Services Organization
Kerman Christian School
Kerman High School
Kerman Rotary Club
Kerman Senior Advisory Board
Kerman Unified School District
Knights of Columbus
Lambda Theta Phi
Latino Businessmen Association Foundation
Lodi Adopt-A-Child
Lodi Cancer Kids
Lodi Chamber of Commerce
Lodi Conference & Visitor's Bureau
Lodi Lions Club
Lodi Memorial Hospital
Loel Center and Gardens
M&C Association Management Services
Madera Community Hospital Foundation
Madera County Ag Boosters
Marjaree Mason Center
Merced County Chamber of Commerce
Merced Police Officers Association
Merco Credit Union Cycling Classic
National Child Safety Council
New Jerusalem Elementary School
Oakhurst Area Chamber of Commerce
Oakhurst Community Center
Oakhurst Sierra Sunrise Rotary
Our Lady of Guadalupe Catholic Church
Pacific Futbol Club
PBID Partners of Downtown Fresno
Poverello House
Rotary Club of Fresno
San Joaquin Dental Society
San Joaquin Nisei Farmers League
San Joaquin River Parkway and Conservation Trust
San Joaquin Tranquility Lions Club
Sequoia Council of the Boy Scouts of America
Sherriff's Foundation for Public Safety
Sierra High School
Sierra Mountain Little League
Spirit of Women
St. Joachim's Elementary School
Stockton Athletic Hall of Fame
Stockton Buddhist Church
Stockton Women's Network
Sunnyside High School
The American Legion
The Bulldog Foundation
The Clovis Community Foundation
The One Eighty Foundation
The Fresno Bee – Newspapers In Education
The Great Plate Charity Golf Tournament
The Salvation Army
Tip Your Heart Foundation
Tracy Chamber of Commerce
Tracy Junior Miss Scholarship
Tracy High School
Tracy Hill Growers and Vintners Association
Tracy Sunrise Rotary
Tracy Women's Forum Association
Trauma Intervention Program
Tree Fresno
United Way of Fresno County
United Samaritans Foundation
University of the Pacific
Vineyard Christian Middle School
Women's Center of San Joaquin County

CLOVIS

Clovis Main
600 Pollasky Avenue
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Herndon & Fowler
1795 Herndon Avenue,
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Clovis, CA 93611
(559) 323-2200

FRESNO

Fig Garden Village
5180 North Palm,
Suite 105
Fresno, CA 93704
(559) 221-2760

Financial Drive
Corporate Office
7100 North Financial Drive,
Suite 101
Fresno, CA 93720
(559) 298-1775
(800) 298-1775

Fresno Downtown
2404 Tulare Street
Fresno, CA 93721
(559) 268-6806

River Park
8375 North Fresno Street
Fresno, CA 93720
(559) 447-3350

Sunnyside
570 South Clovis Avenue,
Suite 101
Fresno, CA 93727
(559) 323-3400

Kerman
360 South Madera Avenue
Kerman, CA 93630
(559) 842-2265

Lodi
1901 West Kettleman Lane,
Suite 100
Lodi, CA 95242
(209) 333-5000

Madera
1919 Howard Road
Madera, CA 93637
(559) 673-0395

Merced
3337 G Street
Merced, CA 95340
(209) 725-2820

Modesto
300 Banner Court,
Suite 2
Modesto, CA 95356
(209) 576-1402

Oakhurst
40004 Highway 41,
Suite 101
Oakhurst, CA 93644
(559) 642-2265

Prather
29430 Auberry Road
Prather, CA 93651
(559) 855-4100

Sacramento
2339 Gold Meadow Way,
Suite 100
Gold River, CA 95670
(916) 859-2550

Stockton
2800 West March Lane,
Suite 120
Stockton, CA 95219
(209) 956-7800

Tracy
60 West 10th Street
Tracy, CA 95376
(209) 830-6995

BUSINESS LENDING

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7100 North Financial Drive,
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(559) 298-1775
(800) 298-1775

Agribusiness
8375 North Fresno Street
Fresno, CA 93720
(559) 323-3493

Real Estate
7100 North Financial Drive,
Suite 101
Fresno, CA 93720
(559) 323-3365

SBA Lending
7100 North Financial Drive,
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Fresno, CA 93720
(559) 323-3384

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