2011
Annual Report

Banking **Your Way**

Central Valley Community Bancorp

To Our **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

Promising Signs, Proven Strength

From slow job growth to national debt levels to consumer confidence, there are abundant reminders that our Valley, state and nation are not yet through this difficult economic period. Even so, there is reason to be encouraged as Central Valley Community Bank continues to outperform its peers in all of the key financial and regulatory categories and has remained profitable every quarter during these difficult economic times.

While the demand for loans remains a challenge, the Bank remains well-positioned for growth and stability with increased deposits and improved asset quality. In fact, 2011 represented the second highest earnings year in the history of the Company.

The year also proved to be eventful in terms of expense-related activity, including the relocation of the Modesto office and the launch of enhanced electronic banking platforms for both business and personal customers. The Bank also paid-off TARP funding, redeemed warrants and completed funding for the Small Business Lending Fund.

Where does the Bank stand among its peers? Quite admirably - when comparing key performance categories. The Bank's performance sets a solid foundation for moving forward, with an established baseline that looks promising for 2012 and beyond.

A Year Of Near-Record Earnings

The Company demonstrated its commitment to strong financial performance and shareholder value, achieving its second-highest earnings mark in 31 years for the full 2011 year. While net income showed significant improvement over 2010, it fell short of our goals, but still exceeded most of our peers.

Just as important was the continued improvement in asset quality with reductions in non-accrual loans and no OREO at year end.

While slight economic improvement is being seen overall in the markets we serve, average loans decreased compared to 2010 due to deleveraging, the continued reluctance of businesses to expand by adding more debt and the reduction in non-performing and classified loans.

Deposits showed positive growth while achieving a favorable mix in non-interest bearing deposits, continuing to reduce our overall cost of funds. The expansion of new offices and the addition of new team members in recent years have helped the Bank achieve this organic growth in both deposits and customer relationships.

Net income for the year increased 97.53%, primarily driven by lower provision for credit losses, decreases in non-interest expense and increases in non-interest income. The increase was partially offset by decreases in net interest income in 2011 compared to 2010.

The Bank's non-interest income for 2011 was aided by several extraordinary income items that we will not see in 2012. Additionally, the Bank will be negatively impacted by new regulations affecting overdraft services.

Also worth noting is the funding received by the Bank through the Treasury Department's Small Business Lending Fund. This fund, established as part of the Small Business Jobs Act signed into law by President Obama, encourages community banks to increase their lending to small businesses in order to help those companies expand their operations and create new jobs. The proceeds were used to repay the TARP preferred shares.

Overall, 2011 will be remembered as a year in which the Bank built reserves and increased capital. Our growing capital enhanced the safe, solid base for expanding the Bank's presence in California's Central Valley and better serving our customers and communities.

Strong Shareholder Value

Central Valley Community Bank continues to offer excellent value to our shareholders as a safe, solid institution with strong performance, a sterling reputation and a long history of investing in our communities. Sandler O'Neill + Partners, L.P. named the Company stock among their "Top Investment Ideas" in both 2010 and 2011. Of course, the trading of the Company's stock is directly affected by the status of the overall financial sector in the market and the liquidity of the stock.

A Busy Year For The Bank

Like many of the past 31 years, 2011 was an active period for the Bank and our executive team, who actively advocate on behalf of the Bank to educate our employees and customers about the evolving complexities of the financial industry and economy. As Bank President and CEO,

I am invested in financial advocacy as well, and, as an example, began a three-year appointed term in 2011on the Federal Reserve Bank of San Francisco's Twelfth District Community Depository Institutions Advisory Council (CDIAC). I am honored to share my expertise with this council that advises on a variety of economic and banking conditions, regulatory policies and payments issues.

On a more somber note, the Bank lost a trusted and dedicated team member, Vice President, Controller Rona Melkus, who passed away unexpectedly in 2011. She left an indelible impact and a positive legacy for all to cherish, and will be greatly missed.

The year also saw our continued commitment to branch expansion, as the Modesto office moved to a larger new location that will better meet the growing needs of existing customers and allow the expansion of services to others in the area.

In 2011, the Bank received recognition for being the most active lender in the SBA 504 loan program by the Cen Cal Business Finance Group, the ninth time in the past twelve years. The Bank's success in the program has attributed to loans responsible for over $49.9 million in project costs and the creation of an estimated 450 jobs since 1999.

In addition, Central Valley Community Bank was the only community bank recognized by Fresno Magazine's "Best of Fresno" contest in the category "Best Local Bank or Credit Union", based on votes submitted by community members.

Continuing our annual tradition, the Bank hosted free document shredding events for customers and community members to dispose of unwanted documents safely and securely. These tax-time events were offered at 15 of the Bank's offices and demonstrate its commitment to customer security and education.

As we continue striving to serve the needs of individual and commercial customers as efficiently and effectively as possible, the Bank instituted some changes to our product and service lineup in 2011. For example, we enabled our small business customers to successfully migrate from Online Banking to our new Cash Management platform. In addition, we launched our new Personal Online Banking and Bill Pay services that offer customers advantages such as security enhancements and eStatements.

Also in 2011, the Bank prepared for the rollout of new ATMs, scheduled to be installed in 2012. The new machines will offer text-to-voice conversion for vision-impaired customers and a convenient new deposit automation feature, among other enhancements.

Local Economy Remains Challenged

The Bank remains committed to serving the financial needs of our customers, even though the Central Valley's economy remains difficult. There are signs of improvement, however, in such areas as agriculture, food processing and transportation, as well as some renewed vibrancy in manufacturing.

While the Federal Reserve intends to hold rates low through 2014 to help stimulate the economy, we expect the Central Valley will continue to experience soft loan demand in 2012, even with borrowing rates at historic low levels.

Industry-Wide Changes For Banking

The media in 2011 spent a great deal of time focusing on the "Occupy" movement as it related to banks, specifically large banks. While the movement initially concentrated on the wealthy 1% compared to the remaining 99% of the population, its focus dissipated into many different agendas.

What seems to have been lost in this movement is the role of banks in the nation's free enterprise system and how banks create value for the communities they serve. In the case of Central Valley Community Bank, we create jobs, provide loans to grow businesses, help people meet their financial objectives, and pay a fair portion of the Company's profit in taxes, among other benefits to our community and nation. Additionally, the Bank supports nonprofit organizations that work to improve our region's quality of life and many of our employees perform volunteer work and provide their expertise in helping nonprofit boards.

The financial industry is experiencing other changes in the form of increased federal regulations, such as the Dodd Frank legislation which will create nearly 300 new regulations and increase the cost of operation for all banks. These new compliance requirements will continue to place pressure on non-interest income and non-interest expense.

A Forecast For Success In 2012 And Beyond

While we believe 2012 will bring many of the same economic challenges we saw in 2011, the Bank's senior management team is working hard to develop our long-term vision, fine-tune our strategic goals and identify short-term tactics needed to maintain our present levels of profitability and stability.

We expect added pressure on net interest income and margin due to low loan demand and the Federal Reserve holding rates at historic low levels. However, improving asset quality and strong liquidity, bolstered by high levels of capital, provide for a very strong balance sheet and keep the Company well-positioned for growth.

As the Bank continues to add new products and services in 2012 to provide our customers with competitive, valuable tools for meeting their banking needs, we expect to maintain our long track record of strength, security and satisfying relationships – the values that have guided us for over 31 years, and which will continue to make Central Valley Community Bank an asset to our customers, employees and shareholders.

Daniel J. Doyle
President and Chief Executive Officer

Daniel N. Cunningham
Chairman of the Board

Strong. Solid.
Unchanging Values.

A 32-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 and individuals. Now with over 230 employees and assets of nearly $850,000,000 as of December 31, 2011, 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 32-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 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 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 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 9 of the past 12 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 a 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 32 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.

Board Of Directors

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

Pictured in Central Valley Community Bank's Clovis Main office

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

Pictured in Central Valley Community Bank's Clovis Main office

Sidney B. Cox
Owner
Cox Communications

Pictured in the Donor Appreciation Room of Children's Hospital Central California in which he has served as a Trustee and volunteer for over 26 years, and headed the campaign to build the new hospital

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

Pictured at State Center Community College, Madera Center, architecturally designed by Darden Architects, Inc.

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

Pictured at a replica of the flume used in the 1800's to transport lumber to Clovis from Shaver Lake, planned for future display at the Central Sierra Historical Museum

Louis C. McMurray
President
Charles McMurray Co.

Pictured at Charles McMurray Company

William S. Smittcamp
President/Owner
Wawona Frozen Foods

Pictured in a Wawona Frozen Foods peach orchard

Joseph B. Weirick
Investments

Pictured in his Meadow Lakes Apple Company orchard

Not Pictured: Wanda Rogers, *Director Emeritus and Founding President, Rogers Helicopters, Inc.*

Our Team, Meeting Your Needs.

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

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

Dawn Crusinberry
Vice President,
Controller

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

Mark Gay
Vice President,
Private Banking Officer

Rod Geist
Vice President,
Branch Manager

Teresa Gilio
Vice President,
Central Operations 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

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

Rosie Nunes
Vice President,
Small Business Development Officer

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

Wendy Parlavecchio
Vice President,
Real Estate Loan Officer

Marti Pearson-Silva
Vice President,
Loan Servicing Manager

Shannon Reinard
Vice President,
Branch Manager

Steve Romeo
Vice President,
Private Banking Officer

John Royal
Vice President,
Commercial Loan Officer

Elizabeth Salas
Vice President,
Small Business Development Officer

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

Crowe Horwath LLP, Sacramento, CA

Counsel

Downey Brand LLP, Sacramento, CA

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 2011 Circle of Elite included:

Patrick Carman
Vice President, Senior Credit Officer

Dawn Crusinberry
Vice President, Controller

Ken Dodderer
Vice President, Commercial Loan Officer

Linda Miller
Central Operations Representative

Rosie Nunes
Vice President, Small Business Development Officer

Sonia Parso
Assistant Vice President, Customer Service Manager

Le-Ann Ruiz
Executive Administrative Assistant

Angela Shelton
Wire Transfer/Electronic Payment Processor

San Joaquin County Advisory Board

Members of the advisory board for the San Joaquin County region include:

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

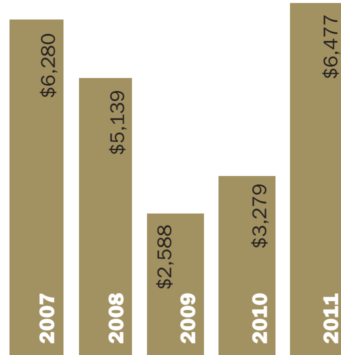
Central Valley Community Bank Senior Management

Pictured Below From Left: David Kinross, Thomas Sommer, Daniel Doyle, Lydia Shaw and Gary Quisenberry

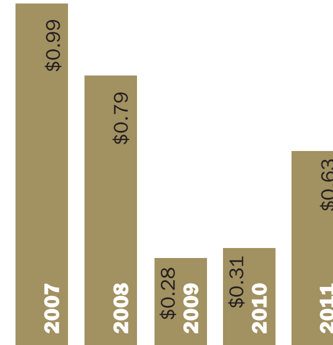
Central Valley Community Bancorp

Central Valley Community Bancorp

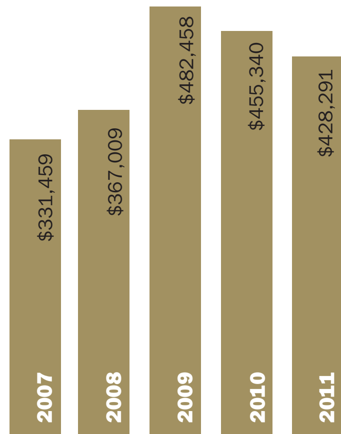
Trend Analysis



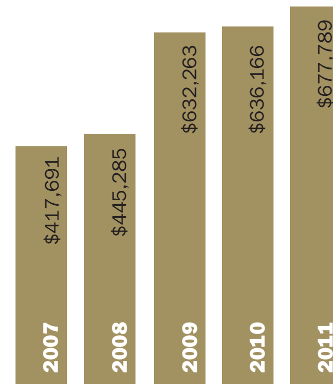
Net Income *(In Thousands)*



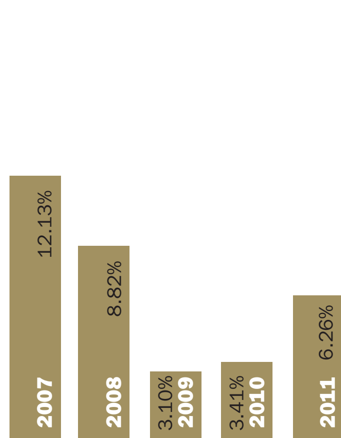
Diluted Earnings Per Share



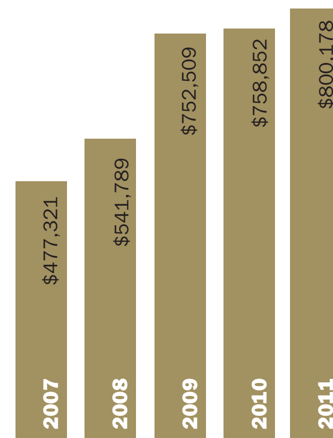
Average Total Loans *(In Thousands)*



Average Total Deposits *(In Thousands)*



Return on Shareholders' Equity

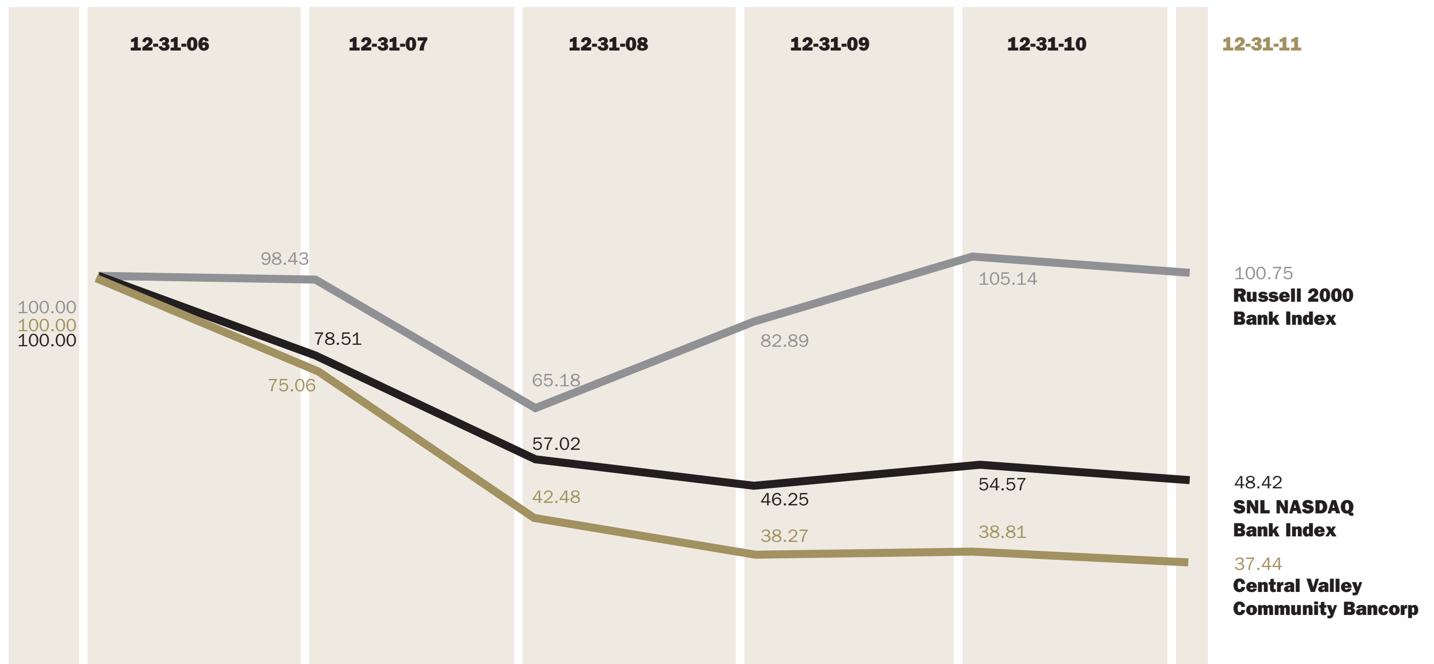


Average Total Assets *(In Thousands)*

Central Valley Community Bancorp

Comparative Stock Price Performance

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

Central Valley Community Bancorp

Consolidated Balance Sheets

December 31, 2011 and 2010 (In thousands, except per share amounts)

ASSETS	2011	2010
Cash and due from banks	$ 19,409	$ 11,357
Interest-earning deposits in other banks	24,467	89,042
Federal funds sold	928	600
Total cash and cash equivalents	44,804	100,999
Available-for-sale investment securities (Amortized cost of $321,405 at December 31, 2011 and $189,682 at December 31, 2010)	328,413	191,325
Loans, less allowance for credit losses of $11,396 at December 31, 2011 and $11,014 at December 31, 2010	415,999	420,583
Bank premises and equipment, net	5,872	5,843
Other real estate owned	-	1,325
Bank owned life insurance	11,655	11,390
Federal Home Loan Bank stock	2,893	3,050
Goodwill	23,577	23,577
Core deposit intangibles	783	1,198
Accrued interest receivable and other assets	15,027	18,304
Total assets	$ 849,023	$ 777,594
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 208,025	$ 173,867
Interest bearing	504,961	476,628
Total deposits	712,986	650,495
Short-term borrowings	-	10,000
Long-term debt	4,000	4,000
Junior subordinated deferrable interest debentures	5,155	5,155
Accrued interest payable and other liabilities	19,400	10,553
Total liabilities	741,541	680,203
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, issued and outstanding: none at December 31, 2011 and 7,000 shares at December 31, 2010	-	6,864
Preferred stock, no par value, $1,000 per share liquidation preference; 10,000,000 shares authorized, Series C, no par value, issued and outstanding: 7,000 shares at December 31, 2011 and none at December 31, 2010	7,000	-
Common stock, no par value; 80,000,000 shares authorized; issued and outstanding: 9,547,816 at December 31, 2011 and 9,109,154 at December 31, 2010	40,552	38,428
Non-voting common stock, 1,000,000 shares authorized; issued and outstanding: none at December 31, 2011 and 258,862 at December 31, 2010	-	1,317
Retained earnings	55,806	49,815
Accumulated other comprehensive income, net of tax	4,124	967
Total shareholders' equity	107,482	97,391
Total liabilities and shareholders' equity	$ 849,023	$ 777,594

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

Consolidated Statements
of Income

For the Years Ended December 31, 2011, 2010, and 2009 (In thousands, except per share amounts)

	2011	2010	2009
INTEREST INCOME:			
Interest and fees on loans	$ 26,098	$ 27,390	$ 29,920
Interest on deposits in other banks	187	110	8
Interest on Federal funds sold	2	2	48
Interest and dividends on investment securities:			
Taxable	4,548	5,472	7,701
Exempt from Federal income taxes	3,464	3,039	3,057
Total interest income	34,299	36,013	40,734
INTEREST EXPENSE:			
Interest on deposits	2,662	3,713	5,867
Interest on junior subordinated deferrable interest debentures	100	102	129
Other	180	468	631
Total interest expense	2,942	4,283	6,627
Net interest income before provision for credit losses	31,357	31,730	34,107
PROVISION FOR CREDIT LOSSES	1,050	3,800	10,514
Net interest income after provision for credit losses	30,307	27,930	23,593
NON-INTEREST INCOME:			
Service charges	2,903	3,225	3,509
Appreciation in cash surrender value of bank owned life insurance	382	392	391
Loan placement fees	274	300	231
Gain on disposal of other real estate owned	615	176	-
Net realized gains (losses) on sales and calls of investment securities	298	(191)	766
Other-than-temporary impairment loss:			
Total impairment loss	(31)	(1,587)	(300)
Loss recognized in other comprehensive income	-	-	-
Net impairment loss recognized in earnings	(31)	(1,587)	(300)
Federal Home Loan Bank dividends	9	11	7
Other income	1,826	1,395	1,246
Total non-interest income	6,276	3,721	5,850
NON-INTEREST EXPENSES:			
Salaries and employee benefits	15,762	14,871	13,926
Occupancy and equipment	3,795	3,867	3,812
Regulatory assessments	845	1,191	1,604
Data processing expense	1,178	1,197	1,316
Advertising	735	669	722
Audit and accounting fees	491	496	503
Legal fees	335	495	330
Other real estate owned	15	1,071	479
Amortization of core deposit intangibles	414	414	414
Loss on sale of assets	5	10	55
Other expense	4,670	4,460	4,370
Total non-interest expenses	28,245	28,741	27,531
Income before provision for (benefit from) income taxes	8,338	2,910	1,912
PROVISION FOR (BENEFIT FROM) INCOME TAXES	1,861	(369)	(676)
Net income	$ 6,477	$ 3,279	$ 2,588
Net income	$ 6,477	$ 3,279	$ 2,588
Preferred stock dividends and accretion	486	395	365
Net income available to common shareholders	$ 5,991	$ 2,884	$ 2,223
Basic earnings per common share	$ 0.63	$ 0.31	$ 0.29
Diluted earnings per common share	$ 0.63	$ 0.31	$ 0.28

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, 2011, 2010, and 2009 (In thousands, except share and per share amounts)

	Preferred Stock						Common Stock			Accumulated Other Comprehensive Income (Loss) (Net of Taxes)	Total Shareholders' Equity	Total Comprehensive Income
	Series A		Series B		Series C				Retained Earnings			
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balance, January 1, 2009	-	$ -	-	$ -	-	$ -	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	-	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
Conversion of preferred stock Series, B to common stock - non-voting	-	-	(1,359)	(1,317)	-	-	258,862	1,317	-	-	-	
Stock-based compensation expense	-	-	-	-	-	-	-	239	-	-	239	
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	
Comprehensive income:												
Net income	-	-	-	-	-	-	-	-	6,477	-	6,477	$ 6,477
Other comprehensive income, net of tax:												
Net change in unrealized gain (loss) on available-for-sale investment securities	-	-	-	-	-	-	-	-	-	3,157	3,157	3,157
Total comprehensive income												$ 9,634
Stock-based compensation expense	-	-	-	-	-	-	-	196	-	-	196	
Issuance of preferred stock Series C	-	-	-	-	7,000	7,000	-	-	-	-	7,000	
Redemption of preferred stock Series A	(7,000)	(7,000)	-	-	-	-	-	-	-	-	(7,000)	
Repurchase and retirement of common stock warrants	-	-	-	-	-	-	-	(185)	-	-	(185)	
Stock options exercised and related tax benefit	-	-	-	-	-	-	179,800	796	-	-	796	
Preferred stock dividends and accretion	-	136	-	-	-	-	-	-	(486)	-	(350)	
Balance, December 31, 2011	-	$ -	-	$ -	7,000	$ 7,000	9,547,816	$ 40,552	$ 55,806	$ 4,124	$ 107,482	

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

Consolidated Statements
of Cash Flows

For the Years Ended December 31, 2011, 2010, and 2009 (In thousands)

	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 6,477	$ 3,279	$ 2,588
Adjustments to reconcile net income to net cash provided by operating activities:			
Net increase in deferred loan fees	266	107	174
Depreciation	1,212	1,262	1,367
Accretion	(715)	(983)	(1,796)
Amortization	3,590	2,014	414
Stock-based compensation	196	239	284
Tax benefit from exercise of stock options	(116)	(28)	(7)
Provision for credit losses	1,050	3,800	10,514
Net other than temporary impairment losses on investment securities	31	1,587	300
Net realized (gains) losses on sales and calls of available-for-sale investment securities	(298)	191	(942)
Net realized losses on sales of held-to-maturity investment securities	-	-	176
Net loss on sale and disposal of equipment	5	10	55
Net gain on sale of other real estate owned	(615)	(66)	-
Write down of other real estate owned and other property	-	638	356
Increase in bank owned life insurance, net of expenses	(204)	(392)	(190)
Net gain on bank owned life insurance	(85)	-	-
Net (increase) decrease in accrued interest receivable and other assets	(700)	3,281	(1,106)
Net decrease (increase) in prepaid FDIC Assessments	705	981	(3,740)
Net increase (decrease) in accrued interest payable and other liabilities	8,515	594	(2,259)
Provision (benefit) for deferred income taxes	1,270	(2,337)	788
Net cash provided by operating activities	20,584	14,177	6,976
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of available-for-sale investment securities	(214,569)	(39,985)	(82,178)
Purchases of held-to-maturity investment securities	-	-	(410)
Proceeds from sales or calls of available-for-sale investment securities	44,700	19,594	40,407
Proceeds from calls of held-to-maturity investment securities	-	-	1,474
Proceeds from maturity and principal repayment of available-for-sale investment securities	35,951	28,058	32,877
Proceeds from principal repayments of held-to-maturity investment securities	-	-	2,793
Net decrease in loans	2,815	21,214	14,379
Proceeds from sale of other real estate owned	2,472	4,203	-
Purchases of premises and equipment	(1,246)	(595)	(991)
FHLB stock redeemed	157	90	-
Proceeds from bank owned life insurance	146	-	430
Proceeds from sale of premises and equipment	-	5	-
Net cash (used in) provided by investing activities	(129,574)	32,584	8,781
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in demand, interest-bearing and savings deposits	87,928	33,877	16,415
Net decrease in time deposits	(25,437)	(23,548)	(11,306)
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 long-term borrowings from Federal Home Loan Bank	-	-	10,000
Repayments of long-term borrowings to Federal Home Loan Bank	(10,000)	(5,000)	(10,000)
Repayments of borrowings from other financial institutions	-	-	(6,367)
Proceeds from exercise of stock options	680	550	175
Repurchase of common stock warrant	(185)	-	-
Tax benefit from exercise of stock options	116	28	7
Cash dividend payments on preferred stock	(307)	(349)	(277)
Net cash provided by financing activities	52,795	5,558	13,405
(Decrease) increase in cash and cash equivalents	(56,195)	52,319	29,162
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	100,999	48,680	19,518
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 44,804	$ 100,999	$ 48,680
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 3,186	$ 4,485	$ 6,983
Income taxes	$ 826	$ 301	$ 690
Non-cash investing and financing activities:			
Redemption of preferred stock Series A and issuance of preferred stock Series C	$ 7,000	$ -	$ -
Transfer of loans to other real estate owned	$ 244	$ 3,467	$ 3,921
Assumption of other real estate owned liabilities	$ 288	$ -	$ -
Transfer of loans to other assets	$ 209	$ -	$ -
Accrued preferred stock dividends	$ 88	$ 45	$ 44

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 2011. Reclassifications had no affect on prior year net income or shareholders' equity.

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, is a wholly-owned subsidiary acquired in the merger of Service 1st Bancorp and formed for the exclusive purpose of issuing trust preferred securities. The Company is considered the primary beneficiary of this trust (variable interest entity), therefore the trust is not consolidated in the Company's financial statements, but rather the subordinated debentures are shown as a liability on the Company's consolidated financial statements. The Company's investment in the common stock of the Trust is included in accrued interest receivable and other assets on 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. The allowance for credit losses, deferred taxes assets and fair values of financial instruments are estimates which are particularly subject to change.

Cash and Cash Equivalents - For the purpose of the statement of cash flows, cash, due from banks with maturities less than 90 days, and Federal funds sold are considered to be cash equivalents. Generally, Federal funds are sold for one-day periods. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased.

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, 2011, there were no transfers between categories. During 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. At December 31, 2011, 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. Premiums and discounts on securities are amortized or accreted on the level yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated.

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 - For all loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at principal balances outstanding net of deferred loan fees and costs, and the allowance for credit losses. Interest is accrued daily based upon outstanding loan balances. However, for all loans 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 loan 90 days or more delinquent is automatically placed on nonaccrual status. 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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

collectibility of principal is not in doubt, are applied first to principal until fully collected and then to interest.

Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer and credit card loans are typically charged off no later than 90 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are individually evaluated for impairment. A loan is moved to non-accrual status in accordance with the Company's policy, typically after 90 days of non-payment. A loan placed in non-accrual status may be restored to accrual status when principal and interest are no longer past due and unpaid, or the loan otherwise becomes both well secured and in the process of collection. When a loan is brought current the Company must also have a reasonable assurance that the obligor has the ability to meet all contractual obligations in the future, that the loan will be repaid within a reasonable period of time, and that a minimum of six months of satisfactory repayment performance has occurred.

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.

Purchased 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 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.

Allowance for Credit Losses - The allowance for credit losses is an estimate of probable 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. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. 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. For TDRs that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for credit losses.

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 over the most recent eight quarters, 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, real estate, and consumer loans. The relative significance of risk considerations vary by portfolio segment. For commercial and real estate loans, the primary risk consideration is a borrower's ability to generate sufficient cash flows to repay their loan. Secondary considerations include the creditworthiness of guarantors and the valuation of collateral. In addition to the creditworthiness of a borrower, the type and location of real estate collateral is an important risk factor for real estate loans. The primary risk considerations for consumer loans are a borrower's personal cash flow and liquidity, as well as collateral value. 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 collectibility of the portfolio. The most recent review of risk rating was completed in December 2011. 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 as 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.

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.

Agricultural real estate - Agricultural real estate loans generally possess a higher inherent risk of loss caused by changes in concentration of permanent plantings, government subsidies, and the value of the U.S. dollar effecting the export of commodities.

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 - Land is carried at cost. Bank premises and equipment are carried at cost less accumulated depreciation. 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.

Federal Home Loan Bank (FHLB) Stock - The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

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 disposition costs. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through noninterest expense. Revenues and expenses associated with OREO are 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, 2011 was $23,577,000 consisting of $14,643,000 and $8,934,000 representing the excess of the cost of Service 1st Bank and Bank of Madera County, respectively, over the net 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In 2011, Accounting Standards Update (ASU) 2011-08 was issued that provided additional guidance on the determination of whether an impairment of goodwill has occurred, including the introduction of a qualitative review of factors that might indicate that a goodwill impairment has occurred. ASU 2011-08 is effective for our 2012 reporting year; however, the Company early adopted this standard as of September 30, 2011. The Company performed our annual impairment test in the third quarter of 2011 utilizing the qualitative factors cited in the ASU.

Management believes that factors cited in the ASU are sufficient and comprehensive and as such, no further factors need to be assessed at this time. Based on the analysis performed by management, there were no indications that the Company's goodwill was impaired at September 30, 2011.

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 2011, so goodwill was not required to be retested.

Intangible Assets - The intangible assets at December 31, 2011 represent the estimated fair value of the core deposit relationships acquired in the acquisition of Service 1st Bank in 2008 of $1,400,000 and the 2005 acquisition of Bank of Madera County of $1,500,000. Core deposit intangibles are being amortized 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, 2011 was $783,000, net of $2,117,000 in accumulated amortization expense. The carrying value at December 31, 2010 was $1,198,000, net of $1,702,000 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 performed an annual impairment test on core deposit intangibles as of September 30, 2011 and determined no impairment was necessary. Amortization expense recognized was $414,000 for 2011, 2010, and 2009.

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.

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.

Retirement Plans - Employee 401(k) and profit sharing plan expense is the amount of matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

Earnings Per Common Share - Basic earnings per common 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.

Comprehensive Income - Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale which are also recognized as separate components of equity.

Loss Contingencies - Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the financial statements.

Share-Based Compensation - Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire awards.

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, 2011, 2010, and 2009 were $116,000, $28,000, and $7,000, respectively.

Fair Value of Financial Instruments - Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in *Note 2*. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Reclassifications - Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

Recent Accounting Pronouncements

Determination of Whether a Restructuring is a Troubled Debt Restructuring

In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-02, *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*. This ASU provides for a more consistent application of the accounting guidance for troubled debt restructurings (TDRs). This ASU clarified guidance on a creditor's evaluation of whether it has granted a concession to a borrower, and clarified guidance to determine if a borrower is experiencing financial difficulties. This ASU also finalized the disclosures required in a creditor's financial statements related to TDRs. The new provisions of this standard became effective on July 1, 2011.

As a result of adopting ASU 2011-02, management reassessed all restructurings that occurred on or after January 1, 2011 and identified six loans totaling $15,293,000 that were not previously identified as TDRs which now qualify as TDRs under the guidance of ASU 2011-02. The identification of the $15,293,000 of TDRs resulted in an increase to the specific reserves added to the allowance for credit losses of $1,471,000 at December 31, 2011.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of New Financial Accounting Standards

Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs

In May 2011, FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* This ASU represents the converged guidance of the FASB and the IASB (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term "fair value." The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. The amendments to the *FASB Accounting Standards Codification*™ (Codification) in this ASU are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted. Management does not believe the adoption of this ASU will have a significant impact on the Company's financial position, results of operations or cash flows.

Presentation of Comprehensive Income

In June 2011, FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income.* This ASU amends the *FASB Accounting Standards Codification* TM (Codification) to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. In October 2011, FASB decided that the specific requirement to present items that are reclassified from other comprehensive income to net income alongside their respective components of net income and other comprehensive income will be deferred. Therefore, those requirements will not be effective for fiscal years and interim periods with those years beginning after December 15, 2011. The remaining provisions of ASU 2011-05 should be applied retrospectively. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. Management does not believe the adoption of this ASU will have a significant impact on the Company's financial position, results of operations or cash flows.

Intangibles - Goodwill and Other Topics

The FASB has issued ASU 2011-08, *Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment.* ASU 2011-08 is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350, *Intangibles - Goodwill and Other*. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company has elected to early-adopt the provisions of ASU 2011-08 and apply the provisions to management's annual evaluation of the Company's Goodwill as of September 30, 2011. The impact of adoption was not material to the Company's financial position, results of operations or cash flows.

2. FAIR VALUE MEASUREMENTS

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

	December 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial assets:				
Cash and due from banks	$ 19,409	$ 19,409	$ 11,357	$ 11,357
Interest-earning deposits in other banks	24,467	24,467	89,042	89,042
Federal funds sold	928	928	600	600
Available-for-sale investment securities	328,413	328,413	191,325	191,325
Loans, net	415,999	418,084	420,583	405,876
Federal Home Loan Bank stock	2,893	N/A	3,050	N/A
Accrued interest receivable	3,953	3,953	3,467	3,467
Financial liabilities:				
Deposits	$ 712,986	$ 719,673	$ 650,495	$ 651,668
Short-term borrowings	-	-	10,000	10,000
Long-term debt	4,000	4,146	4,000	4,256
Junior subordinated deferrable interest debentures	5,155	2,706	5,155	2,320
Accrued interest payable	230	230	475	475

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

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

The following methods and assumptions were used to estimate the fair value of financial instruments. For cash and due from banks, interest-earning deposits in other banks, Federal funds sold, variable-rate loans, accrued interest receivable and payable, demand deposits and short-term borrowings, the carrying amount is estimated to be fair value. It was not practicable to determine the fair value of Federal Home Loan Bank (FHLB) stock due to restrictions placed on its transferability. For investment securities, fair values are based on quoted market prices, quoted market prices for similar securities and indications of value provided by brokers. The fair values for fixed-rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness. Fair values for fixed-rate certificates of deposit are estimated using discounted cash flow analyses using interest rates offered at each reporting date by the Company for certificates with similar remaining maturities. The fair value of long-term debt and subordinated debentures was determined based on the current market for like-kind instruments of a similar maturity and structure. The fair values of commitments are estimated using the fees currently charged to enter into similar agreements and are not significant and, therefore, not included in the above table.

2. **FAIR VALUE MEASUREMENTS** (Continued)

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 (unadjusted) for identical instruments traded in active exchange markets that the Company has the ability to access as of the measurement date.

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, 2011, no transfers between levels occurred.

Assets Recorded at Fair Value

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

Recurring Basis

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

Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale investment securities				
Debt Securities:				
U.S. Government sponsored entities and agencies	$ 149	$ -	$ 149	$ -
Obligations of states and political subdivisions	108,431	-	108,431	-
U.S. Government agencies collateralized by mortgage obligations	200,839	-	200,839	-
Other collateralized mortgage obligations	11,103	-	11,103	-
Other equity securities	7,891	7,891	-	-
Total assets and liabilities measured at fair value	$ 328,413	$ 7,891	$ 320,522	$ -

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

The balance of Level 3 assets measured at fair value on a recurring basis was zero for the year ended December 31, 2011. There were no transfers between Levels 1, 2 or 3 for the year ended December 31, 2011.

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

Non-recurring Basis

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

Description	Fair Value	Level 1	Level 2	Level 3	Total Gains (Losses) in the Year
Impaired loans:					
Commercial:					
Commercial and industrial	$ 2,312	$ -	$ -	$ 2,312	$ (271)
Total commercial	2,312	-	-	2,312	(271)
Real estate:					
Owner occupied	873	-	-	873	(65)
Real estate-construction and other land loans	8,782	-	-	8,782	(996)
Commercial real estate	1,487	-	-	1,487	(1,366)
Total real estate	11,142	-	-	11,142	(2,427)
Consumer:					
Equity loans and lines of credit	2,003	-	-	2,003	4
Consumer and installment	51	-	-	51	(23)
Total consumer	2,054	-	-	2,054	(19)
Total impaired loans	15,508	-	-	15,508	(2,717)
Total assets and liabilities measured at fair value on a non-recurring basis	$ 15,508	$ -	$ -	$ 15,508	$ (2,717)

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, 2011 and 2010.

In accordance with the provisions of ASC 360-10, impaired loans with a carrying value of $19,876,000 were written down to their fair value of $15,508,000. The valuation allowance represents specific allocations for the allowance for credit losses for impaired loans.

2. FAIR VALUE MEASUREMENTS (Continued)

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 sponsored entities and agencies	$ 195	$ -	$ 195	$ -
Obligations of states and political subdivisions	75,090	-	75,090	-
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	$ 191,365	$ 7,661	$ 183,704	$ -

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)	$ -

2. 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. During 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 immaterial misclassification errors in prior periods.

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	$ 838	$ -	$ -	$ 838	$ (208)
Total commercial	838			838	(208)
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)
Total real estate	6,468	-	-	6,468	(1,478)
Consumer					
Equity loans and lines of credit	2,007	-	-	2,007	(460)
Total consumer	2,007	-	-	2,007	(460)
Total Impaired	9,313			9,313	(2,146)
Other real estate owned	1,325	-	-	1,325	(309)
Other repossessed assets	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 included above and other real estate owned is based on the fair value of the collateral. 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.

In accordance with the provision of ASC 360-10, impaired loans with a carrying value of $11,437,000 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 allocation for the allowance for credit loans for impaired loans.

The fair value of other real estate owned 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 lower of it's 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.

3. INVESTMENT SECURITIES

The investment portfolio consists primarily of U.S. Government sponsored entities and agencies, mortgage backed securities, and obligations of states and political subdivisions all of which are classified as available-for-sale. As of December 31, 2011, $109,119,000 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 $7,008,000 at December 31, 2011 compared to an unrealized gain of $1,643,000 at December 31, 2010.

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

December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities				
Debt Securities:				
U.S. Government sponsored entities and agencies	$ 149	$ -	$ -	$ 149
Obligations of states and political subdivisions	101,030	7,732	(331)	108,431
U.S. Government agencies collateralized by mortgage obligations	204,222	1,402	(1,080)	204,544
Other collateralized mortgage obligations	8,408	245	(1,255)	7,398
Other equity securities	7,596	295	-	7,891
	$ 321,405	$ 9,674	$ (2,666)	$ 328,413

December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities				
Debt Securities:				
U.S. Government sponsored entities and 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

3. INVESTMENT SECURITIES (Continued)

Investment securities with unrealized losses at December 31, 2011 and 2010 are summarized and classified according to the duration of the loss period as follows (in thousands):

	December 31, 2011					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities						
Debt Securities:						
Obligations of states and political subdivisions	$ 1,194	$ (20)	$ 2,598	$ (311)	$ 3,792	$ (331)
U.S. Government agencies collateralized by mortgage obligations	105,902	(1,080)	-	-	105,902	(1,080)
Other collateralized mortgage obligations	32	(1)	4,917	(1,254)	4,949	(1,255)
	$ 107,128	$ (1,101)	$ 7,515	$ (1,565)	$ 114,643	$ (2,666)

	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)

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 December 31, 2011, the Company performed an analysis of the investment portfolio to determine whether any of the investments held in the portfolio had an other-than-temporary impairment (OTTI). 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 original yield expected at time of purchase.

As of December 31, 2011, the Company performed an analysis of the investment portfolio to determine whether any of the investments held in the portfolio had an other-than-temporary impairment (OTTI). Management evaluated all available-for-sale investment securities with an unrealized loss at December 31, 2011, and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at December 31, 2011 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 November 2011 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 most likely 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 original yield at time of purchase) 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 December 31, 2011. In performing the cash flow analysis for each security, the Company uses a third-party model. The model considers borrower characteristics and the particular attributes of the loans underlying the Company's securities, in conjunction with assumptions about future changes in home prices and other assumptions, to project prepayments, default rates, and loss severities.

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

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

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

U.S. Government Sponsored Entities and Agencies - At December 31, 2011, the Company held one U.S. Government sponsored entities and agencies security and it was not in a loss position.

Obligations of States and Political Subdivisions - At December 31, 2011, the Company held 178 obligations of states and political subdivision securities of which two were in a loss position for less than 12 months and four were in a loss position and have been in a loss position for 12 months or more. The unrealized losses on the Company's investments in obligations of states and political subdivision securities were caused by interest rate changes. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell, and it is more likely than not that it will not be required to sell those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2011.

3. INVESTMENT SECURITIES (Continued)

U.S. Government Agencies Collateralized by Mortgage Obligations - At December 31, 2011, the Company held 183 U.S. Government agency securities collateralized by mortgage obligation securities of which 54 were in a loss position for less than 12 months. The unrealized losses on the Company's investments in U.S. government agencies collateralized by mortgage obligations were caused by interest rate changes. The contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell, and it is more likely than not that it will not be required to sell those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2011.

Other Collateralized Mortgage Obligations - At December 31, 2011, the Company had a total of 27 PLRMBS with a remaining principal balance of $8,408,000 and a net unrealized loss of approximately $1,010,000. Eight of these securities account for $1,255,000 of the unrealized loss at December 31, 2011 offset by 19 of these securities with gains totaling $245,000. Seven of these PLRMBS with a remaining principal balance of $6,224,000 had credit ratings below investment grade. The Company continues to perform extensive analyses on these securities as well as all whole loan CMOs. Several of these investment securities continue to demonstrate cash flows and credit support as expected and the expected cash flows of the security discounted at the security's original yield at time of purchase are greater than the book value of the security, therefore management does not consider these securities to be other than temporarily impaired. No credit related OTTI charges related to PLRMBS were recorded during the year ended December 31, 2011.

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

Investment securities as of December 31, 2011 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	$ 2,400	$ 1,931	$ (469)	D	Fitch	11.06	8.64	51	97.25	-
CWALT 1	781	583	(198)	C	Fitch	10.11	6.40	63	100.73	3.02
CWALT 2	367	217	(150)	C	Fitch	9.07	7.30	66	101.38	0.98
FHAMS	2,179	1,831	(348)	D	Fitch	10.7	10.36	48	95	-
BAALT	141	123	(18)	CCC	Fitch	7.66	4.79	56	97.24	4.7
ABFS	302	231	(71)	D	S&P	4.7	13.00	80	97.46	-
CONHE	54	72	18	B3	Moody's	-	1.00	60	86.39	-
	$ 6,224	$ 4,988	$ (1,236)							

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

Net unrealized gains on available-for-sale investment securities totaling $7,008,000 and $1,643,000 are recorded net of $2,884,000 and $676,000 in tax liabilities as accumulated other comprehensive income within shareholders' equity at December 31, 2011 and 2010, respectively.

Proceeds and gross realized gains (losses) on investment securities for the years ended December 31, 2011, 2010 and 2009 are shown below.

	Years Ended December 31,		
	2011	2010	2009
	(In thousands)		
Available-for-Sale Securities			
Proceeds from sales or calls	$ 44,700	$ 19,594	$ 40,407
Gross realized gains from sales or calls	$ 1,119	$ 296	$ 1,438
Gross realized losses from sales or calls	$ (821)	$ (487)	$ (496)

	Years Ended December 31,		
	2011	2010	2009
	(In thousands)		
Held-to-Maturity			
Proceeds from sales or calls	$ -	$ -	$ 1,474
Gross 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, 2011 or 2010. The Company did not have any held-to-maturity securities at December 31, 2011 or 2010.

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

	For the years ended	
(In thousands)	December 31, 2011	December 31, 2010
Beginning balance	$ 1,387	$ 300
Amounts related to credit loss for which an OTTI charge was not previously recognized	31	1,587
Increases to the amount related to credit loss for which OTTI was previously recognized	-	-
Realized losses for securities sold	(635)	(500)
Ending balance	$ 783	$ 1,387

3. INVESTMENT SECURITIES (Continued)

The amortized cost and estimated fair value of investment securities at December 31, 2011 and 2010 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, 2011	Amortized Cost	Estimated Fair Value
Within one year	$ 569	$ 574
After one year through five years	8,705	9,480
After five years through ten years	20,553	22,179
After ten years	71,352	76,347
	101,179	108,580
Investment securities not due at a single maturity date:		
U.S. Government agencies collateralized by mortgage obligations	204,222	200,839
Other collateralized mortgage obligations	8,408	11,103
Other equity securities	7,596	7,891
	$ 321,405	$ 328,413

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

Investment securities with amortized costs totaling $102,527,000 and $127,293,000 and fair values totaling $109,119,000 and $129,968,000 were pledged to secure public deposits, other contractual obligations and short-term borrowings at December 31, 2011 and 2010, respectively.

4. LOANS

Outstanding loans are summarized as follows:

Loan Type	December 31, 2011	% of Total loans	December 31, 2010	% of Total loans
	(Dollars in thousands)			
Commercial:				
Commercial and industrial	$ 78,089	18.3%	$ 81,318	18.8%
Agricultural land and production	29,958	7.0%	20,604	4.8%
Total commercial	108,047	25.3%	101,922	23.6%
Real estate:				
Owner occupied	113,183	26.4%	111,888	25.9%
Real estate construction and other land loans	33,047	7.7%	32,038	7.4%
Commercial real estate	62,523	14.6%	63,627	14.7%
Agricultural real estate	42,596	9.9%	44,397	10.3%
Other real estate	7,892	1.8%	8,103	1.9%
Total real estate	259,241	60.4%	260,053	60.2%
Consumer:				
Equity loans and lines of credit	51,106	12.0%	58,860	13.6%
Consumer and installment	9,765	2.3%	11,261	2.6%
Total consumer	60,871	14.3%	70,121	16.2%
Deferred loan fees, net	(764)		(499)	
Total gross loans	427,395	100.0%	431,597	100.0%
Allowance for credit losses	(11,396)		(11,014)	
Total loans	$ 415,999		$ 420,583	

At December 31, 2011 and 2010, loans originated under Small Business Administration (SBA) programs totaling $6,421,000 and $7,932,000, respectively, were included in the real estate and commercial categories.

Salaries and employee benefits totaling $229,000, $305,000, and $229,000 have been deferred as loan origination costs for the years ended December 31, 2011, 2010, and 2009, respectively.

5. ALLOWANCE FOR CREDIT LOSSES

Changes in the allowance for credit losses were as follows:

	Years Ended December 31,		
	2011	2010	2009
		(In thousands)	
Balance, beginning of year	$ 11,014	$ 10,200	$ 7,223
Provision charged to operations	1,050	3,800	10,514
Losses charged to allowance	(1,532)	(4,122)	(7,926)
Recoveries	864	1,136	389
Balance, end of year	$ 11,396	$ 11,014	$ 10,200

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

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
Beginning balance	$ 2,437	$ 5,836	$ 2,503	$ 238	$ 11,014
Provision charged to operations	(177)	1,403	(77)	(99)	1,050
Losses charged to allowance	(280)	(312)	(940)	-	(1,532)
Recoveries	286	228	350	-	864
Balance, end of year	$ 2,266	$ 7,155	$ 1,836	$ 139	$ 11,396
Ending balance: individually evaluated for impairment	$ 231	$ 3,764	$ 373	$ -	$ 4,368
Ending balance: collectively evaluated for impairment	$ 2,035	$ 3,391	$ 1,463	$ 139	$ 7,028
Loans:					
Balance, end of year	$ 108,047	$ 259,241	$ 60,871	$ -	$ 428,159
Ending balance: individually evaluated for impairment	$ 3,857	$ 17,359	$ 2,428	$ -	$ 23,644
Ending balance: collectively evaluated for impairment	$ 104,190	$ 241,882	$ 58,443	$ -	$ 404,515

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:					
Balance, end of year	$ 2,437	$ 5,836	$ 2,503	$ 238	$ 11,014
Ending balance: individually evaluated for impairment	$ 227	$ 1,477	$ 420	$ -	$ 2,124
Ending balance: collectively evaluated for impairment	$ 2,210	$ 4,359	$ 2,083	$ 238	$ 8,890
Loans:					
Balance, end of year	$ 101,922	$ 260,053	$ 70,121	$ -	$ 432,096
Ending balance: individually evaluated for impairment	$ 1,475	$ 13,432	$ 3,654	$ -	$ 18,561
Ending balance: collectively evaluated for impairment	$ 100,447	$ 246,621	$ 66,467	$ -	$ 413,535

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table shows the loan portfolio allocated by management's internally assigned risk grade ratings at December 31, 2011 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial:					
Commercial and industrial	$ 70,093	$ 2,595	$ 5,401	$ -	$ 78,089
Agricultural land and production	29,958	-	-	-	29,958
Real Estate:					
Owner occupied	105,308	3,125	4,750	-	113,183
Real estate construction and other land loans	15,717	4,056	13,274	-	33,047
Commercial real estate	47,323	5,035	10,165	-	62,523
Agricultural real estate	40,808	1,788	-	-	42,596
Other real estate	7,672	220	-	-	7,892
Consumer:					
Equity loans and lines of credit	46,939	1,047	3,120	-	51,106
Consumer and installment	9,570	105	90	-	9,765
	$ 373,388	$ 17,971	$ 36,800	$ -	$ 428,159

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

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial:					
Commercial and industrial	$ 70,877	$ 3,827	$ 6,614	$ -	$ 81,318
Agricultural land and production	19,511	-	1,093	-	20,604
Real Estate:					
Owner occupied	100,278	6,336	5,274	-	111,888
Real estate construction and other land loans	10,286	6,330	15,422	-	32,038
Commercial real estate	49,294	3,118	11,215	-	63,627
Agricultural real estate	39,791	1,903	2,703	-	44,397
Other real estate	8,103	-	-	-	8,103
Consumer:					
Equity loans and lines of credit	52,004	1,900	4,956	-	58,860
Consumer and installment	11,126	-	135	-	11,261
	$ 361,270	$ 23,414	$ 47,412	$ -	$ 432,096

The following table shows an aging analysis of the loan portfolio by the time past due at December 31, 2011 (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	Non-accrual
Commercial:								
Commercial and industrial	$ 57	$ -	$ 236	$ 293	$ 77,796	$ 78,089	$ -	$ 267
Agricultural land and production	-	-	-	-	29,958	29,958	-	-
Real estate:								
Owner occupied	-	-	122	122	113,061	113,183	-	1,372
Real estate construction and other land loans	1,532	-	-	1,532	31,515	33,047	-	6,823
Commercial real estate	-	-	3,544	3,544	58,979	62,523	-	3,544
Agricultural real estate	-	-	-	-	42,596	42,596	-	-
Other real estate	-	-	-	-	7,892	7,892	-	-
Consumer:							-	
Equity loans and lines of credit	123	-	97	220	50,886	51,106	-	2,354
Consumer and installment	29	74	-	103	9,662	9,765	-	74
	$ 1,741	$ 74	$ 3,999	$ 5,814	$ 422,345	$ 428,159	$ -	$ 14,434

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table shows an aging 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	Non-accrual
Commercial:								
Commercial and industrial	$ 164	$ -	$ -	$ 164	$ 81,154	$ 81,318	$ -	$ 2,355
Agricultural land and production	-	-	-	-	20,604	20,604	-	-
Real estate:								
Owner occupied	863	-	-	863	111,025	111,888	-	3,777
Real estate construction and other land loans	-	-	5,634	5,634	26,404	32,038	-	7,827
Commercial real estate	2,316	-	726	3,042	60,585	63,627	-	1,828
Agricultural real estate	-	-	-	-	44,397	44,397	-	-
Other real estate	-	-	-	-	8,103	8,103	-	2,286
Consumer:							-	
Equity loans and lines of credit	-	-	180	180	58,680	58,860	-	-
Consumer and installment	78	-	-	78	11,183	11,261	-	488
	$ 3,421	$ -	$ 6,540	$ 9,961	$ 422,135	$ 432,096	$ -	$ 18,561

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table shows information related to impaired loans at and for the year ended December 31, 2011 (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	$ 2,140	$ 2,160	$ -	$ 1,090	$ -
Agricultural land and production	-	-	-	-	-
Total commercial	2,140	2,160	-	1,090	-
Real estate:					
Owner occupied	231	243	-	59	-
Real estate construction and other land loans	1,532	1,906	-	1,378	-
Commercial real estate	1,801	1,801	-	251	-
Agricultural real estate	-	-	-	-	-
Other real estate	-	-	-	-	-
Total real estate	3,564	3,950	-	1,688	-
Consumer:					
Equity loans and lines of credit	-	-	-	-	-
Consumer and installment	-	-	-	-	-
Total consumer	-	-	-	-	-
Total with no related allowance recorded	5,704	6,110	-	2,778	-
With an allowance recorded:					
Commercial:					
Commercial and industrial	1,717	1,718	231	669	181
Agricultural land and production	-	-	-	-	-
Total commercial	1,717	1,718	231	669	181
Real estate:					
Owner occupied	1,141	1,216	268	1,057	-
Real estate construction and other land loans	10,911	11,490	2,130	5,985	230
Commercial real estate	1,743	1,743	1,366	277	-
Agricultural real estate	-	-	-	-	-
Other real estate	-	-	-	-	-
Total real estate	13,795	14,449	3,764	7,319	230
Consumer:					
Equity loans and lines of credit	2,354	2,581	350	1,419	-
Consumer and installment	74	74	23	74	-
Total consumer	2,428	2,655	373	1,493	-
Total with an allowance recorded	17,940	18,822	4,368	9,481	411
Total	$ 23,644	$ 24,932	$ 4,368	$ 12,259	$ 411

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

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	$ 410	$ 435	$ -	$ 495	$ -
Agricultural land and production	-	-	-	-	-
Total commercial	410	435	-	495	-
Real estate:					
Owner occupied	1,775	2,147	-	1,115	-
Real estate construction and other land loans	1,885	2,056	-	2,667	-
Commercial real estate	1,828	1,834	-	1,521	-
Agricultural real estate	-	-	-	-	-
Other real estate	-	-	-	-	-
Total real estate	5,488	6,037	-	5,303	-
Consumer:					
Equity loans and lines of credit	1,228	1,245	-	649	-
Consumer and installment	-	-	-	-	-
Total consumer	1,228	1,245	-	649	-
Total with no related allowance recorded	7,126	7,717	-	6,447	-
With an allowance recorded:					
Commercial:					
Commercial and industrial	1,065	1,140	227	1,575	-
Agricultural land and production	-	-	-	-	-
Total commercial	1,065	1,140	227	1,575	-
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	-
Agricultural real estate	-	-	-	-	-
Other real estate	-	-	-	-	-
Total real estate	7,944	8,398	1,477	7,910	-
Consumer:					
Equity loans and lines of credit	2,426	2,459	420	1,628	-
Consumer and installment	-	-	-	91	-
Total consumer	2,426	2,459	420	1,719	-
Total with an allowance recorded	11,435	11,997	2,124	11,204	-
Total	$ 18,561	$ 19,714	$ 2,124	$ 17,651	$ -

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for net charge-offs.

Nonaccrual loans totaled $14,434,000 and $18,561,000 at December 31, 2011 and 2010, respectively. Foregone interest on nonaccrual loans totaled $954,000, $1,228,000, and $852,000 for the years ended December 31, 2011, 2010, and 2009, respectively. There were no accruing loans past due 90 days or more at December 31, 2011 or 2010.

Included in the impaired and nonaccrual loans above at December 31, 2011 are 11 loans considered troubled debt restructurings totaling $19,811,000.

Troubled Debt Restructurings:

The Company has allocated $3,217,000 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2011. The Company has committed to lend additional amounts totaling up to $302,000 as of December 31, 2011 to customers with outstanding loans that are classified as troubled debt restructurings.

During the year ending December 31, 2011 the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan or an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk. During the same period, there were no troubled debt restructurings in which the amount of principal or accrued interest owed from the borrower were forgiven.

Modifications involving a reduction of the stated interest rate occurred on one loan which will mature the first quarter of 2012. Modifications involving an extension of the maturity date were for periods ranging from one month to three years.

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2011 (in thousands):

	Number of Loans	Pre-Modification Outstanding Recorded Investment (1)	Principal Modification (2)	Post-Modification Outstanding Recorded Investment (3)	Outstanding Recorded Investment
Troubled Debt Restructurings:					
Commercial:					
Commercial and Industrial	2	$ 3,089	$ -	$ 3,089	$ 2,791
Total commercial	2	3,089	-	3,089	2,791
Real Estate:					
Owner occupied	1	1,074	-	1,074	1,019
Real estate-construction and other land loans	3	11,094	-	11,094	10,911
Commercial real estate	1	1,110		1,110	1,110
Total real estate	5	13,278	-	13,278	13,040
Consumer:					
Equity loans and line of credit	1	2,271	-	2,271	1,648
Total Consumer	1	2,271	-	2,271	1,648
	8	$ 18,638	$ -	$ 18,638	$ 17,479

(1) Amounts represent the recorded investment in loans before recognizing effects of the TDR, if any.

(2) Principal Modification includes principal forgiveness at the time of modification, contingent principal forgiveness granted over the life of the loan based on borrower performance, and principal that has been legally separated and deferred to the end of the loan, with zero percent contractual interest rate.

(3) Balance outstanding after principal modification, if any borrower reduction to recorded investment.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within 12 months following the modification during the year ended December 31, 2011 (in thousands):

	Number of Loans	Recorded Investment
Troubled Debt Restructurings That Subsequently Defaulted Real Estate:		
Commercial real estate	1	$ 1,110

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

The troubled debt restructurings described above resulted in an increase to the specific reserves added to the allowance for credit losses of $1,471,000 and resulted in no charge offs during the year ended December 31, 2011.

6. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following:

	December 31, 2011	December 31, 2010
	(In thousands)	
Land	$ 838	$ 580
Buildings and improvements	3,354	3,091
Furniture, fixtures and equipment	7,813	7,263
Leasehold improvements	3,599	3,569
	15,604	14,503
Less accumulated depreciation and amortization	(9,732)	(8,660)
	$ 5,872	$ 5,843

Depreciation and amortization included in occupancy and equipment expense totaled $1,212,000, $1,262,000 and $1,367,000 for the years ended December 31, 2011, 2010, and 2009, respectively.

7. OTHER REAL ESTATE OWNED

The Company had no other real estate owned (OREO) at December 31, 2011. At December 31, 2010 the Company had $1,325,000 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, 2011 and 2010.

	Year Ended December 31, 2011	Year Ended December 31, 2010
	(In thousands)	
Balance, Beginning of year	$ 1,325	$ 2,832
Additions	532	3,467
Dispositions	(2,472)	(4,449)
Write-downs	-	(591)
Net gain on disposition	615	66
Balance, End of year	$ -	$ 1,325

As of December 31, 2011 the Bank had no OREO properties. In 2011, the Bank foreclosed on three other loans collateralized by real estate with net realizable values totaling $527,000. During the year ended December 31, 2011, the remaining 12 units of the medical office condominium project along with the three other properties were sold. Proceeds from OREO sales totaled $2,472,000 during 2011. The Company realized a $615,000 net recovery from the sale of all units.

7. OTHER REAL ESTATE OWNED (Continued)

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. During the year ended December 31, 2010, the Company realized a $176,000 net recovery from the sale of one property and realized losses on the sale of two other properties totaling $109,000. The Company sold the third property for its carrying value. Thus, the Company realized a $66,000 net recovery from the sale of all property.

8. DEPOSITS

Interest-bearing deposits consisted of the following:

	December 31, 2011	December 31, 2010
	(In thousands)	
Savings	$ 31,267	$ 27,678
Money market	181,731	157,345
NOW accounts	140,268	114,473
Time, $100,000 or more	102,577	119,503
Time, under $100,000	49,118	57,629
	$ 504,961	$ 476,628

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

Years Ending December 31,	
2012	$ 140,169
2013	6,282
2014	2,365
2015	1,322
2016	1,556
Thereafter	1
	$ 151,695

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

	Years Ended December 31, 2011	2010	2009
		(In thousands)	
Savings	$ 47	$ 52	$ 49
Money market	692	1,035	1,262
NOW accounts	321	447	722
Time certificates of deposit	1,602	2,179	3,834
	$ 2,662	$ 3,713	$ 5,867

9. BORROWING ARRANGEMENTS

Federal Home Loan Bank Advances - Advances from the Federal Home Loan Bank (FHLB) of San Francisco at December 31, 2011 and 2010 consisted of the following:

December 31, 2011 Amount	December 31, 2010 Amount	Rate	Maturity Date
$ -	$ 5,000	3.00%	February 7, 2011
-	5,000	3.10%	February 14, 2011
4,000	4,000	3.59%	February 12, 2013
4,000	14,000		
-	(10,000)	Less short-term portion	
$ 4,000	$ 4,000	Long-term debt	

FHLB advances are secured by investment securities with amortized costs totaling $15,272,000 and $31,918,000 and market values totaling $15,683,000 and $33,214,000 at December 31, 2011 and 2010, respectively. The Bank's credit limit varies according to the amount and composition of the investment and loan portfolios pledged as collateral.

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

Lines of Credit - The Bank had unsecured lines of credit with its correspondent banks which, in the aggregate, amounted to $44,000,000 at December 31, 2011 and $39,000,000 at December 31, 2010, at interest rates which vary with market conditions. The Bank also had a line of credit in the amount of $551,000 and $1,321,000 with the Federal Reserve Bank of San Francisco at December 31, 2011 and 2010, respectively which bears interest at the prevailing discount rate collateralized by investment securities with amortized costs totaling $542,000 and $1,322,000 and market values totaling $562,000 and $1,354,000, respectively. At December 31, 2011 and 2010, the Bank had no outstanding short-term borrowings under these lines of credit.

10. 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, 2011, 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.

10. JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES (Continued)

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, 2011, the rate was 2.00%. Interest expense recognized by the Company for the years ended December 31, 2011, 2010 and 2009 was $100,000, $102,000 and $129,000, respectively.

11. INCOME TAXES

The provision for (benefit from) income taxes for the years ended December 31, 2011, 2010, and 2009 consisted of the following:

	Federal	State	Total
		(In thousands)	
2011			
Current	$ 686	$ (95)	$ 591
Deferred	893	377	1,270
Provision for income taxes	$ 1,579	$ 282	$ 1,861
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)

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 on management's analysis as of December 31, 2011, the Company established a deferred tax valuation allowance in the amount of $114,000 for California capital loss carryforwards.

Deferred tax assets (liabilities) consisted of the following:

	December 31,	
	2011	2010
	(In thousands)	
Deferred tax assets:		
Allowance for credit losses	$ 4,690	$ 4,370
Deferred compensation	3,660	3,445
Net operating loss carryover from acquisition	1,188	1,959
Bank premises and equipment	909	907
Mark to market adjustment	416	551
Other deferred taxes	231	682
Other then temporary impairment	282	653
Other real estate	-	566
Loan and investment impairment	352	383
State Enterprise Zone credit carry-forward	522	343
State capital loss carry-forward	114	120
Alternative minimum tax credit	530	138
State taxes	58	144
Other reserves	-	10
Partnership income	74	39
Total deferred tax assets	13,026	14,310
Valuation allowance	(114)	-
Net deferred tax asset after valuation allowance	12,912	14,310
Deferred tax liabilities:		
Finance leases	(2,650)	(2,581)
Unrealized gain on available-for-sale investment securities	(2,884)	(676)
Core deposit intangible	(322)	(493)
FHLB stock	(241)	(254)
Loan origination costs	(176)	(189)
Total deferred tax liabilities	(6,273)	(4,193)
Net deferred tax assets	$ 6,639	$ 10,117

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, 2011, 2010, and 2009 consisted of the following:

	2011	2010	2009
Federal income tax, at statutory rate	34.0 %	34.0 %	34.0 %
State taxes, net of Federal tax benefit	3.6 %	(3.7)%	(3.7)%
Tax exempt investment security income, net	(14.0)%	(34.7)%	(52.4)%
Bank owned life insurance, net	(1.6)%	(4.6)%	(6.9)%
Solar credits	(1.6)%	(5.4)%	(15.7)%
Change in uncertain tax positions	0.5 %	(1.3)%	7.7 %
Other	1.4 %	3.0 %	1.7 %
Effective tax rate	22.3 %	(12.7)%	(35.3)%

At December 31, 2011, the Company had Federal and California net operating loss ("NOL") carry-forwards of approximately $5,794,000 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. The Federal NOL will begin to expire in 2028. California suspended utilization of NOLs for 2009, 2010 and 2011 tax years for taxpayers with business income in excess of $500,000. The California NOL will begin to expire in 2019.

11. INCOME TAXES (Continued)

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, 2011, the Company had one state income tax examination in process. The outcome of the examination is not settled. There are currently no pending U.S. federal 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, 2008 and by the state and local taxing authorities for the years ended before December 31, 2007.

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

Balance at January 1, 2011	$	211
Additions based on tax positions related to the current year		57
Reductions for tax positions of prior years		(13)
Balance at December 31, 2011	$	255

Of this total, $255,000 represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

During the years ended December 31, 2011 and 2010, 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.

12. 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 $1,982,000, $1,922,000 and $1,796,000 for the years ended December 31, 2011, 2010, and 2009, respectively.

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

Years Ending December 31,		
2012	$	1,899
2013		1,892
2014		1,920
2015		1,746
2016		5,506
Thereafter		674
	$	13,637

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, 2011 was $25,000.

Correspondent Banking Agreements - The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. The Bank had no uninsured deposits at December 31, 2011.

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.

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

	December 31,			
	2011		2010	
	(In thousands)			
Commitments to extend credit	$	128,585	$	123,311
Standby letters of credit	$	420	$	369

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, 2011 and 2010. The Company recognizes these fees as revenue over the term of the commitment or when the commitment is used.

At December 31, 2011, commercial loan commitments represent approximately 50% of total commitments and are generally secured by collateral other than real estate or unsecured. Real estate loan commitments represent 39% 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 11% 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, 2011, in management's judgment, a concentration of loans existed in commercial loans and real-estate-related loans, representing approximately 97.7% of total loans of which 25.3% were commercial and 72.4% were real-estate-related.

At December 31, 2010, in management's judgment, a concentration of loans existed in commercial loans and real-estate-related loans, representing approximately 97.4% of total loans of which 23.6% were commercial and 73.8% 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.

13. 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, 2011 and 2010. There are no conditions or events since those notifications that management believes have changed those categories.

	December 31, 2011		December 31, 2010	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Tier 1 Leverage Ratio				
Central Valley Community Bancorp and Subsidiary	$ 82,571	10.13%	$ 70,669	9.48%
Minimum regulatory requirement	$ 32,612	4.00%	$ 29,832	4.00%
Central Valley Community Bank	$ 81,599	10.01%	$ 69,457	9.32%
Minimum requirement for "Well-Capitalized" institution	$ 40,743	5.00%	$ 37,264	5.00%
Minimum regulatory requirement	$ 32,594	4.00%	$ 29,811	4.00%
Tier 1 Risk-Based Capital Ratio				
Central Valley Community Bancorp and Subsidiary	$ 82,571	16.20%	$ 70,669	14.16%
Minimum regulatory requirement	$ 20,383	4.00%	$ 19,965	4.00%
Central Valley Community Bank	$ 81,599	16.02%	$ 69,457	13.92%
Minimum requirement for "Well-Capitalized" institution	$ 30,554	6.00%	$ 29,929	6.00%
Minimum regulatory requirement	$ 20,369	4.00%	$ 19,953	4.00%
Total Risk-Based Capital Ratio				
Central Valley Community Bancorp and Subsidiary	$ 89,136	17.49%	$ 76,982	15.42%
Minimum regulatory requirement	$ 40,767	8.00%	$ 39,931	8.00%
Central Valley Community Bank	$ 88,159	17.31%	$ 75,766	15.19%
Minimum requirement for "Well-Capitalized" institution	$ 50,923	10.00%	$ 49,881	10.00%
Minimum regulatory requirement	$ 40,738	8.00%	$ 39,905	8.00%

Dividends - No dividends on common shares were declared in 2011, 2010, or 2009.

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, 2011, retained earnings of $13,382,000 were free of such restrictions.

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. In August, 2011, the Company agreed to exchange of 258,862 shares of the Company's non-voting common stock to 258,862 shares of the Company's voting common stock. The issuance of voting common stock was conducted in a privately negotiated transaction exempt from registration pursuant to Sections 3(a)(9) and 4(2) of the Securities Act of 1933, as amended.

Capital Purchase Program - Small Business Lending Fund - On August 18, 2011, the Company entered into a Securities Purchase Agreement with the Small Business Lending Fund of the United States Department of the Treasury (the "Treasury"), under which the Company issued 7,000 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series C (the "Preferred Shares") to the Treasury for an aggregate purchase price of $7,000,000. Simultaneously, the Company agreed with Treasury under a Letter Agreement to redeem, for an aggregate price of $7,000,000, the 7,000 shares of the Company's Series A Fixed Rate Cumulative Preferred Stock ("Series A Stock")originally issued pursuant to the Treasury's Capital Purchase Program ("CPP") in 2009.The redemption of the Series A Stock resulted in an acceleration of the remaining discount booked at the time of the CPP transaction.

In connection with the repurchase of the Series A Stock, the Company also notified the Treasury of the Company's intent to repurchase the warrant (the "Warrant") to purchase 79,037 shares of the Company's common stock that was originally issued to Treasury in connection with the CPP transaction. On September 28, 2011, the Company completed the repurchase of the Warrant for total consideration of $185,000.

The Preferred Shares will qualify as Tier 1 capital and will pay non-cumulative dividends at an initial rate of 5% per annum. The dividend rate may vary, but not exceed 5%, with any reductions in interest rate to be calculated by reference to increases over a baseline amount in the Company's small business lending activities. The Preferred Stock may be redeemed by the Company, or by Treasury in the event that it is statutorily prevented from continuing to hold the Preferred Stock.

The Preferred Stock was issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

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

If dividends on the Series C Preferred Stock are not paid in full for six dividend periods, whether or not consecutive, the holders of the Series C 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, 2011.

13. SHAREHOLDERS' EQUITY (Continued)

A reconciliation of the numerators and denominators of the basic and diluted earnings per common share computations is as follows:

	For the Years Ended December 31,		
	2011	2010	2009
	(In thousands, except share and per share amounts)		
Basic Earnings Per Common Share:			
Net income	$ 6,477	$ 3,279	$ 2,588
Less: Preferred stock dividends and accretion	(486)	(395)	(365)
Income available to common shareholders	$ 5,991	$ 2,884	$ 2,223
Weighted average shares outstanding	9,522,066	9,209,858	7,685,789
Net income per common share	$ 0.63	$ 0.31	$ 0.29
Diluted Earnings Per Common Share:			
Net income	$ 6,477	$ 3,279	$ 2,588
Less: Preferred stock dividends and accretion	(486)	(395)	(365)
Income available to common shareholders	$ 5,991	$ 2,884	$ 2,223
Weighted average shares outstanding	9,522,066	9,209,858	7,685,789
Effect of dilutive stock options and warrants	16,596	80,813	117,975
Weighted average shares of common stock and common stock equivalents	9,538,662	9,290,671	7,803,764
Net income per diluted common share	$ 0.63	$ 0.31	$ 0.28

Outstanding options and warrants of 436,619, 531,996, and 512,301 were not factored into the calculation of dilutive stock options at December 31, 2011, 2010, and 2009, respectively, because they were anti-dilutive.

14. SHARE-BASED COMPENSATION

On December 31, 2011, the Company had two share-based compensation plans, which are described below. The Plans do not provide for the settlement of awards in cash and new shares are issued upon option exercise or restricted share grants.

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 416,769 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 94,250 shares reserved for issuance for options already granted to employees and 381,750 remain reserved for future grants as of December 31, 2011. 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.

No options to purchase shares of the Company's common stock were issued during the year ending December 31, 2011 from any of the company's stock based compensation plans. 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.

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

For the years ended December 31, 2011, 2010, and 2009, the compensation cost recognized for share based compensation was $196,000, $239,000, and $284,000, respectively. The recognized tax benefit for share based compensation expense was $36,000, $42,000, and $44,000 for 2011, 2010, and 2009, respectively.

14. SHARE-BASED COMPENSATION (Continued)

A summary of the combined activity of the Plans for the years ended December 31, 2011, 2010, and 2009 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, 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
Options outstanding at January 1, 2011	707,129			
Options exercised	(179,800)	$ 3.78		
Options canceled	(16,310)	$ 6.93		
Options outstanding at December 31, 2011	511,019	$ 8.56	3.92	$ 12
Options vested or expected to vest at December 31, 2011	494,692	$ 8.64	5.44	$ 12
Options exercisable at December 31, 2011	422,375	$ 9.11	3.08	$ 10

The weighted-average grant-date fair value of options granted during 2010, and 2009 was $2.58, and $1.33, respectively. There were no options granted in 2011.

The total intrinsic value of options exercised in the years ended December 31, 2011, 2010, and 2009 was $417,000, $349,000, and $51,000, respectively.

Cash received from options exercised for the years ended December 31, 2011, 2010, and 2009 was $680,000, $550,000, and $175,000, respectively. The tax benefit realized for the tax deductions from options exercised totaled $116,000, $28,000, and $7,000 for the years ended December 31, 2011, 2010, and 2009, respectively.

As of December 31, 2011, there was $197,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all Plans. The cost is expected to be recognized over a weighted average period of 2.85 years. The total fair value of options vested was $123,000 and $260,000 for the years ended December 31, 2011 and 2010, respectively.

15. 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 contributed $150,000 to the profit sharing plan in 2011. The Bank did not contribute to the profit sharing plan in 2010 or 2009.

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, 2011, 2010, and 2009, 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, 2011, 2010, and 2009, the Bank made matching contributions totaling $352,000, $336,000, and $301,000, 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, 2011). At December 31, 2011 and 2010, the total net deferrals included in accrued interest payable and other liabilities were $2,297,000 and $2,151,000, 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 $3,205,000, $3,106,000 and $3,006,000 at December 31, 2011, 2010, and 2009, respectively. Income recognized on these policies, net of related expenses, for the years ended December 31, 2011, 2010, and 2009 was $98,000, $100,000, and $97,000, 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. The expense recognized under these plans for the years ended December 31, 2011, 2010, and 2009 totaled $341,000, $450,000, and $407,000, respectively. Accrued compensation payable under the salary continuation plan totaled $3,764,000, $3,574,000 and $3,201,000 at December 31, 2011, 2010, and 2009, respectively

In connection with these plans, the Bank purchased single premium life insurance policies with cash surrender values totaling $4,393,000, $4,366,000 and $4,214,000 at December 31, 2011, 2010, and 2009, respectively. Income recognized on these policies, net of related expense, for the years ended December 31, 2011, 2010, and 2009 totaled $144,000, $152,000, and $155,000, 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, 2011 and 2010, the total amount of the liability was $1,694,000 and $1,636,000, respectively. Expense recognized by the Bank in 2011, 2010 and 2009 associated with these plans was $98,000, $95,000 and $22,000, respectively. These benefits are substantially equivalent to those available under split-dollar life insurance policies acquired. These single premium life insurance policies had cash surrender values totaling $4,057,000, $3,918,000 and $3,778,000 at December 31, 2011, 2010, and 2009, respectively. Income recognized on these policies, net of related

15. EMPLOYEE BENEFITS (Continued)

expenses, for the year ended December 31, 2011, 2010, and 2009 was $140,000, $140,000 and $139,000, respectively.

The current annual tax-free interest rate on all life insurance policies is 5.22%.

16. LOANS TO RELATED PARTIES

During the normal course of business, the Bank enters into loans with related parties, including executive officers and directors. The following is a summary of the aggregate activity involving related party borrowers (in thousands):

Balance, January 1, 2011	$ 809
Disbursements	410
Amounts repaid	(300)
Balance, December 31, 2011	$ 919
Undisbursed commitments to related parties, December 31, 2011	$ 1,391

17. 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, 2011, 2010, and 2009, the Company held securities classified as available-for-sale which had net unrealized gains or losses as follows:

	Before Tax	Tax (Expense) Benefit	After Tax
		(In thousands)	
For the Year Ended December 31, 2011			
Other comprehensive income:			
Unrealized holding gains	$ 5,632	$ (2,318)	$ 3,314
Less reclassification adjustment for net gains included in net income	267	(110)	157
Total other comprehensive income	$ 5,365	$ (2,208)	$ 3,157
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)

18. PARENT ONLY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS
December 31, 2011 and 2010
(In thousands)

	2011	2010
ASSETS		
Cash and cash equivalents	$ 969	$ 1,071
Investment in Bank subsidiary	111,357	101,346
Other assets	508	305
Total assets	$ 112,834	$ 102,722
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Junior subordinated debentures due to subsidiary grantor trust	$ 5,155	$ 5,155
Other liabilities	197	176
Total liabilities	5,352	5,331
Shareholders' equity:		
Preferred stock, Series A	-	6,864
Preferred stock, Series B	-	1,317
Preferred stock, Series C	7,000	-
Common stock	40,552	38,428
Retained earnings	55,806	49,815
Accumulated other comprehensive income, net of taxes	4,124	967
Total shareholders' equity	107,482	97,391
Total liabilities and shareholders' equity	$ 112,834	$ 102,722

CONDENSED STATEMENTS OF INCOME
For the Years Ended December 31, 2011, 2010, and 2009
(In thousands)

	2011	2010	2009
Income:			
Other income	$ 3	$ 3	$ 13
Total income	3	3	13
Expenses:			
Interest on junior subordinated deferrable interest debentures	100	102	129
Professional fees	148	147	30
Other expenses	352	329	295
Total expenses	600	578	454
Loss before equity in undistributed net income of Subsidiary	(597)	(575)	(441)
Equity in undistributed net income of Subsidiary, net of distributions	6,854	3,657	2,871
Income before income tax benefit	6,257	3,082	2,430
Benefit from income taxes	220	197	158
Net income	6,477	3,279	2,588
Preferred stock dividend and accretion of discount	486	395	365
Income available to common shareholders	$ 5,991	$ 2,884	$ 2,223

18. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011, 2010, and 2009
(In thousands)

	2011	2010	2009
Cash flows from operating activities:			
Net income	$ 6,477	$ 3,279	$ 2,588
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Undistributed net income of subsidiary, net of distributions	(6,854)	(3,657)	(2,871)
Stock-based compensation	196	239	284
Tax benefit from exercise of stock options	(116)	(28)	(7)
Net (increase) decrease in other assets	(50)	170	1,765
Net (decrease) increase in other liabilities	(23)	23	(140)
Provision for deferred income taxes	(36)	(43)	68
Net cash (used in) provided by operating activities	(406)	(17)	1,687
Cash flows used in investing activities:			
Investment in subsidiary	-	-	(16,578)
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	(307)	(349)	(277)
Proceeds from exercise of stock options	680	550	175
Warrant purchase	(185)	-	-
Tax benefit from exercise of stock options	116	28	7
Net cash provided in financing activities	304	229	14,663
(Decrease) increase in cash and cash equivalents	(102)	212	(228)
Cash and cash equivalents at beginning of year	1,071	859	1,087
Cash and cash equivalents at end of year	$ 969	$ 1,071	$ 859
Cash paid during the year for interest	$ 98	$ 101	$ 182
Non-Cash Investing and Financing Activities:			
Redemption of preferred stock Series A and issuance of preferred stock Series C	$ 7,000	$ -	$ -
Accrued Preferred Stock Dividend	$ 88	$ 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 sheet of Central Valley Community Bancorp and subsidiary (the "Company") as of December 31, 2011, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Central Valley Community Bancorp and subsidiary as of December 31, 2011, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Sacramento, California
March 21, 2012

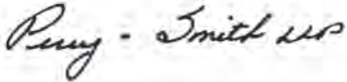
Report of
Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheet of Central Valley Community Bancorp and subsidiary (the "Company") as of December 31, 2010 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years ended December 31, 2010 and 2009. 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. An audit 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 the consolidated results of their operations and their cash flows for the years ended December 31, 2010 and 2009, in conformity with U.S. generally accepted accounting principles.



Sacramento, California
March 16, 2011

Selected
Consolidated Financial Data

Statements of Income	2011	2010	2009	2008	2007
	Years Ended December 31, (In thousands, except per share amounts)				
Total interest income	$ 34,299	$ 36,013	$ 40,734	$ 31,845	$ 32,566
Total interest expense	2,942	4,283	6,627	7,278	8,058
Net interest income before provision for credit losses	31,357	31,730	34,107	24,567	24,508
Provision for credit losses	1,050	3,800	10,514	1,290	480
Net interest income after provision for credit losses	30,307	27,930	23,593	23,277	24,028
Non-interest income	6,276	3,721	5,850	5,190	4,518
	36,583	31,651	29,443	28,467	28,546
Non-interest expenses	28,245	28,741	27,531	20,976	19,099
Income before (benefit from) provision for income taxes	8,338	2,910	1,912	7,491	9,447
(Benefit from) provision for income taxes	1,861	(369)	(676)	2,352	3,167
Net income	6,477	3,279	2,588	5,139	6,280
Preferred stock dividends and accretion of discount	486	395	365	-	-
Net income available to common shareholders	$ 5,991	$ 2,884	$ 2,223	$ 5,139	$ 6,280
Basic earnings per share	$ 0.63	$ 0.31	$ 0.29	$ 0.83	$ 1.05
Diluted earnings per share	$ 0.63	$ 0.31	$ 0.28	$ 0.79	$ 0.99
Cash dividends declared per common share	$ -	$ -	$ -	$ 0.10	$ 0.10

Balances at end of year:	2011	2010	2009	2008	2007
	December 31, (In Thousands)				
Investment securities, Federal funds sold and deposits in other banks	$ 353,808	$ 280,967	$ 232,142	$ 194,215	$ 98,909
Net loans	415,999	420,583	449,007	477,015	337,241
Total deposits	712,986	650,495	640,167	635,058	402,562
Total assets	849,023	777,594	765,488	752,713	483,685
Shareholders' equity	107,482	97,391	91,223	75,375	54,194
Earning assets	777,088	713,971	696,914	681,280	441,825
Average balances:					
Investment securities, Federal funds sold and deposits in other banks	$ 299,935	$ 231,761	$ 199,425	$ 125,932	$ 103,253
Net loans	417,273	444,418	473,850	362,333	327,665
Total deposits	677,789	636,166	632,263	445,285	417,691
Total assets	800,178	758,852	752,509	541,789	477,321
Shareholders' equity	103,386	96,174	83,400	58,251	51,754
Earning assets	715,862	672,804	671,906	492,414	436,564

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

Supplementary
Financial Information

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

	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Net interest income	$ 8,016	$ 7,949	$ 7,794	$ 7,598	$ 7,641	$ 8,173	$ 7,930	$ 7,986
Provision for credit losses	300	400	250	100	900	1,300	1,000	600
Net interest income after provision for credit losses	7,716	7,549	7,544	7,498	6,741	6,873	6,930	7,386
Total non-interest income	1,336	1,595	1,597	1,748	347	1,293	747	1,334
Total non-interest expense	6,803	7,222	7,067	7,153	6,986	7,409	7,142	7,204
(Benefit from) Provision for income taxes	541	514	301	505	(517)	(107)	31	224
Net income	$ 1,708	$ 1,408	$ 1,773	$ 1,588	$ 619	$ 864	$ 504	$ 1,292
Net income available to common shareholders	$ 1,622	$ 1,206	$ 1,674	$ 1,489	$ 520	$ 766	$ 405	$ 1,193
Basic earnings per share	$ 0.17	$ 0.13	$ 0.18	$ 0.16	$ 0.06	$ 0.08	$ 0.04	$ 0.13
Diluted earnings per share	$ 0.17	$ 0.13	$ 0.18	$ 0.16	$ 0.06	$ 0.08	$ 0.04	$ 0.13

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 the discussion of risk factors in Item 1A, "Risk Factors" in the Company's December 31, 2011 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 2011, 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 2011, the Company relocated the existing Modesto branch, a full service office, to a more desirable location. 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 and opened a limited service branch there. 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 dependent 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, 2011 was $0.63 compared to $0.31 and $0.28 for the years ended December 31, 2010, and 2009, respectively. Net income for 2011 was $6,477,000 compared to $3,279,000 and $2,588,000 for the years ended December 31, 2011, 2010 and 2009, respectively. The increase in net income and EPS was primarily driven by lower provision for credit losses, decreases in non-interest expense and increases in non-interest income, partially offset by decreases in net interest income in 2011 compared to 2010. Total assets at December 31, 2011 were $849,023,000 compared to $777,594,000 at December 31, 2010.

Return on average equity for 2011 was 6.26% compared to 3.41% and 3.10% for 2010 and 2009, respectively. Return on average assets for 2011 was 0.81% compared to 0.43% and 0.34% for 2010 and 2009, respectively. Total equity was $107,482,000 at December 31, 2011 compared to $97,391,000 at December 31, 2010. The increase in assets and equity in 2011 compared to 2010 is due to an increase in deposits and increases in other comprehensive income and retained earnings and the exercise of stock options.

Average total loans decreased $27,049,000 or 5.94% to $428,291,000 in 2011 compared to $455,340,000 in 2010. In 2011, we recorded a provision for credit losses of $1,050,000 compared to $3,800,000 in 2010 and $10,514,000 in 2009. The Company had nonperforming assets totaling $14,434,000 at December 31, 2011. Nonperforming assets included nonaccrual loans totaling $14,434,000. At December 31, 2010 nonperforming assets totaled $19,984,000 consisting of $18,561,000 in nonaccrual loans, other real estate owned of $1,325,000 and $98,000 in other assets. Net charge-offs for 2011 were $668,000 compared to $2,986,000 for 2010 and $7,537,000 for 2009. 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 6.26% for the year ended 2011 compared to 3.41% and 3.10% for the years ended 2010 and 2009, respectively. In 2011, compared to 2010 we experienced an increase in net income and an increase in capital due to increases in retained earnings, other comprehensive income, and the exercise of stock options.

Our net income for the year ended December 31, 2011 increased $3,198,000 compared to 2010 and increased $691,000 for 2010 compared to 2009. During 2011 net income increased primarily due to a decrease in the provision for credit losses, decreases in non-interest expense and increases in non-interest income, partially offset by decreases in net interest income in 2011 compared to 2010. Net interest income decreased because of decreases in loan and investment income, partially offset by decreases in interest expense on deposits. Non-interest income increased due to an Other-Than-Temporary-Impairment (OTTI) charge of $31,000 in 2011, compared to $1,587,000 in 2010, an increase in net realized gains on sales and calls of investment securities of $489,000, a $142,000 gain related to the final distribution of the Service 1st escrow account, an $85,000 gain related to the collection of life insurance proceeds, and an increase in gain of other real estate owned of $439,000.

Non-interest expenses decreased in 2011 compared to 2010 primarily due to decrease in OREO expenses of $1,056,000, legal fees of $160,000, and regulatory assessment of $346,000, partially offset by increases in salaries and employee benefits of $891,000. During 2011, our net interest margin (NIM) decreased 32 basis points compared to 2010. Basic EPS was $0.63 for 2011 compared to $0.31 and $0.29 for 2010 and 2009, respectively. Diluted EPS was $0.63 for 2011 compared to $0.31 and $0.28 for 2010 and 2009, respectively. The increase in EPS in 2011 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 2011 was 0.81% compared to 0.43% and 0.34% for the years ended December 31, 2010 and 2009, respectively. The 2011 increase in ROA is due to the increase in net income, notwithstanding an increase in average assets. Annualized ROA for our peer group was 0.37% at December 31, 2011. 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 4.63% for the year ended December 31, 2011, compared to 4.95% and 5.31% for the years ended December 31, 2010 and 2009, respectively. The decrease in net interest margin compared to 2010 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 55 basis points, while the cost of total interest-bearing liabilities decreased 27 basis points and the cost of total deposits decreased 19 basis points. Our cost of total deposits in 2011 was 0.39% compared to 0.58% for the same period in 2010 and 0.93% for the year ended December 31, 2009. Our net interest income before provision for credit losses decreased $373,000 or 1.18% to $31,357,000 for the year ended 2011 compared to $31,730,000 and $34,107,000 for the years ended 2010 and 2009, 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 2011 increased $2,555,000 or 68.66% to $6,276,000 compared to $3,721,000 in 2010 and $5,850,000 in 2009. Customer service charges decreased $322,000 or 9.98% to $2,903,000 in 2011 compared to $3,225,000 and $3,509,000 in 2010 and 2009, 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 $14,434,000 and $19,984,000 at December 31, 2011 and 2010, respectively. Nonperforming assets included nonaccrual loans totaling $14,434,000 or 3.38% of gross loans as of December 31, 2011 and $18,561,000 or 4.30% of gross loans as of December 31, 2010. 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 9.19% during 2011 to $849,023,000 as of December 31, 2011 from $777,594,000 as of December 31, 2010. Total gross loans decreased 0.97% to $427,395,000 as of December 31, 2011, compared to $431,597,000 at December 31, 2010. Total investment securities and Federal funds sold increased 71.60% to $329,341,000 as of December 31, 2011 compared to $191,925,000 as of December 31, 2010. Total deposits increased 9.61% to $712,986,000 as of December 31, 2011 compared to $650,495,000 as of December 31, 2010. Our loan to deposit ratio at December 31, 2011 was 59.94% compared to 66.35% at December 31, 2010. The loan to deposit ratio of our peers was 74.42% at December 31, 2011.

Capital Adequacy

At December 31, 2011, we had a total capital to risk-weighted assets ratio of 17.49%, a Tier 1 risk-based capital ratio of 16.20% and a leverage ratio of 10.13%. 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, 2011, on a stand-alone basis, the Bank had a total risk-based capital ratio of 17.31%, a Tier 1 risk based capital ratio of 16.02% and a leverage ratio of 10.01%. At December 31, 2010, the Bank had a total risk-based capital ratio of 15.19%, Tier 1 risk-based capital of 13.92% and a leverage ratio of 9.32%. The improvement in 2011 is due to an increase in risk adjusted capital while risk weighted assets decreased. *Note 13* of the audited Consolidated Financial Statements provides more detailed information concerning the Company's capital amounts and ratios.

OVERVIEW (Continued)

Operating Efficiency

Operating efficiency is the measure of how efficiently earnings before taxes are generated as a percentage of revenue. A lower ratio represents greater efficiency. 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 75.67% for 2011 compared to 73.53% for 2010 and 67.31% for 2009. The decline in the efficiency ratio in 2011 and 2010 is due to an increase in operating expenses and a decrease in net interest income. The efficiency ratio in 2009 improved as compared to 2008 due to an increase in net interest income and non-interest income. The Company's net interest income before provision for credit losses plus non-interest income increased 6.15% to $37,633,000 in 2011 compared to $35,451,000 in 2010 and $39,957,000 in 2009, while operating expenses decreased 1.73% in 2011. Operating expenses increased 4.40% in 2010, and 31.25% in 2009.

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 $44,000,000 and secured borrowing lines of approximately $125,122,000 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 $373,217,000 or 43.96% of total assets at December 31, 2011 and $292,324,000 or 37.59% of total assets as of December 31, 2010.

RESULTS OF OPERATIONS

NET INCOME

Net income was $6,477,000 in 2011 compared to $3,279,000 and $2,588,000 in 2010 and 2009, respectively. Basic earnings per share was $0.63, $0.31, and $0.29 for 2011, 2010, and 2009, respectively. Diluted earnings per share was $0.63, $0.31, and $0.28 for 2011, 2010 and 2009, respectively. ROE was 6.26% for 2011 compared to 3.41% for 2010 and 3.10% for 2009. ROA for 2011 was 0.81% compared to 0.43% for 2010 and 0.34% for 2009.

The increase in net income for 2011 compared to 2010 can be attributed to the decrease in the provision for credit losses and an increase in non-interest income, partially offset by decrease in interest income and increase in provision 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.

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, 2011			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	Average Balance	Interest Income/ Expense	Average Interest Rate
ASSETS									
Interest-earning deposits in other banks	$ 73,016	$ 187	0.26%	$ 42,047	$ 110	0.26%	$ 3,008	$ 8	0.27%
Securities									
Taxable securities	150,559	4,548	3.02%	124,163	5,472	4.41%	114,465	7,701	6.73%
Non-taxable securities (1)	75,665	5,248	6.94%	64,838	4,605	7.10%	64,325	4,632	7.20%
Total investment securities	226,224	9,796	4.33%	189,001	10,077	5.33%	178,790	12,333	6.90%
Federal funds sold	695	2	0.29%	713	2	0.28%	17,627	48	0.27%
Total securities	299,935	9,985	3.33%	231,761	10,189	4.40%	199,425	12,389	6.21%
Loans (2) (3)	412,969	26,098	6.32%	437,959	27,390	6.25%	469,341	29,920	6.37%
Federal Home Loan Bank stock	2,958	9	0.30%	3,084	11	0.36%	3,140	7	0.22%
Total interest-earning assets	715,862	$ 36,092	5.04%	672,804	$ 37,590	5.59%	671,906	$ 42,316	6.30%
Allowance for credit losses	(11,018)			(10,922)			(8,608)		
Nonaccrual loans	15,322			17,381			13,117		
Other real estate owned	217			2,972			2,553		
Cash and due from banks	17,977			16,479			17,401		
Bank premises and equipment	5,788			6,089			6,629		
Other non-earning assets	56,030			54,049			49,511		
Total average assets	$ 800,178			$ 758,852			$ 752,509		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
Savings and NOW accounts	$ 154,765	$ 368	0.24%	$ 142,350	$ 498	0.35%	$ 131,818	$ 771	0.58%
Money market accounts	174,049	692	0.40%	157,761	1,036	0.66%	136,104	1,262	0.93%
Time certificates of deposit, under $100,000	70,111	688	0.98%	69,066	866	1.25%	90,614	1,922	2.12%
Time certificates of deposit, $100,000 and over	96,620	914	0.95%	114,043	1,313	1.15%	120,579	1,912	1.59%
Total interest-bearing deposits	495,545	2,662	0.54%	483,220	3,713	0.77%	479,115	5,867	1.22%
Other borrowed funds	10,265	280	2.73%	19,634	570	2.90%	29,987	760	2.53%
Total interest-bearing liabilities	505,810	$ 2,942	0.58%	502,854	$ 4,283	0.85%	509,102	$ 6,627	1.30%
Non-interest bearing demand deposits	182,244			152,946			153,148		
Other liabilities	8,738			6,878			6,859		
Shareholders' equity	103,386			96,174			83,400		
Total average liabilities and shareholders' equity	$ 800,178			$ 758,852			$ 752,509		
Interest income and rate earned on average earning assets		$ 36,092	5.04%		$ 37,590	5.59%		$ 42,316	6.30%
Interest expense and interest cost related to average interest-bearing liabilities		2,942	0.58%		4,283	0.85%		6,627	1.30%
Net interest income and net interest margin (4)		$ 33,150	4.63%		$ 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 $1,784, $1,566, and $1,575 in 2011, 2010, and 2009, respectively.

(2) Loan interest income includes loan fees of $399 in 2011, $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 $1,292,000 or 4.72% in 2011 compared to 2010. Interest and fee income decreased $2,530,000 or 8.46% in 2010 compared to 2009. The decrease in 2011 is attributable to a decrease in average total loans outstanding combined with a 7 basis point decrease in the yield on loans. The decrease in 2010 is attributable to a decrease in average total loans outstanding and a 12 basis point decrease in yield on loans in 2010 compared to 2009. Average total loans for 2011 decreased $27,049,000 to $428,291,000 compared to $455,340,000 for 2010 and $482,458,000 for 2009. The yield on loans for 2011 was 6.32% compared to 6.25% and 6.37% for 2010 and 2009, respectively.

INTEREST INCOME AND EXPENSE (Continued)

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 $422,000 or 4.89% in 2011 compared to 2010 primarily due to a $68,174,000 increase in the average balance to $299,935,000 in 2011 compared to $231,761,000 in 2010, coupled with a decrease in yield on investments of 107 basis points. In 2010, total investment income decreased $2,191,000 or 20.26% from 2009 primarily due to a 16.21% increase in the average balances of these investments and a 181 basis point increase in the yields earned. Average total investments for 2010 were $231,761,000 compared to $199,425,000 for 2009.

A significant portion of the investment portfolio is mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs). At December 31, 2011, we held $211,942,000 or 64.54% of the total market value of the investment portfolio in MBS and CMOs with an average yield of 2.90%. 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 $4,124,000 and is reflected in the Company's equity. At December 31, 2011, the average life of the investment portfolio was five years and the market value reflected a pre-tax gain of $7,008,000. Management reviews market value declines on individual investment securities to determine whether they represent other-than-temporary impairment (OTTI) and recorded a $31,000 OTTI loss for the year ended December 31, 2011. 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. Measured at December 31, 2011, an immediate rate increase of 200 basis points would result in an estimated decrease in the market value of the investment portfolio by approximately $26,725,000. Conversely, with an immediate rate decrease of 200 basis points, the estimated increase in the market value of the investment portfolio would be $32,215,000. 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 2011 decrease $1,714,000 to $34,299,000 compared to $36,013,000 in 2010 and $40,734,000 in 2009. The decrease was due to the 55 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 5.04% for the year ended December 31, 2011 from 5.59% for the year ended December 31, 2010. Average interest earning assets increased to $715,862,000 for the year ended December 31, 2011 compared to $672,804,000 for the year ended December 31, 2010. Average interest-earning deposits in other banks increased $30,969,000 comparing 2011 to 2010. Average yield on these deposits was 0.26%. Average investments increased $37,223,000 but the tax equivalent yield on average investments decreased 100 basis points. Average loans decreased $27,049,000 and the yield on average loans decreased 7 basis points.

The decrease in total interest income in 2010 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 to $672,804,000 for the year ended December 31, 2010 compared to $671,906,000 for the year ended December 31, 2009.

Interest expense on deposits in 2011 decreased $1,051,000 or 28.31% to $2,662,000 compared to $3,713,000 in 2010 and $5,867,000 in 2009. The decrease in interest expense in 2011 compared to 2010 was primarily due to the repricing of interest-bearing deposits which decreased 23 basis points to 0.54% in 2011 from 0.77% in 2010. This decrease was partially offset by a $12,325,000 or 2.55% increase in average interest-bearing deposits. The decrease in interest expense in 2010 compared to 2009 was due to repricing of interest-bearing deposits, which decreased 45 basis points to 0.77% in 2010 from1.22% in 2009, as a result of the decreases in the Federal funds interest rate. Average interest-bearing deposits were $495,545,000 for 2011 compared to $483,220,000 and $479,115,000 for 2010 and 2009, respectively. The increases in average interest-bearing deposits in 2010 and 2009 were the result of our own organic growth.

Average other borrowings decreased to $10,265,000 with an effective rate of 2.73% for 2011 compared to $19,634,000 with an effective rate of 2.90% for 2010. In 2009, the average other borrowings were $29,987,000 with an effective rate of 2.53%. 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 3.59% for 2011 and 3.20% for 2010 and 3.08% for 2009.

The cost of all of our interest-bearing liabilities decreased 27 basis points to 0.58% for 2011 compared to 0.85% for 2010 and 1.30% for 2009. The cost of total deposits decreased to 0.39% for the year ended December 31, 2011 compared to 0.58% and 0.93% for the years ended December 31, 2010 and 2009, respectively. Average demand deposits increased 19.16% to $182,244,000 in 2011 compared to $152,946,000 for 2010 and $153,148,000 for 2009. The ratio of non-interest demand deposits to total deposits increased to 26.89% for 2011 compared to 24.04% and 24.22% for 2010 and 2009, respectively.

NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES

Net interest income before provision for credit losses for 2011 decreased $373,000 or 1.18% to $31,357,000 compared to $31,730,000 for 2010 and $34,107,000 for 2009. The decrease in 2011 was due to the 32 basis point decrease in our net interest margin (NIM). Yield on interest earning assets decreased 55 basis points while the effective rate on interest bearing liabilities only decreased 27 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 decreased $2,377,000 in 2010 compared to 2009 mainly due to the 36 basis point decrease in our net interest margin (NIM). Average interest-earning assets were $715,862,000 for the year ended December 31, 2011 with a net interest margin (NIM) of 4.63% compared to $672,804,000 with a NIM of 4.95% in 2010, and $671,906,000 with a NIM of 5.31% in 2009. 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.

PROVISION FOR CREDIT LOSSES (Continued)

Loans are charged off when they are considered uncollectible or of such little value that continuance as an active earning bank asset is not warranted.

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

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

The allowance for credit losses is reviewed at least quarterly by the Board's Audit/Compliance Committee and by the Board of Directors. Reserves are allocated to loan portfolio categories using percentages which are based on both historical risk elements such as delinquencies and losses and predictive risk elements such as economic, competitive and environmental factors. We have adopted the specific reserve approach to allocate reserves to each impaired asset for the purpose of estimating potential loss exposure. Although the allowance for credit losses is allocated to various portfolio categories, it is general in nature and available for the loan portfolio in its entirety. Additions may be required based on the results of independent loan portfolio examinations, regulatory agency examinations, or our own internal review process. Additions are also required when, in management's judgment, the allowance does not properly reflect the portfolio's probable loss exposure.

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

Loan Type (Dollars in thousands)	December 31, 2011	% of Total Loans	December 31, 2010	% of Total Loans
Commercial:				
Commercial and industrial	$ 1,924	18.3%	$ 2,229	18.8%
Agricultural land and production	342	7.0%	208	4.8%
Real estate:				
Owner occupied	1,578	26.4%	1,978	25.9%
Real estate construction and other land loans	2,954	7.7%	1,791	7.4%
Commercial real estate	2,043	14.6%	1,387	14.7%
Agricultural real estate	489	9.9%	466	10.3%
Other real estate	91	1.8%	214	1.9%
Total real estate	7,155	60.4%	5,836	60.2%
Consumer:				
Equity loans and lines of credit	1,419	12.0%	1,975	13.6%
Consumer and installment	417	2.3%	528	2.6%
Unallocated reserves	139		238	
Total allowance for credit losses	$ 11,396		$ 11,014	

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.

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 2011, 2010 and 2009 were $1,050,000, $3,800,000, and $10,514,000, 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, 2011, the Company had net charge offs totaling 668,000 compared to 2,986,000 and 7,537,000 for the same periods in 2010 and 2009, respectively. The decrease in provision for credit losses in 2011 compared to 2010 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 0.16%, 0.66% and 1.56% for 2011, 2010, and 2009, respectively.

Nonperforming loans were $14,434,000 and $18,561,000 at December 31, 2011 and 2010, respectively. Nonperforming loans as a percentage of total loans were 3.38% at December 31, 2011 compared to 4.30% at December 31, 2010. There was no other real estate owned at December 31, 2011 compared to $1,325,000 net of a valuation allowance of $309,000 at December 31, 2010 and $2,832,000 net of a valuation allowance of $356,000 in 2009.

Losses in the real estate segments of the loan portfolio in 2011 decreased compared to 2010. With real estate appraised values reflecting lower levels, additions to the reserves were required. We had loans past due, not including non accrual loans, totaling $1,741,000 at December 31, 2011 compared to $3,421,000 at December 31, 2010. 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 2011 has had a considerable impact on the ability of certain borrowers to satisfy their obligations, resulting in loan downgrades and corresponding increases in credit loss provisions. Additionally, we estimate the impact certain economic factors will have on various credits within the portfolio. Negative economic trends contributed substantially to increases in the required allowance to cover probable 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, 2011, we believe, based on all current and available information, the allowance for credit losses is adequate to absorb current estimable losses within the loan portfolio. However, no assurance can be given that we may not sustain charge-offs which are in excess of the allowance in any given period. Refer to "Allowance for Credit Losses" below for further information.

NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES

Net interest income, after the provision for credit losses of $1,050,000 in 2011, $3,800,000 in 2010, and $10,514,000 in 2009, was $30,307,000 for 2011 compared to $27,930,000 and $23,593,000 for 2010 and 2009, 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 $6,276,000 in 2011 compared to $3,721,000 and $5,850,000 in 2010 and 2009, respectively. The $2,555,000 or 68.66% increase in non-interest income was due to increases in gains on sales and calls of investment securities, a gain on disposal of other real estate owned, and a decrease in other-than-temporary impairment write down on certain investment securities. The $2,129,000 decrease in non-interest income comparing 2010 to 2009 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.

Customer service charges decreased $322,000 to $2,903,000 in 2011 compared to $3,225,000 in 2010 and $3,509,000 in 2009. The decrease from 2011 to 2010 and 2010 to 2009 is mainly due to decreases in overdraft fee income.

During the year ended December 31, 2011, we realized net gain on sales and calls of investment securities of $298,000 from sales and calls of securities. In

NON-INTEREST INCOME (Continued)

2010 we realized a net loss of $191,000 compared to a net gain of $766,000 in 2009 from sales and calls of securities. In 2009, investment securities that had been marked to market when we acquired Service 1st were subsequently called at par value resulting in gains. For the year ended December 31, 2011, we realized a $31,000 other-than-temporary impairment write down on certain investment securities. See *Footnote 3* to the audited Consolidated Financial Statements for more detail.

Income from the appreciation in cash surrender value of bank owned life insurance (BOLI) totaled $382,000 in 2011 compared to $392,000 and $391,000 in 2010 and 2009, respectively. 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 decreased $26,000 in 2011 to $274,000 compared to $300,000 in 2010 and $231,000 in 2009. Fees were higher in 2011 and 2010, compared to 2009, as 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, 2011 we held $2,893,000 in FHLB stock compared to $3,050,000 at December 31, 2010. Dividends in 2011 decreased to $9,000 compared to $11,000 in 2010 and $7,000 in 2009.

Other income increased to $1,826,000 in 2011 compared to $1,395,000 and $1,246,000 in 2010 and 2009, respectively. The period-to-period increases in 2011 compared to 2010 and 2009 were due to an increase in electronic funds transfer fee income, a $142,000 gain related to the final distribution of the Service 1st escrow account, and an $85,000 gain related to the collection of life insurance proceeds.

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 decreased $496,000 or 1.73% to $28,245,000 in 2011 compared to $28,741,000 in 2010, which was an increase of $1,210,000 in 2010 compared to $27,531,000 in 2009.

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 75.67% for 2011 compared to 73.53% for 2010 and 67.31% for 2009. The decline in the efficiency ratio in 2011 resulted from an increase in operating expense and a decrease in net interest income. Our efficiency ratio deteriorated in 2010 compared to 2009 due to a 112.77% decrease in net interest income plus non-interest income.

Salaries and employee benefits increased 891,000 or 5.99% to $15,762,000 in 2011 compared to $14,871,000 in 2010 and $13,926,000 in 2009. The increase in salaries and employee benefits for the 2011 period can be attributed to normal cost increases. Full time equivalents were 210 at December 31, 2011 compared to 217 at December 31, 2010. The increase in salaries and employee benefits in 2010 compared to 2009 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.

At December 31, 2011 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 416,769 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 94,250 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, 2011, 2010 and 2009, the compensation cost recognized for share based compensation was $196,000, $239,000 and $284,000, respectively.

As of December 31, 2011, there was $197,000 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 2.5 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.

Occupancy and equipment expense decreased $72,000 or 1.86% to $3,795,000 in 2011 compared to $3,867,000 in 2010 and $3,812,000 in 2009. 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.

Regulatory assessments decreased $346,000 or 29.05% to $845,000 in 2011 compared to $1,191,000 and $1,604,000 in 2010 and 2009, respectively. The FDIC finalized a new assessment system which took effect the third quarter of 2011. That final rule changed the assessment base from domestic deposits to average assets minus average tangible equity. There was no special assessment in 2010 which is the main reason for the decrease comparing 2010 to 2009. The FDIC imposed Special Assessment of $343,000 that was effective during the second quarter of 2009.

Data processing expenses were $1,178,000 in 2011 compared to $1,197,000 in 2010 and $1,316,000 in 2009. The $19,000 or 1.59% decrease in 2011, and the $119,000 decrease in 2010 compared to 2009 is a result of a reduction in terms of our core processing contract.

Legal fees decreased $160,000 or 32.32% to $335,000 for the year ended December 31, 2011 compared to $495,000 and $330,000 in 2010 and 2009, respectively. The higher legal fees in 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 decreased $1,056,000 or 98.60% to $15,000 for the year ended December 31, 2011 compared to $1,071,000 for the same period in 2010. OREO expenses in 2010 were 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 $109,000 loss on disposition of OREO property for the year ended December 31, 2010.

Amortization of core deposit intangibles was $414,000 for the years ended December 31, 2011, 2010 and 2009.

Other non-interest expenses increased $210,000 or 4.71% to $4,670,000 in 2011 compared to $4,460,000 in 2010 and $4,370,000 in 2009.

NON-INTEREST EXPENSES (Continued)

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

	For the years ended December 31,					
	2011		2010		2009	
	Other Expense	% Average Assets	Other Expense	% Average Assets	Other Expense	% Average Assets
	(Dollars in thousands)					
ATM/debit card expenses	$ 369	0.05%	$ 354	0.05%	$ 419	0.06%
Consulting	340	0.04%	212	0.03%	454	0.06%
License and maintenance contracts	324	0.04%	275	0.04%	251	0.03%
Stationery/supplies	245	0.03%	271	0.04%	271	0.04%
Telephone	236	0.03%	305	0.04%	272	0.04%
Amortization of software	232	0.03%	195	0.03%	194	0.03%
Director fees and related expenses	219	0.03%	209	0.03%	205	0.03%
Postage	198	0.02%	218	0.03%	233	0.03%
Donations	154	0.02%	148	0.02%	99	0.01%
Education/training	160	0.02%	139	0.02%	85	0.01%
Operating losses	125	0.02%	44	0.01%	47	0.01%
General insurance	125	0.02%	130	0.02%	144	0.02%
Appraisal fees	112	0.01%	165	0.02%	125	0.02%
Other	1,831	0.23%	1,795	0.24%	1,571	0.21%
Total other non-interest expense	$ 4,670	0.58%	$ 4,460	0.59%	$ 4,370	0.58%

For the year ended December 31, 2011, the $128,000 increase in consulting was related to assistance various financial and tax planning projects. License and maintenance contract expense increased in 2011 as a result of annual increases on various contracts in addition to new contracts for new products, services and software put in place during 2010. In 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 22.32% for 2011 compared to (12.68%) for 2010 and (35.36%) for 2009. The Company reported an income tax provision of $1,861,000 for the year ended December 31, 2011, compared to a benefit totaling $369,000 and $676,000 for the years ended December 31, 2010 and 2009, respectively. The increase in the effective tax rate in 2011 compared to 2010 was a result of an increase in net income before tax.

PREFERRED STOCK DIVIDENDS AND ACCRETION

On August 18, 2011, the Company entered into a Securities Purchase Agreement with the Small Business Lending Fund of the United States Department of the Treasury (the "Treasury"), under which the Company issued 7,000 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series C (the "Preferred Shares") to the Treasury for an aggregate purchase price of $7,000,000. Simultaneously, the Company agreed with Treasury under a Letter Agreement to redeem, for an aggregate price of $7,000,000, the 7,000 shares of the Company's Series A Fixed Rate Cumulative Preferred Stock ("Series A Stock")originally issued pursuant to the Treasury's Capital Purchase Program ("CPP") in 2009. The redemption of the Series A Stock resulted in an acceleration of the remaining discount booked at the time of the CPP transaction.

In connection with the repurchase of the Series A Stock, the Company also notified the Treasury of the Company's intent to repurchase the warrant (the "Warrant") to purchase 79,037 shares of the Company's common stock that was originally issued to Treasury in connection with the CPP transaction. On September 28, 2011, the Company completed the repurchase of the Warrant for total consideration of $185,000.

We accrued preferred stock dividends to the Treasury and accretion of the issuance discount in the amount of $486,000 and $395,000 during the years ended December 31, 2011 and 2010, respectively.

FINANCIAL CONDITION

SUMMARY OF CHANGES IN CONSOLIDATED BALANCE SHEETS

December 31, 2011 compared to December 31, 2010

As of December 31, 2011, total assets were $849,023,000 an increase of 9.19%, or $71,429,000 compared to $777,594,000 as of December 31, 2010. Total gross loans decreased 0.97%, or $4,202,000 to $427,395,000 as of December 31, 2011 compared to $431,597,000 as of December 31, 2010. Total investment portfolio increased 71.65% to $328,413,000. Total deposits increased 9.61%, or $62,491,000 to $712,986,000 as of December 31, 2011 compared to $650,495,000 as of December 31, 2010. Shareholders' equity increased 10.36%, or $10,091,000, to $107,482,000 as of December 31, 2011 compared to $97,391,000 as of December 31, 2010.

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 2* 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, 2011, investment securities with a fair value of $109,119,000, or 33.23% 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, 2011 was 59.94% compared to 66.35% at December 31, 2010. The loan to deposit ratio of our peers was 74.42% at December 31, 2011. The total investment portfolio, including Federal funds sold, increased 71.60% or $137,416,000 to $328,413,000 at December 31, 2011 from $191,325,000 at December 31, 2010 primarily due to purchases of securities. The market value of the portfolio reflected an unrealized gain of $7,008,000 at December 31, 2011 compared to $1,643,000 at December 31, 2010.

INVESTMENTS (Continued)

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 December 31, 2011, the Company performed an analysis of the investment portfolio to determine whether any of the investments held in the portfolio had an other-than-temporary impairment (OTTI). 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 original yield expected at time of purchase.

As of December 31, 2011, the Company performed an analysis of the investment portfolio to determine whether any of the investments held in the portfolio had an other-than-temporary impairment (OTTI). Management evaluated all available-for-sale investment securities with an unrealized loss at December 31, 2011, and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at December 31, 2011 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 November 2011 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 most likely 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 original yield at time of purchase) 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 December 31, 2011. In performing the cash flow analysis for each security, the Company uses a third-party model. The model considers borrower characteristics and the particular attributes of the loans underlying the Company's securities, in conjunction with assumptions about future changes in home prices and other assumptions, to project prepayments, default rates, and loss severities.

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

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

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

At December 31, 2011, the Company had a total of 27 PLRMBS with a remaining principal balance of $8,408,000 and a net unrealized loss of approximately $1,010,000. Eight of these securities account for $1,255,000 of the unrealized loss at December 31, 2011 offset by 19 of these securities with gains totaling $245,000. Seven of these PLRMBS with a remaining principal balance of $6,224,000 had credit ratings below investment grade. The Company continues to perform extensive analyses on these securities as well as all whole loan CMOs. Several of these investment securities continue to demonstrate cash flows and credit support as expected and the expected cash flows of the security discounted at the security's original yield at time of purchase are greater than the book value of the security, therefore management does not consider these securities to be other than temporarily impaired. No credit related OTTI charges related to PLRMBS were recorded during the year ended December 31, 2011.

See *Note 3* to the audited Consolidated Financial Statements for carrying values and estimated fair values of our investment securities portfolio.

LOANS

Total gross loans decreased to $427,395,000 as of December 31, 2011 compared to $431,597,000 as of December 31, 2010.

The following table sets forth information concerning the composition of our loan portfolio as of and for the years ended December 31, 2011, 2010, 2009, 2008, and 2007.

Loan Type (Dollars in thousands)	2011 Amount	2011 % of Total loans	2010 Amount	2010 % of Total loans	2009 Amount	2009 % of Total loans	2008 Amount	2008 % of Total loans	2007 Amount	2007 % of Total loans
Commercial:										
Commercial and industrial	$ 78,089	18.3%	$ 81,318	18.8%	$ 93,282	20.3%	$ 109,664	22.6%	$ 71,416	20.9%
Agricultural land and production	29,958	7.0%	20,604	4.8%	13,903	3.0%	20,406	4.2%	17,584	5.2%
Total commercial	108,047	25.3%	101,922	23.6%	107,185	23.3%	130,070	26.8%	89,000	26.1%
Real estate:										
Owner occupied	113,183	26.4%	111,888	25.9%	106,606	23.2%	113,414	23.4%	76,808	22.5%
Real estate-construction and other land loans	33,047	7.7%	32,038	7.4%	51,633	11.2%	57,923	12.0%	48,593	14.2%
Agricultural real estate	62,523	14.6%	63,627	14.7%	71,420	15.6%	64,358	13.3%	43,334	12.7%
Commercial real estate	42,596	9.9%	44,397	10.3%	38,759	8.4%	32,136	6.6%	26,796	7.9%
Other real estate	7,892	1.8%	8,103	1.9%	4,610	1.0%	2,926	0.6%	1,772	0.5%
Total real estate	259,241	60.4%	260,053	60.2%	273,028	59.4%	270,757	55.9%	197,303	57.8%
Consumer:										
Equity loans and lines of credit	51,106	12.0%	58,860	13.6%	65,353	14.2%	63,828	13.2%	46,575	13.7%
Consumer and installment	9,765	2.3%	11,261	2.6%	14,033	3.1%	19,801	4.1%	8,838	2.4%
Total consumer	60,871	14.3%	70,121	16.2%	79,386	17.3%	83,629	17.3%	55,413	16.1%
Deferred loan fees, net	(764)		(499)		(392)		(218)		(588)	
Total gross loans	427,395	100.0%	431,597	100.0%	459,207	100.0%	484,238	100.0%	341,128	100.0%
Allowance for credit losses	(11,396)		(11,014)		(10,200)		(7,223)		(3,887)	
Total loans	$ 415,999		$ 420,583		$ 449,007		$ 477,015		$ 337,241	

At December 31, 2011, in management's judgment, a concentration of loans existed in commercial loans and real-estate-related loans, representing approximately 97.7% of total loans of which 25.3% were commercial and 72.4% were real-estate-related. This level of concentration is consistent with the 97.4% at December 31, 2010. 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 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, 2011 and 2010.

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

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, 2011, nonperforming assets totaled $14,434,000 compared to $19,984,000 at December 31, 2010. In 2011, nonperforming assets included nonaccrual loans totaling $14,434,000 and no OREO or repossessed assets. Nonperforming assets in 2010 consisted of $18,561,000 in nonaccrual loans, OREO of $1,325,000 and repossessed assets of $98,000. At December 31, 2011, we had six loans considered troubled debt restructurings totaling $10,601,000, which are included in nonaccrual loans compared to twelve restructured loans totaling $10,655,000 at December 31, 2010. 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, 2011 and 2010 is set forth below. The Company had no loans past due more than 90 days and still accruing interest at December 31, 2011 and 2010. Management is not aware of any potential problem loans, which were current and accruing at December 31, 2011, 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.

LOANS (Continued)

Composition of Nonaccrual, Past Due and Restructured Loans

(Dollars in thousands)	December 31, 2011	December 31, 2010	December 31, 2009	December 31, 2008	December 31, 2007
Nonaccrual Loans					
Commercial and industrial	$ 267	$ 377	$ 2,868	$ 907	$ 27
Owner occupied	353	1,407	2,218	1,644	-
Real estate construction and other land loans	-	5,634	7,691	4,839	-
Commercial real estate	2,434	-	965	6,296	-
Equity loans and line of credit	705	488	301	280	-
Consumer and installment	74		348	81	152
Restructured loans (non-accruing)					
Commercial and industrial	-	1,978	28	-	-
Owner occupied	1,019	2,370	2,282	1,108	-
Real estate construction and other land loans	6,823	2,193	2,214	595	-
Commercial real estate	1,110	1,828	-	-	-
Other real estate	-	2,286	-	-	-
Equity loans and line of credit	1,649	-	44	-	-
Total nonaccrual	14,434	18,561	18,959	15,750	179
Accruing loans past due 90 days or more	-	-	-	-	-
Total nonperforming loans	$ 14,434	$ 18,561	$ 18,959	$ 15,750	$ 179
Nonperforming loans to total loans	3.38%	4.30%	4.13%	3.25%	0.05%
Ratio of nonperforming loans to allowance for credit losses	126.66%	168.52%	185.87%	218.05%	4.61%
Loans considered to be impaired	$ 23,644	$ 18,561	$ 18,959	$ 15,750	$ 179
Related allowance for credit losses on impaired loans	$ 4,368	$ 2,124	$ 752	$ 125	$ -

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, 2011 and 2010, we had impaired loans totaling $23,644,000 and $18,561,000, respectively. For collateral dependent loans secured by real estate, we obtain external appraisals which are updated at least annually to determine the fair value of the collateral, and we record an immediate charge off for the difference between the book value of the loan and the appraised value of collateral. We perform quarterly internal reviews on substandard loans. We place loans on nonaccrual status and classify them as impaired when it becomes probable that we will not receive interest and principal under the original contractual terms, or when loans are delinquent 90 days or more unless the loan is both well secured and in the process of collection.

Management maintains certain loans that have been brought current by the borrower (less than 30 days delinquent) on nonaccrual status until such time as management has determined that the loans are likely to remain current in future periods. Foregone interest on nonaccrual loans totaled $954,0000 for the year ended December 31, 2011 of which $769,000 was attributable to troubled debt restructurings. Foregone interest on nonaccrual loans totaled $1,228,000 and $852,000 for the years ended December 31, 2010 and 2009, respectively of which $376,000 and $404,000 was attributable to troubled debt restructurings, respectively.

The following table provides a reconciliation of the change in non-accrual loans for the year ended December 31, 2011.

(Dollars in thousands)	Balances December 31, 2010	Additions to Nonaccrual Loans	Net Pay Downs	Transfer to Foreclosed Collateral - OREO	Returns to Accrual Status	Charge Offs	Balances December 31, 2011
Non-accrual loans:							
Commercial and industrial	$ 196	$ 370	$ (113)	$ -	$ -	$ (186)	$ 267
Real estate	1,407	3,293	(958)	-	(929)	(26)	2,787
Equity loans and lines of credit	669	758	(249)	(244)	-	(229)	705
Consumer	-	74	-	-	-	-	74
Restructured loans (non-accruing):							
Commercial and industrial	1,279	-	(430)	-	(849)	-	-
Real estate	4,198	1,211	(3,280)	-	-	-	2,129
Real estate construction and land development	7,827	-	(718)	-	-	(286)	6,823
Equity loans and lines of credit	2,985	-	(1,336)	-	-	-	1,649
Consumer	-	82	(1)	-	-	(81)	-
Total non-accrual	$ 18,561	$ 5,788	$ (7,085)	$ (244)	$ (1,778)	$ (808)	$ 14,434

LOANS (Continued)

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

	Years Ended December 31,	
(Dollars in thousands)	**2011**	**2010**
Balance, Beginning of year	$ 1,325	$ 2,832
Additions	532	3,467
Dispositions	(2,472)	(4,449)
Write-downs	-	(591)
Net gain on disposition	615	66
Balance, End of year	$ -	$ 1,325

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. As of December 31, 2011 the Company had no OREO properties. At December 31, 2010 the Company had $1,325,000 invested in properties acquired through foreclosure.

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 settlement was finalized in 2011. In accordance with the escrow agreement, once the litigation was completely satisfied and after reimbursing the Bank for any legal and escrow costs, the escrow fund was terminated and the remaining balance was disbursed for payment to former Service 1st shareholders. At December 31, 2011, $309,520 remained unclaimed.

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.

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

	Years Ended December 31,	
(Dollars in thousands)	**2011**	**2010**
Balance, beginning of year	$ 11,014	$ 10,200
Provision charged to operations	1,050	3,800
Losses charged to allowance	(1,532)	(4,122)
Recoveries	864	1,136
Balance, end of year	$ 11,396	$ 11,014
Allowance for credit losses to total loans	2.67%	2.55%

As of December 31, 2011 the balance in the allowance for credit losses was $11,396,000 compared to $11,014,000 as of December 31, 2010. The increase was due to net charge offs during 2011 being less than the amount of the provision for credit losses. Net charge offs totaled $668,000 while the provision for credit losses was $1,050,000. The balance of commitments to extend credit on undisbursed construction and other loans and letters of credit was $129,005,000 as of December 31, 2011 compared to $123,680,000 as of December 31, 2010. Risks and uncertainties exist in all lending transactions, and our management and Directors' Loan Committee have established reserve levels based on economic uncertainties and other risks that exist as of each reporting period.

As of December 31, 2011 the allowance for credit losses was 2.67% of total gross loans compared to 2.55% as of December 31, 2010. During 2011 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 2011 the 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 2011 and 2010 of $1,532,000 and $4,122,000, the portion related to overdraft losses on transaction deposit accounts totaled $71,000 and $96,000, respectively.

Nonperforming loans totaled $14,434,000 as of December 31, 2011, and $18,561,000 as of December 31, 2010. The allowance for credit losses as a percentage of nonperforming loans was 78.95% and 59.34% as of December 31, 2011 and 2010, respectively. Management believes the allowance at December 31, 2011 is adequate based upon its ongoing analysis of the loan portfolio, historical loss trends and other factors. However, no assurance can be given that the Company may not sustain charge-offs which are in excess of the allowance in any given period.

GOODWILL AND INTANGIBLE ASSETS

Business combinations involving the Bank's acquisition of the equity interests or net assets of another enterprise give rise to goodwill. Total goodwill at December 31, 2011 was $23,577,000 consisting of $14,643,000 and $8,934,000 representing the excess of the cost of Service 1st Bank and Bank of Madera County, respectively, over the net 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 2011, ASU 2011-08 was issued that provided additional guidance on the determination of whether an impairment of goodwill has occurred, including the introduction of a qualitative review of factors that might indicate that a goodwill impairment has occurred. ASU 2011-08 is effective for our 2012 reporting year; however, the Company early adopted this standard as of September 30, 2011. The Company performed our annual impairment test in the third quarter of 2011 utilizing the qualitative factors cited in the ASU.

Management believes that factors cited in the ASU are sufficient and comprehensive and as such, no further factors need to be assessed at this time. Based on the analysis performed by management, there were no indications that the Company's goodwill was impaired at September 30, 2011.

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 2011, so goodwill was not required to be retested.

The intangible assets at December 31, 2011 represent the estimated fair value of the core deposit relationships acquired in the acquisition of Service 1st Bank in 2008 of $1,400,000 and the 2005 acquisition of Bank of Madera County of $1,500,000. Core deposit intangibles are being amortized 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, 2011 was $783,000, net of $2,117,000 in accumulated amortization expense. The carrying value at December 31, 2010 was $1,198,000, net of $1,702,000 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 performed an annual impairment test on core deposit intangibles as of September 30, 2011 and determined no impairment was necessary. Amortization expense recognized was $414,000 for 2011, 2010, and 2009.

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 $62,491,000 or 9.61% to $712,986,000 as of December 31, 2011 compared to $650,495,000 as of December 31, 2010. Interest-bearing deposits increased $28,333,000 or 5.94% to $504,961,000 as of December 31, 2011 compared to $476,628,000 as of December 31, 2010. Non-interest bearing deposits increased $34,158,000 or 19.65% to $208,025,000 as of December 31, 2011 compared to $173,867,000 as of December 31, 2010. Our total market share of deposits in Fresno, Madera, and San Joaquin counties was 3.39% in 2011 compared to 3.38% in 2010 based on FDIC deposit market share information published as of June 2011.

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

(Dollars in thousands)	December 31, 2011	% of Total Deposits	Effective Rate	December 31, 2010	% of Total Deposits	Effective Rate
NOW accounts	$ 140,268	19.6%	0.26%	$ 114,473	17.6%	0.38%
MMA accounts	181,731	25.5%	0.40%	157,345	24.2%	0.66%
Time deposits	151,695	21.3%	0.96%	177,132	27.2%	1.19%
Savings deposits	31,267	4.4%	0.16%	27,678	4.3%	0.20%
Total interest-bearing	504,961	70.8%	0.54%	476,628	73.3%	0.77%
Non-interest bearing	208,025	29.2%		173,867	26.7%	
Total deposits	$ 712,986	100.0%		$ 650,495	100.0%	

There were no short-term borrowings as of December 31, 2011, while they totaled $10,000,000 as of December 31, 2010. The short-term borrowings consisted of FHLB advances maturing within one month. 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, 2011 and 2010 was $4,000,000 and consisted of FHLB advances with an interest rate of 3.59% maturing in 2013.

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, 2011, 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, 2012 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, 2011, the rate was 2.00%. Interest expense recognized by the Company for the years ended December 31, 2011, 2010 and 2009 was $100,000, $102,000 and $129,000, 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.

CAPITAL RESOURCES (Continued)

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 $107,482,000 as of December 31, 2011 compared to $97,391,000 as of December 31, 2010. The increase in stockholder's equity is a result of increase in retained earnings from net income of $6,477,000, increase in unrealized gain on the available-for-sale investment securities of $3,157,000, exercise of stock options and related tax benefits of $796,000, and the effect of share based compensation expense of $196,000, offset by preferred stock dividends and accretion of discount of $350,000 and repurchase and retirement of common stock warrants of $185,000.

On August 18, 2011, the Company entered into a Securities Purchase Agreement with the Small Business Lending Fund of the United States Department of the Treasury (the "Treasury"), under which the Company issued 7,000 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series C (the "Preferred Shares") to the Treasury for an aggregate purchase price of $7,000,000. Simultaneously, the Company agreed with Treasury under a Letter Agreement to redeem, for an aggregate price of $7,000,000, the 7,000 shares of the Company's Series A Fixed Rate Cumulative Preferred Stock ("Series A Stock")originally issued pursuant to the Treasury's Capital Purchase Program ("CPP") in 2009. The redemption of the Series A Stock resulted in an acceleration of the remaining discount booked at the time of the CPP transaction.

In connection with the repurchase of the Series A Stock, the Company also notified the Treasury of the Company's intent to repurchase the warrant (the "Warrant") to purchase 79,037 shares of the Company's common stock that was originally issued to Treasury in connection with the CPP transaction. On September 28, 2011, the Company completed the repurchase of the Warrant for total consideration of $185,000. 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 (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. In August 2011, the Company agreed to exchange of 258,862 shares of the Company's non-voting common stock to 258,862 shares of the Company's voting common stock. The issuance of voting common stock was conducted in a privately negotiated transaction exempt from registration pursuant to Sections 3(a)(9) and 4(2) of the Securities Act of 1933, as amended. See *Note 13* to the audited Consolidated Financial Statements in this report for a more detailed discussion.

During 2011, 2010 and 2009, the Bank did not pay any dividends to the Company. 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.

The following table presents the Company's and the Bank's capital ratios as of December 31, 2011 and 2010:

	December 31, 2011		December 31, 2010	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Tier 1 Leverage Ratio				
Central Valley Community Bancorp and Subsidiary	$ 82,571	10.13%	$ 70,669	9.48%
Minimum regulatory requirement	$ 32,612	4.00%	$ 29,832	4.00%
Central Valley Community Bank	$ 81,599	10.01%	$ 69,457	9.32%
Minimum requirement for "Well-Capitalized" institution	$ 40,743	5.00%	$ 37,264	5.00%
Minimum regulatory requirement	$ 32,594	4.00%	$ 29,811	4.00%
Tier 1 Risk-Based Capital Ratio				
Central Valley Community Bancorp and Subsidiary	$ 82,571	16.20%	$ 70,669	14.16%
Minimum regulatory requirement	$ 20,383	4.00%	$ 19,965	4.00%
Central Valley Community Bank	$ 81,599	16.02%	$ 69,457	13.92%
Minimum requirement for "Well-Capitalized" institution	$ 30,554	6.00%	$ 29,929	6.00%
Minimum regulatory requirement	$ 20,369	4.00%	$ 19,953	4.00%
Total Risk-Based Capital Ratio				
Central Valley Community Bancorp and Subsidiary	$ 89,136	17.49%	$ 76,982	15.42%
Minimum regulatory requirement	$ 40,767	8.00%	$ 39,931	8.00%
Central Valley Community Bank	$ 88,159	17.31%	$ 75,766	15.19%
Minimum requirement for "Well-Capitalized" institution	$ 50,923	10.00%	$ 49,881	10.00%
Minimum regulatory requirement	$ 40,738	8.00%	$ 39,905	8.00%

We are required to deduct the disallowed portion of net deferred tax assets from Tier 1 capital in calculating our capital ratios. Generally, disallowed deferred tax assets that are dependent upon future taxable income are limited to the lesser of the amount of deferred tax assets that we expect to realize within one year, based on projected future taxable income, or 10% of the amount of our Tier 1 capital. Disallowed deferred tax assets deducted from Tier 1 capital were $1,427,000 and $5,981,000 at December 31, 2011 and 2010, respectively.

LIQUIDITY

Liquidity management involves our ability to meet cash flow requirements arising from fluctuations in deposit levels and demands of daily operations, which include funding of securities purchases, providing for customers' credit needs and ongoing repayment of borrowings. Our liquidity is actively managed on a daily basis and reviewed periodically by our management and Director's Asset/Liability Committees. This process is intended to ensure the maintenance of sufficient funds to meet our needs, including adequate cash 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, 2011, the Company had unpledged securities totaling $219,294,000 available as a secondary source of liquidity and total cash and cash equivalents of $44,804,000. Cash and cash equivalents at December 31, 2011 decreased 55.64% compared to December 31, 2010. 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.

LIQUIDITY (Continued)

As a means of augmenting our liquidity, we have established Federal funds lines with various correspondent banks. At December 31, 2011 our available borrowing capacity includes approximately $44,000,000 in Federal funds lines with our correspondent banks and $125,122,000 in unused FHLB advances. At December 31, 2011, we were not aware of any information that was reasonably likely to have a material effect on our liquidity position. The following table reflects the Company's credit lines, balances outstanding, and pledged collateral at December 31, 2011 and 2010:

Credit Lines (In thousands)	December 31, 2011	December 31, 2010
Unsecured Credit Lines		
(interest rate varies with market):		
Credit limit	$ 44,000	$ 39,000
Balance outstanding	$ -	$ -
Federal Home Loan Bank		
(interest rate at prevailing interest rate):		
Credit limit	$ 125,122	$ 114,659
Balance outstanding	$ 4,000	$ 14,000
Collateral pledged	$ 112,926	$ 123,717
Fair value of collateral	$ 114,214	$ 126,326
Federal Reserve Bank		
(interest rate at prevailing discount interest rate):		
Credit limit	$ 551	$ 1,321
Balance outstanding	$ -	$ -
Collateral pledged	$ 542	$ 1,322
Fair value of collateral	$ 562	$ 1,354

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 $129,005,000 as of December 31, 2011 compared to $123,680,000 as of December 31, 2010. 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.

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 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.

CRITICAL ACCOUNTING POLICIES (Continued)

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, 2011, 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 19, 2012, the Company had approximately 763 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, 2010	$ 5.34	$ 6.10
June 30, 2010	5.13	8.25
September 30, 2010	5.40	6.44
December 31, 2010	5.25	6.00
March 31, 2011	5.61	6.19
June 30, 2011	6.19	6.95
September 30, 2011	5.20	6.90
December 31, 2011	5.25	6.25

The Company did not pay a cash dividend in 2011 or 2010. 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 13 in the audited Consolidated Financial Statements in Item 8 of 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

Richard Levenson
Western Financial Corporation
(800) 488-5990

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

John Cavender
Raymond James
(415) 538-5725

Michael Hedri
Fig Partners, LLC
(212) 899-5217

Troy Norlander
Crowell, Weedon & Co.
(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.

Notes

Doing Our Part For A Stronger,
More Satisfying Community.

Central Valley Community Bank is highly visible in the areas we serve, and not just because of our office locations. You can see us in local philanthropies and in the lives of people touched by worthy causes… in our sponsorship of community events and in our support of vital projects and nonprofit organizations. We're proud of the many ways in which we give back to our community, starting with the service we provide to those who entrust us with their financial security. We thank them – and you – for supporting the Bank that supports our community by giving our time, talents and resources to organizations like those listed here.

Ag Lenders Society of California
Alzheimer's Foundation of Central California
American Cancer Society
American Red Cross
Big Brothers Big Sisters of Central California
Biola Chamber of Commerce
Boys & Girls Clubs of Fresno County
Boys & Girls Club of Tracy
Break The Barriers
Buchanan High School
Building Industry Association of the Delta
Business Council Inc.
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
California Wine Education Foundation
Camp Sunshine Dreams
Cen Cal Business Finance Group
Central California Builders Exchange
Central Valley Business Incubator
Central Valley SCORE
Charterhouse Center for Families
Children's Hospital Central California
Children's Hospital Central California Alegria Guild
Clovis District Chamber of Commerce
Clovis Drug Prevention Council
Clovis Rodeo Association
Coarsegold Chamber of Commerce
Community Food Bank
Community Medical Foundation
Court Appointed Special Advocates of Fresno & Madera Counties
Court Appointed Special Advocates of Merced County
Create for the Westside
Doug McDonald Scholarship
Downtown Stockton Alliance
East Fresno Kiwanis Club
East Fresno Rotary Charity Foundation
Easter Seals Central California
Exceptional Parents Unlimited
Family Healing Center
Fig Garden Rotary Club
Fresno Area Hispanic Chamber of Commerce
Fresno Association of REALTORS
Fresno Business Council
Fresno Regional Independent Business Alliance
Foundation for Clovis Schools
Fresno Area Crime Stoppers
Fresno Art Museum
Fresno City & County Historical Society
Fresno County 4-H Club
Fresno County Farm Bureau
Fresno Sunrise Rotary
Friends of the Oakhurst Branch Library
Give Every Child A Chance
Greater Fresno Area Chamber of Commerce
Greater Madera Kiwanis Club
Greater Merced Chamber of Commerce
Greater Stockton Chamber of Commerce
HandsOn Central California
Hinds Hospice
Hoover High School
Hubbard-Baro Memorial Golf Tournament
Japanese American Citizens League Lodi Chapter
Junior Achievement
Junior Leadership Merced - Growing Merced Foundation
Junior League of San Joaquin County
Kerman 4-H Club
Kerman Ag Expo
Kerman Cal Ripken Baseball League
Kerman Chamber of Commerce
Kerman Christian School
Kerman Community Services Organization
Kerman Heat Softball Association
Kerman High School
Kerman Rotary Club
Kerman Senior Advisory Board
Lambda Theta Phi
Latinas United Republican Women Federated
LeTip of Stockton
Leukemia & Lymphoma Society Central California Chapter
LifeSTEPS
Lodi Area Crime Stoppers Inc.
Lodi Chamber of Commerce
Lodi-Tokay Rotary Club
Madera Chamber of Commerce
Madera Community Hospital Foundation
Make-A-Wish Foundation of Central California
Marjaree Mason Center
McHenry House Tracy Family Shelter
Merced Boosters Club
Merced County Association of Realtors
Merced County Chamber of Commerce
Merced County Hispanic Chamber of Commerce
Micke Grove Zoological Society
Modesto Chamber of Commerce
National Child Safety Council
New Jerusalem Elementary School
North Modesto Kiwanis Club
Oakhurst Area Chamber of Commerce
Oakhurst Community Center
Our Lady of Perpetual Help School
Park of the Sierras
PBID Partners of Downtown Fresno
Pop Laval Foundation
Rancho Cordova Chamber of Commerce
Reading and Beyond
Rotary Club of Clovis
Rotary Club of Fresno
Rotary Club of Merced
Sacramento Metro Chamber of Commerce
San Joaquin College of Law
San Joaquin Farm Bureau Federation
San Joaquin Memorial High School
San Joaquin River Parkway and Conservation Trust
San Joaquin Tranquility Lions Club
Sebastian Foundation
Selma Chapter of the Triple X Fraternity
Sequoia Council of the Boy Scouts of America
Shaver Lake Chamber of Commerce
Shaver Lake Lions Club
Sherriff's Foundation for Public Safety
Sierra High School
Sierra Lions Club
Sierra Mountain Little League
Soroptimist International of Kerman
Soroptimist International of Madera
Spirit of Women
Stagg High School
Stanislaus Medical Society
St. Joachim's Elementary School
Stockton Athletic Hall of Fame
Stockton Sunrise Rotary Club
Sunnyside High School
The Bulldog Foundation
The Clovis Community Foundation
The Fresno Bee – Newspapers In Education
The Leadership Forum
The Salvation Army
Tracy Chamber of Commerce
Tracy Hospital Foundation
Tracy Sunrise Rotary
Turning Point Pregnancy Care Center
United Cerebral Palsy of Stanislaus and Tuolumne Counties
United Way of Fresno County
United Way of Merced County
United Way of San Joaquin County
United Way of Stanislaus County
United Way of the Capital Region
University of California, Merced
University of the Pacific
Urshiah Care Center
Valley Public Television
Vineyard Christian Middle School
Women's Center of San Joaquin County
Yosemite High School

CLOVIS

Clovis Main
600 Pollasky Avenue
Clovis, CA 93612
(559) 323-3480

Herndon & Fowler
1795 Herndon Avenue,
Suite 101
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,
Suite B
Merced, CA 95340
(209) 725-2820

Modesto
2020 Standiford Avenue,
Suite H
Modesto, CA 95350
(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

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

Agribusiness
7100 North Financial Drive,
Suite 101
Fresno, CA 93720
(559) 323-3493

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

SBA Lending
8375 North Fresno Street
Fresno, CA 93720
(559) 323-3384

www.cvcb.com