2013
Annual Report

2013
Annual Report

Investing In **Relationships**

Benefit From Our **Partnership**

Investing In So Many Ways

At Central Valley Community Bank, we are just the right amounts of both big and small – the strong power and security of a big bank together with the values and relationships of a community bank. We are local too. We live, work and understand the needs of our customers and the communities we serve. We believe in and practice the core values that founded our Bank in 1980 with only $2 million in assets. Now with over $1 billion in assets our beliefs and practices have not wavered. Year after year we are privileged to demonstrate this by sharing our resources, talents and the energy of our people with the communities and organizations we are so honored to serve. Thank you for your trust and partnering with the bank that invests in so many ways.

Affinion Group Inc.
Ag Lenders Society of California
Alluvial Community Garden
Alzheimer's Foundation of Central California
American Bankers Association
American Cancer Society
American Heart Association
American Institute of Certified Public Accountants
American Red Cross Central Valley
Angie's List
Association of Commercial Real Estate
Boys & Girls Club of Tracy
Buddhist Church of Stockton
Business Organization of Old Town Clovis
California Armenian Home
California Bankers Association
California Chamber of Commerce
California Cotton Ginners Association
California Farm Bureau Federation Young Farmers & Ranchers
California Financial Crimes Investigators Association
California State University, Fresno - Craig School of Business
California State University, Fresno - Foundation
California State University Fresno - Maddy Institute
CenterStage Clovis Community Theatre
Central California Society for Prevention of Cruelty to Animals
Central East High School
Central Valley Business Incubator
Central Valley SCORE
Central Valley Sons of Italy Foundation
Certified Development Corporation of Tulare County
Certified Financial Planner Board of Standards, Inc.
Children's Hospital Central California Alegria Guild
Children's Hospital Central California Foundation
Children's Hospital Central California Las Madrinas Guild
Clearpoint Credit Counseling Solutions
Clovis Chamber of Commerce
Clovis North Girls Softball League
Clovis Rodeo Association
Clovis Senior Services Center
Coarsegold Chamber of Commerce
Community Food Bank
Community Medical Foundation
Court Appointed Special Advocates of Fresno and Madera Counties
Court Appointed Special Advocates of Stanislaus County
Cultural Arts Rotary Club of Fresno
David Bliss Memorial Golf Tournament
Doug McDonald Scholarship
Downtown Visalia Foundation
Eastern Madera County Chamber of Commerce
East Fresno Kiwanis Club
Economic Development Corporation
El Concilio Council for the Spanish Speaking
El Dorado Park Community Development Corporation
Exceptional Parents Unlimited
Executives Association of Tulare County
Exeter Chamber of Commerce
Exeter Community Service Guild
Foundation for Clovis Schools
Fresno Area Crime Stoppers
Fresno Area Hispanic Chamber of Commerce
Fresno Association of REALTORS
Fresno Business Council
Fresno City & County Historical Society
Fresno County Farm Bureau
Fresno River Park Rotary Club
Give Every Child A Chance
Greater Fresno Area Chamber of Commerce
Greater Merced Chamber of Commerce
Greater Stockton Chamber of Commerce
Hinds Hospice
H.O.P.E. Animal Foundation
Independent Community Bankers of America
International Association of Lions Clubs
Junior Achievement
Junior League of San Joaquin County
Katey's Kids, a Sebastian Foundation
Kaweah Delta Hospital Foundation
Kerman Chamber of Commerce
Kerman-Floyd Elementary School
Kerman Girls Softball League
Kerman High School
Kerman Rotary Club
Kerman Senior Advisory Board
Kerman Youth Soccer League
Kids' International Dental Services
Kings County Farm Bureau

Leverage Our Experience

Borrow Our Strength

Knights of Columbus
Latinas Unidas
Leadership Stockton Alumni Association
Leukemia & Lymphoma Society Central California Chapter
LifeSTEPS
Lincoln High School Lacrosse
Lodi Chamber of Commerce
Lodi Police Foundation
Lodi Reds Baseball Club
LOEL Center & Gardens
Lost Girls Motorcycle Club Central Valley
Madera Association of REALTORS
Madera Community Hospital Foundation
Madera County Farm Bureau
Madera County Food Bank
Madera District Chamber of Commerce
Madera Police Officers Association
Madera Rotary Club
Marjaree Mason Center
McSwain Elementary School
Medical Group Management Association
Merced Boosters Club
Merced County Association of REALTORS
Merced County Chamber of Commerce
Merced County Farm Bureau
Merced County Hispanic Chamber of Commerce
Merced Police Officers Association
Merced Rotary Club
Modesto Chamber of Commerce
Modesto Rotary Club
MusicFirst
National Association of Government Guaranteed Lenders
National Association of Home Builders
National Child Safety Council
National Notary Association
NeighborWorks HomeOwnership Center Sacramento Region
NorCal Trojans Youth Baseball
Oakdale Educational Foundation
Oakhurst Community Park
Our Lady of Perpetual Help School
PBID Partners of Downtown Fresno
Pine Ridge Elementary School
Poverello House
Pro-Youth / HEART
Rancho Cordova Chamber of Commerce
Reedley College
Regents of the University of California
Rotary Club of Clovis
Rotary Club of Fig Garden
Rotary Club of Fresno
Rotary Club of Merced
Rotary Club of Sacramento
Rotary Club of Visalia
Ruiz 4 Kids
Sacramento Metro Chamber of Commerce
Saint Agnes Medical Center
Sequoia Council of the Boy Scouts of America
Shaver Lake Lions Club
Sierra Lions Club
Sierra Mountain Little League
Sierra Unified School District
Soroptimist International of the Sierras
Soroptimist International of Visalia
Southeast Fresno Community Economic Development Association
Spirit of Woman of California
Stagg High School Football
Stanislaus County Farm Bureau
Stockton Athletic Hall of Fame
Stockton Sunrise Rotary Club
Stocktonians Taking Action to Neutralize Drugs Affordable Housing
Talahi Media Arts
The Bulldog Foundation
The Clovis Community Foundation
The Downtown Association of Fresno
The Kings Fair
The Merced County Fair
The Risk Management Association
The Salvation Army
The University of Texas MD Anderson Cancer Center
Tracy Chamber of Commerce
Tracy Hills Growers and Vintners Association
Tracy Sunrise Rotary
Trauma Intervention Program
Tree Fresno
Tulare County Farm Bureau
Tulare & Kings Counties Builders Exchange
Twilight Haven
United Way California Capital Region
United Way of Fresno County
United Way of Merced County
United Way of San Joaquin County
United Way of Stanislaus County
United Way of Tulare County
University of the Pacific
Valley Center For The Blind
Valley Oak Society for Prevention of Cruelty to Animals
Valley Public Television
Vineyard Christian Middle School
Visalia Chamber of Commerce
Visalia County Center Rotary Club
Visalia Emergency Aid Council
Warnors Center for the Performing Arts
West Fresno Family Resource Center
West Visalia Kiwanis Club
Western Payments Alliance
Women's Success Network
Women's Trade Club of Fresno County
Wreaths Across America
Yosemite Gateway Association of REALTORS
Yosemite Lakes Park Volunteer Fire Fighters Department

Grow Your Satisfaction

To Our **Shareholders**

A Record-Setting Year

Central Valley Community Bank enjoyed a record-setting 2013 validated by solid strategic planning that allowed the Company to thrive despite economic challenges nationwide and, especially, in our region. Acquiring Visalia Community Bank helped us reach new standards in total bank assets, deposits and loans. The legacy Central Valley Community Bank experienced significant deposit growth and saw a return to loan growth after several years of declining gross loan totals. The Bank continued to introduce new financial products and services with new, more-convenient electronic ways to deliver them to our loyal customers. The value of providing traditional brick-and-mortar service has increased with the management of 21 full-service offices in 14 communities within seven San Joaquin Valley counties.

There is increasing concern about the impact of drought on our region's biggest industry, agriculture, its service industry providers and critical workforce. Additionally, government regulation continues to impose financial burdens on banks without helping our customers. We are, however, optimistic about 2014, anticipating a slowly improving economy further-adding to our loan growth.

For 34 years, Central Valley Community Bank has provided leadership, service and security that have cultivated great trust among our customers and communities. We are well-positioned to take advantage of today's opportunities and plan for a bright tomorrow.

By The Numbers

We are proud to have remained profitable throughout the Great Recession, allowing us to grow and be confident about the future. The Company's assets increased by $255 million (28.69%) in 2013, to finish the year at over $1.1 billion.

When a public company reaches $1 billion in assets, generally more investors are able to participate in following and purchasing successful bank stock like CVCY that meet their investment profile. This additional activity may lead to higher multiples and higher prices in stock. We believe reaching this new threshold may generate more buying and selling of our Company's stock, which will provide more liquidity for our shareholders in the future.

With ever-more-costly regulation of financial services companies and competitive demand for new products and technology, larger organizations have an advantage by spreading costs over a larger base. Customer needs can be met through more-competitive pricing, new delivery channels and locations.

Company earnings increased in 2013 over 2012. We were, however, challenged by declining net interest margin due to low demand for loans most of the year; the low-rate environment for interest-earning assets driven by the Federal Reserve's influence on controlling interest rates; and our market's strong competition for loans.

We loaned $117 million (29.61%) more to individuals and businesses than in 2012 and deposits were up $253 million (33.63%), the majority due to the acquisition of Visalia Community Bank. Agriculture-related loans and increased residential real estate lending pushed base loan growth for Central Valley Community Bank after several years of decline. While normal seasonal borrowing by agricultural customers was strong, use of lines of credit by business customers declined because of economic uncertainty and competitive pricing and terms being offered in the marketplace.

Despite media reports to the contrary, community-minded banks like ours work hard to provide additional loans to businesses and consumers. Overall lower loan demand has been fueled by the significant changes and costs in healthcare, tax increases and lack of confidence in a quick economic turnaround. We are pleased to see recent improvement in loan demand, but it is not robust.

Net income growth of 9.71% for 2013 was the greatest in Company history, driven by increases in net interest and non-interest income, and by lower provision for credit losses offset by increases in non-interest expense. There was little net income benefit in 2013 from the Visalia Community Bank acquisition, but we expect to see that benefit in 2014 and beyond. Non-interest expense was stable and there was an increase in non-interest income from securities called/sold and loan placement fees.

Central Valley Community Bank does well compared with the average of our peers, and 2013 was a good year, especially considering economic challenges, low interest rates and regulatory costs. We also outperform our peers in asset quality, deposits and ability to grow.

Our favorable mix of deposits allows a low cost of funds, but our net interest margin is under pressure from low interest rates for earning assets and the increase in our securities portfolio due to soft loan demand.

Central Valley Community Bank continues to exceed the regulatory designation of a well-capitalized institution, allowing the maintenance of a safe and sound banking environment that benefits our customers and communities.

Central Valley Community Bank, again in 2013, received the highest 5-star distinction from Bauer Financial, while the Findley Reports named the Bank a Premier Performing Bank, based upon 2012 operating results, and as one of 11 California banks that were truly deemed exceptional over the past 30 years.

Good Value For Shareholders

The Company's stock price increased $3.49 per share (45%) from 2012 year end. Greater shareholders' equity was driven by issuing stock as part of the Visalia Community Bank acquisition and a net increase in retained earnings. It was partially offset by decreases in preferred stock and accumulated other comprehensive income, due to higher longer-term interest rates. The result was a decrease in the market value of the Company's available-for-sale investment securities.

At year end, $7 million was paid off in preferred stock to the U.S Department of the Treasury from participation in the Small Business Lending Fund. Our Company's financial strength enabled us to continue to declare and pay $2,048,000 in cash dividends to holders of common stock ($0.20 per share).

Sandler O'Neill + Partners, L.P. named the Company stock as one of their "2013 Top Investment Ideas" for the second time in the past three years. Additionally, as we shared Company successes at investor conferences around the country, we were complimented for our business practices, especially asset quality. Investors noted that our Company excels at all important elements affecting their investment decisions.

In completing the merger with Visalia Community Bank, the Company added a team of seasoned banking professionals, three full-service offices in Visalia and one in Exeter and long-term value to our growth and profitability.

Teamwork, Leadership And Commitment

Central Valley Community Bank's investment in teamwork blends seasoned banking experience with new ideas to serve our customers and to thrive in a competitive marketplace challenged by economic doubt.

The acquisition of Visalia Community Bank, which was responsible for a large part of our balance-sheet growth, was the culmination of an efficiently-blended team working smart and hard. It also yielded a new board member, F.T. "Tommy" Elliott, IV, former chairman of the Visalia Community Bank board.

The Board of Directors announced in February 2014, that separate positions for CEO and president have been established at the Bank, naming veteran banker James M. Ford as President beginning February 1, 2014. Daniel J. Doyle will continue to serve as President and CEO of Central Valley Community Bancorp and CEO of the Bank. Following retirement, expected at the end of 2014, Doyle will Chair both boards and Daniel N. Cunningham, the Chairman since 1998, will continue as the Board Lead Director.

Ford brings over 30 years of banking and overall financial leadership expertise from Oregon and California, most recently serving as the President and CEO for a $1.2 billion in assets community bank franchise. Ford's respected leadership experience directly aligns with the Bank's strategic vision, commitment to core values and desire to do the right thing for our customers, employees, communities and shareholders. With the continuity of our seasoned Senior Management team working with Ford and our existing Board of Directors, no change in the strategic direction of the Company is anticipated.

Doyle's strong commitment to customers is equaled to his industry influence which extends to service on the Federal Reserve Bank of San Francisco's Community Depository Institutions Advisory Council, California Bankers Association Federal Political Action Committee, American Bankers Association National Political Action Committee and Pacific Coast Banking School Board of Directors.

This commitment to customers and community service leadership is extended by Bank employees volunteering their time and talent to nonprofit and civic organizations helping people throughout California's San Joaquin Valley.

Added Protection, Customer Convenience And Education

While developing desired delivery channels, especially electronic and point-of-sale products, the Bank is investing significant time and money in state-of-the-art protection, procedures and customer education to preserve the security and confidentiality of our customers' financial information.

What seem like ongoing breaches through retail companies are outside the control of banks and are disturbing, inconvenient and frustrating for everyone involved. We support requiring more controls on these large retail companies to protect our customers.

Another issue is growing costs to the banking industry of Dodd-Frank, the Consumer Financial Protection Bureau and expectations of regulators enforcing new and old regulations, some of which add no value for our customers and provide little benefit in safety and soundness. Attempts to modify the impact on community banks, have accomplished little, so far.

Looking Forward

Expectations have been achieved from the acquisition of Visalia Community Bank to date and we expect to see even more benefits in 2014. While we believe the economy will remain in slow-growth mode in 2014, we expect the Valley's future to be bright as we look to 2015 and beyond. We are well-positioned to take advantage to grow our banking franchise in all our geographic and market sectors.

However, optimism must be tempered by concern for the Valley's food and agriculture-related industry, as well as the potential negative impact on a number of small communities, centered upon availability of affordable water for a third consecutive year.

We appreciate the loyal support of our shareholders and we do not take this for granted. Our Board and every Central Valley Community Bank employee work hard every day to create value.

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

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

Our Strong **History**

A 34-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 – Reaching $1 Billion & Beyond

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. CVCB operates 21 full-service offices in 14 communities, within seven San Joaquin Valley counties and employs nearly 300 team members. Offices are located in Clovis, Exeter, Fresno, Kerman, Lodi, Madera, Merced, Modesto, Oakhurst, Prather, Sacramento, Stockton, Tracy and Visalia. The Bank operates 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. With assets exceeding $1.1 billion as of December 31, 2013, 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 34-year track record of strength, security, client advocacy and the values that have guided the Bank since its opening. The Bank's unique brand of personalized service has strategically grown throughout California's 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's strong foundation and concern for its team has afforded the ongoing addition and retention of high-quality employees.

Unparalleled Innovation, Unmatched Protection & Unbeatable Convenience

Central Valley Community Bank maintains state-of-the-art data processing and information systems, and offers a complete line of innovative and competitive business and personal deposit and loan products. Through FDIC insurance, customer deposits for all insurable accounts are protected up to $250,000.

For maximum convenience, Personal Online Banking, Bill Pay, Mobile Banking, Popmoney (person-to-person payments) and eStatements are available, in addition to custom-tailored Cash Management services for businesses of all sizes. In addition, ATMs are located at most CVCB offices, BankLine provides 24-hour telephone banking, and extended days and banking hours are offered at select 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, the Bank has remained an active business lender and is proud to be Preferred SBA Lender and ranked number one SBA 504 Lender for Fresno, Kings and Madera counties for 9 of the past 14 years. At CVCB you will find the secure lending power of a big bank plus the stable values and relationships of a community bank. From small to large; agribusiness to manufacturing; healthcare to service industries; and everything in between - CVCB is always ready to leverage its strength, experience and commitment to help businesses thrive, even in the toughest economic times by offering tailored lending products.

CVCB is dedicated to providing outstanding value to customers by 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 are important to banking customers, and CVCB is well-positioned to provide them, with an ongoing emphasis on privacy, safety and convenience.

When A Bank's Core Values Reflect Its Community – Special Things Happen

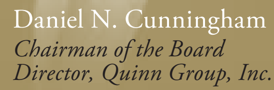
Focused on investing in the communities it serves - annually CVCB provides financial support and dedicates the talents and energy of its people to a wide variety of organizations, with management serving in leadership positions for over 80 different civic, philanthropic and industry organizations throughout its footprint. Providing leadership-by-example, this includes CEO Dan Doyle, who currently serves on the Federal Reserve Bank of San Francisco's Community Depository Institutions Advisory Council, California Bankers Association Federal Political Action Committee, American Bankers Association National Political Action Committee, Pacific Coast Banking School, Fresno Mayor's President's Council, among many other organizations.

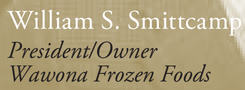
A Proud Past, A Promising Future

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 three decades, 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 - Investing in Relationships.

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


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


William S. Smittcamp
President/Owner
Wawona Frozen Foods

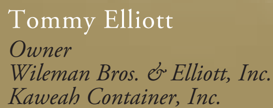
Sidney B. Cox
Owner
Cox Communications

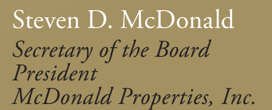
Board Of **Directors**

A 34-Year Tradition Of Strong & Secure Banking

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

Joseph B. Weirick
Investments


Tommy Elliott
Owner
Wileman Bros. & Elliott, Inc.
Kaweah Container, Inc.


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

Louis C. McMurray
President
Charles McMurray Co.

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

Investing In **Our People**

Officers

Holding Company & Bank Officers:

Daniel J. Doyle
Chief Executive Officer

David A. Kinross
Senior Vice President,
Chief Financial Officer

Thomas L. Sommer
Senior Vice President,
Credit Administrator

Bank Officers:

James M. Ford
President

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

Lydia E. Shaw
Senior Vice President,
Small Business and Consumer Banking

Shelle Abbott
Vice President,
Branch Manager

Maria Alaniz
Vice President,
Branch Manager

Evey Amado
Vice President,
Cash Management Officer

Susan Armstrong
Vice President,
Branch Manager

Jacquie Ashjian
Vice President,
Credit Officer

Chad Bringe
Vice President,
Commercial Loan Officer

Patrick Carman
Vice President,
Senior Credit Officer

Vicki Casares
Vice President,
Branch Manager

Cathy Chatoian
Vice President,
Cash Management Manager

Jenhi Ciapponi
Vice President,
Agribusiness Loan Officer

Patrick Condry
Vice President,
Small Business /Consumer Loan Underwriter

Terry Crawford
Vice President,
Agricultural Lending Group Manager

Tom Crawley
Vice President,
Commercial Real Estate Loan Officer

Dawn Crusinberry
Vice President,
Controller

Craig Dadian
Vice President,
Business Development Officer

Stan Davis
Vice President,
Small Business/Consumer Loan Manager

JR Delgadillo
Vice President,
Branch Manager

Daniel Demmers
Vice President,
Director of Information Technology

William Donohoe
Vice President,
Agribusiness Loan Officer

Bob Elledge
Vice President,
Agribusiness Loan Officer

Steve Freeland
Vice President,
Special Assets Officer

Rod Geist
Vice President,
Branch Manager

Teresa Gilio
Vice President,
Central Operations Manager

Tim Harris, CFP
Vice President,
Senior Private Banking Officer

James Heino
Vice President,
Commercial Loan Officer

Linda Hischier
Vice President,
Commercial Loan Officer

Denise Jereb
Vice President,
Compliance Manager

Charles Jones
Vice President,
Agribusiness Loan Officer

Marci Madsen
Vice President,
Human Resources Director

Brad Majors
Vice President,
Branch Manager

Constantine Makayed
Vice President,
Credit Review Officer

Gina Manley
Vice President,
Branch Manager

Mindy Martin
Vice President,
Mortgage Loan Officer

Sheryl Michael
Vice President,
Branch Manager

Heather Mills
Vice President,
Private Banking Officer

Leslee Minas
Vice President,
Branch Manager

Autumn Muller-Carrillo
Vice President,
Branch Manager

Rosie Nunes
Vice President,
Small Business Development Officer

Linda Ogata
Vice President,
Commercial Loan Officer

Chaundra Olsen
Vice President,
Branch Manager

Jean Ornelas
Vice President,
Residential Construction Loan Officer

Jeff Pace
Vice President,
Real Estate Department Manager

Wendy Parlavecchio
Vice President,
Mortgage Loan Officer

Scott Quatacker
Vice President,
Agribusiness Loan Officer

Justin Redman
Vice President,
Commercial Real Estate Loan Officer

Shannon Reinard
Vice President,
Branch Manager

Steve Romeo
Vice President,
Private Banking Officer

Elizabeth Salas
Vice President,
Small Business Development Officer

Renee Savage
Vice President,
Special Assets/Loan Service Manager

Judy Silicato
Vice President,
Branch Manager

Karen Smith
Vice President,
Branch Manager

Mark Smith
Vice President,
Commercial Loan Officer

Theodore Thome
Vice President,
Commercial Loan Officer

Ramina Ushana
Vice President,
Branch Manager

Jason Vasquez
Vice President,
Commercial Loan Officer

Robert Walker
Vice President,
Agribusiness Loan Officer

Jeannine Welton
Vice President,
Branch Manager

Jennette Williams
Vice President,
Commercial Loan Officer

Stefani Woods
Vice President,
Commercial Loan Officer

Carol Worstein
Vice President,
Branch Manager

Joseph Yodsnukis
Vice President,
Commercial Loan Officer

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 2013 Circle of Elite included:

Jacquie Ashjian
Vice President, Credit Officer

Gloria Carter
Retail Administration Coordinator

Cathy Chatoian
Vice President, Cash Management Manager

Katie Hall
Electronic Banking Team Lead

Serena Loftis
Central Operations Representative

Wendy Parlavecchio
Vice President, Mortgage Loan Officer

Kurt Stinson
Assistant Vice President, Training Manager

Jenna Valentino
Overdraft Privilege Coordinator

Jeannine Welton
Vice President, Branch Manager - Team Leader

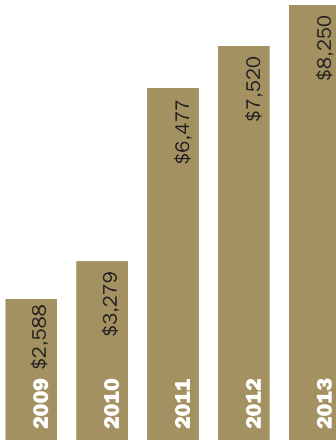
Central Valley Community Bank Senior Management

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

Central Valley Community Bancorp

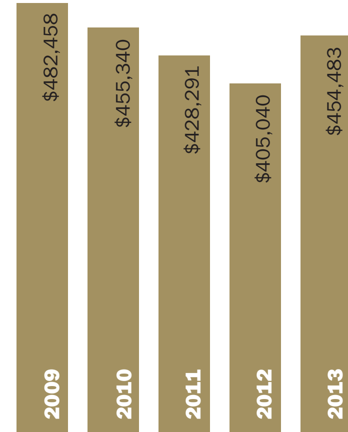
Trend **Analysis**

Central Valley Community Bancorp

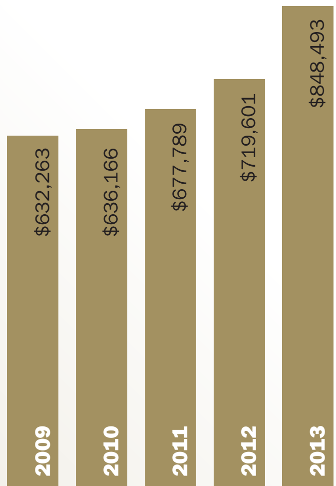


Net Income *(In Thousands)*

Diluted Earnings Per Share

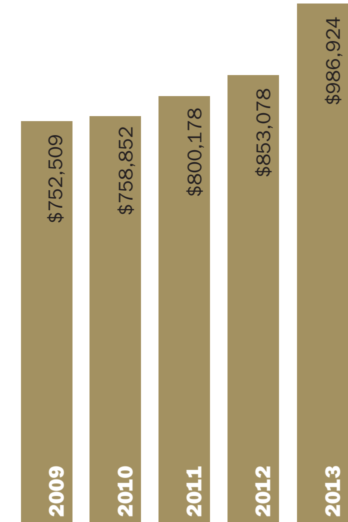


Average Total Loans *(In Thousands)*



Average Total Deposits *(In Thousands)*

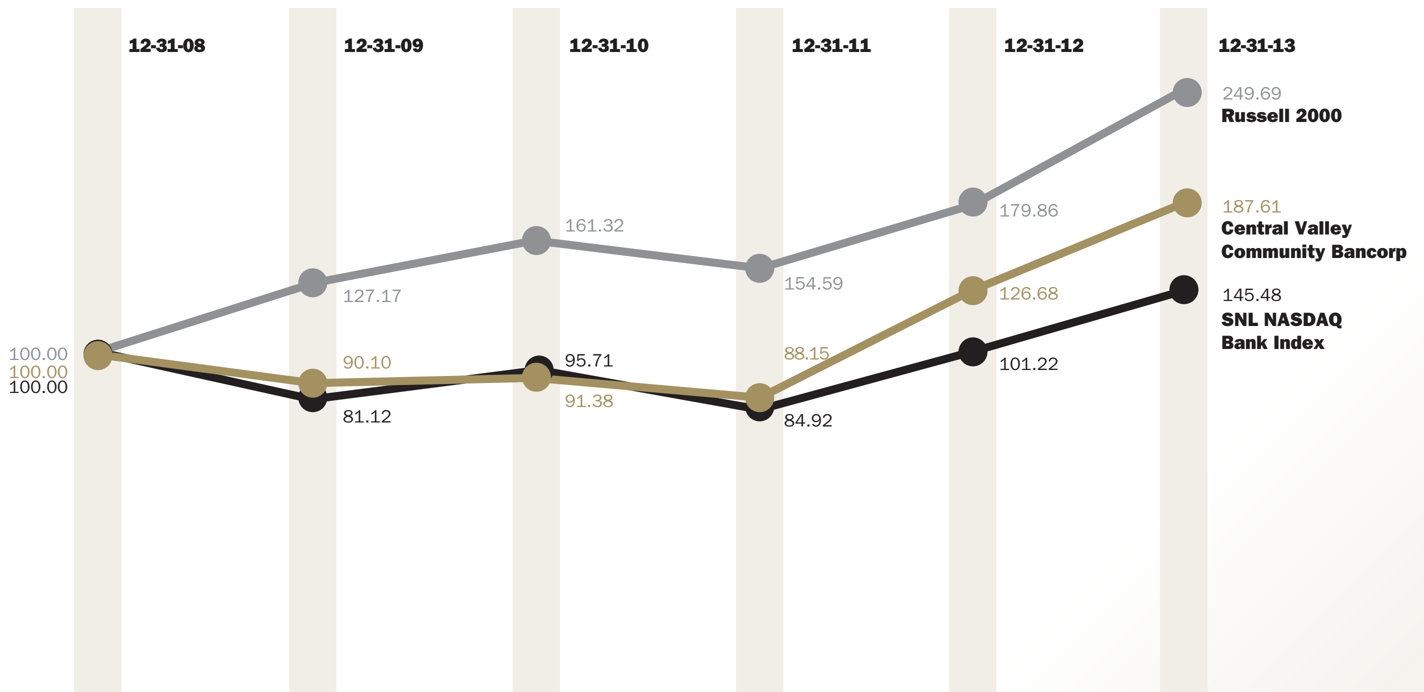
Return on Shareholders' Equity



Average Total Assets *(In Thousands)*

Comparative **Stock Price Performance**

Central Valley Community Bancorp



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

Source: SNL Financial LC

Consolidated Balance Sheets

December 31, 2013 and 2012 (In thousands, except share amounts)

ASSETS	2013	2012
Cash and due from banks	$ 25,878	$ 22,405
Interest-earning deposits in other banks	85,956	30,123
Federal funds sold	218	428
Total cash and cash equivalents	112,052	52,956
Available-for-sale investment securities (Amortized cost of $447,108 at December 31, 2013 and $381,074 at December 31, 2012)	443,224	393,965
Loans, less allowance for credit losses of $9,208 at December 31, 2013 and $10,133 at December 31, 2012	503,149	385,185
Bank premises and equipment, net	10,541	6,252
Other real estate owned	190	-
Bank owned life insurance	19,443	12,163
Federal Home Loan Bank stock	4,499	3,850
Goodwill	29,917	23,577
Core deposit intangibles	1,680	583
Accrued interest receivable and other assets	20,940	11,697
Total assets	$ 1,145,635	$ 890,228
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 356,392	$ 240,169
Interest bearing	647,751	511,263
Total deposits	1,004,143	751,432
Short-term borrowings	-	4,000
Junior subordinated deferrable interest debentures	5,155	5,155
Accrued interest payable and other liabilities	16,294	11,976
Total liabilities	1,025,592	772,563
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Preferred stock, no par value, $1,000 per share liquidation preference; 10,000,000 shares authorized, Series C, issued and outstanding: none at December 31, 2013 and 7,000 shares at December 31, 2012	-	7,000
Common stock, no par value; 80,000,000 shares authorized; issued and outstanding: 10,914,680 at December 31, 2013 and 9,558,746 at December 31, 2012	53,981	40,583
Retained earnings	68,348	62,496
Accumulated other comprehensive (loss) income, net of tax	(2,286)	7,586
Total shareholders' equity	120,043	117,665
Total liabilities and shareholders' equity	$ 1,145,635	$ 890,228

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

Consolidated Statements
of Income

For the Years Ended December 31, 2013, 2012, and 2011 (In thousands, except per share amounts)

	2013	2012	2011
INTEREST INCOME:			
Interest and fees on loans	$ 26,519	$ 23,913	$ 26,098
Interest on deposits in other banks	164	108	187
Interest on Federal funds sold	-	2	2
Interest and dividends on investment securities:			
Taxable	2,375	3,289	4,548
Exempt from Federal income taxes	5,778	4,508	3,464
Total interest income	34,836	31,820	34,299
INTEREST EXPENSE:			
Interest on deposits	1,270	1,630	2,662
Interest on junior subordinated deferrable interest debentures	98	107	100
Other	17	146	180
Total interest expense	1,385	1,883	2,942
Net interest income before provision for credit losses	33,451	29,937	31,357
PROVISION FOR CREDIT LOSSES	-	700	1,050
Net interest income after provision for credit losses	33,451	29,237	30,307
NON-INTEREST INCOME:			
Service charges	3,156	2,774	2,903
Appreciation in cash surrender value of bank owned life insurance	495	391	382
Interchange fees	962	767	758
Loan placement fees	677	631	274
Gain on disposal of other real estate owned	-	12	615
Net realized gains on sales and calls of investment securities	1,265	1,639	298
Other-than-temporary impairment loss:			
Total impairment loss	-	-	(31)
Loss recognized in other comprehensive income	-	-	-
Net impairment loss recognized in earnings	-	-	(31)
Federal Home Loan Bank dividends	177	36	9
Other income	1,100	992	1,063
Total non-interest income	7,832	7,242	6,271
NON-INTEREST EXPENSES:			
Salaries and employee benefits	17,427	15,597	15,762
Occupancy and equipment	4,109	3,578	3,795
Regulatory assessments	696	652	845
Data processing expense	1,383	1,125	1,178
ATM/Debit card expenses	527	369	369
License & maintenance contracts	472	362	324
Consulting fees	461	162	340
Advertising	476	558	735
Audit and accounting fees	511	514	491
Legal fees	116	185	335
Acquisition and integration	976	284	-
Amortization of core deposit intangibles	268	200	414
Other expense	4,264	3,688	3,652
Total non-interest expenses	31,686	27,274	28,240
Income before provision for income taxes	9,597	9,205	8,338
PROVISION FOR INCOME TAXES	1,347	1,685	1,861
Net income	$ 8,250	$ 7,520	$ 6,477
Net income	$ 8,250	$ 7,520	$ 6,477
Preferred stock dividends and accretion	350	350	486
Net income available to common shareholders	$ 7,900	$ 7,170	$ 5,991
Basic earnings per common share	$ 0.77	$ 0.75	$ 0.63
Diluted earnings per common share	$ 0.77	$ 0.75	$ 0.63
Cash dividends per common share	$ 0.20	$ 0.05	$ -

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

Consolidated Statements
of Comprehensive Income

For the Years Ended December 31, 2013, 2012, and 2011 (In thousands)

	2013	2012	2011
NET INCOME	$ 8,250	$ 7,520	6,477
OTHER COMPREHENSIVE (LOSS) INCOME:			
Unrealized (losses) gains on securities:			
Unrealized holding (losses) gains	(15,510)	7,522	5,632
Less: reclassification for net gains included in net income	1,265	1,639	267
Other comprehensive (loss) income, before tax	(16,775)	5,883	5,365
Tax benefit (expense) related to items of other comprehensive income	6,903	(2,421)	(2,208)
Total other comprehensive (loss) income	(9,872)	3,462	3,157
Comprehensive (loss) income	$ (1,622)	$ 10,982	$ 9,634

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, 2013, 2012, and 2011 (In thousands, except share amounts)

	Preferred Stock				Common Stock			Accumulated Other	
	Series A		Series C				Retained	Comprehensive Income (Loss)	Total Shareholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Earnings	(Net of Taxes)	Equity
Balance, January 1, 2011	7,000	$ 6,864	-	$ -	9,368,016	$ 39,745	$ 49,815	$ 967	$ 97,391
Net income	-	-	-	-	-	-	6,477	-	6,477
Net change in unrealized gain on available-for-sale investment securities	-	-	-	-	-	-	-	3,157	3,157
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-based compensation expense	-	-	-	-	-	196	-	-	196
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
Net income	-	-	-	-	-	-	7,520	-	7,520
Net change in unrealized gain on available-for-sale investment securities	-	-	-	-	-	-	-	3,462	3,462
Stock-based compensation expense	-	-	-	-	-	108	-	-	108
Cash dividend payment ($0.05 per common share)	-	-	-	-	-	-	(480)	-	(480)
Repurchase and retirement of common stock	-	-	-	-	(58,100)	(488)	-	-	(488)
Stock options exercised and related tax benefit	-	-	-	-	69,030	411	-	-	411
Preferred stock dividends	-	-	-	-	-	-	(350)	-	(350)
Balance, December 31, 2012	-	-	7,000	7,000	9,558,746	40,583	62,496	7,586	117,665
Net income	-	-	-	-	-	-	8,250	-	8,250
Net change in unrealized gain (loss) on available-for-sale investment securities	-	-	-	-	-	-	-	(9,872)	(9,872)
Stock issued for acquisition					1,262,605	12,494			12,494
Redemption of preferred stock Series C	-	-	(7,000)	(7,000)	-	-	-	-	(7,000)
Stock-based compensation expense	-	-	-	-	-	98	-	-	98
Cash dividend payment ($0.20 per common share)	-	-	-	-	-	-	(2,048)	-	(2,048)
Stock options exercised and related tax benefit	-	-	-	-	93,329	806	-	-	806
Preferred stock dividends	-	-	-	-	-	-	(350)	-	(350)
Balance, December 31, 2013	-	$ -	-	$ -	10,914,680	$ 53,981	$ 68,348	$ (2,286)	$ 120,043

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

Consolidated Statements
of Cash Flows

For the Years Ended December 31, 2013, 2012, and 2011 (In thousands)

	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 8,250	$ 7,520	$ 6,477
Adjustments to reconcile net income to net cash provided by operating activities:			
Net (decrease) increase in deferred loan fees	(294)	(311)	266
Depreciation	1,133	972	1,212
Accretion	(852)	(713)	(715)
Amortization	9,179	7,549	3,590
Stock-based compensation	98	108	196
Excess tax benefit from exercise of stock options	(17)	(26)	(116)
Provision for credit losses	-	700	1,050
Net other than temporary impairment losses on investment securities	-	-	31
Net realized gains on sales and calls of available-for-sale investment securities	(1,265)	(1,639)	(298)
Net (gain) loss on sale and disposal of equipment	(1)	(4)	5
Net gain on sale of other real estate owned	-	(12)	(615)
Increase in bank owned life insurance, net of expenses	(495)	(391)	(204)
Net gain on bank owned life insurance	-	-	(85)
Net decrease (increase) in accrued interest receivable and other assets	410	(19)	(700)
Net decrease in prepaid FDIC Assessments	1,542	513	705
Net (decrease) increase in accrued interest payable and other liabilities	(1,805)	(7,425)	8,515
(Benefit) provision for deferred income taxes	(296)	440	1,270
Net cash provided by operating activities	15,587	7,262	20,584
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net cash and cash equivalents acquired in acquisition	40,935	-	-
Purchases of available-for-sale investment securities	(222,668)	(194,583)	(214,569)
Proceeds from sales or calls of available-for-sale investment securities	88,146	39,119	44,700
Proceeds from maturity and principal repayment of available-for-sale investment securities	76,512	90,798	35,951
Net (increase) decrease in loans	(4,393)	28,089	2,815
Proceeds from sale of other real estate owned	263	2,349	2,472
Purchases of premises and equipment	(1,159)	(1,353)	(1,246)
Purchases of bank owned life insurance	-	(116)	
FHLB stock redeemed (purchased)	48	(957)	157
Proceeds from bank owned life insurance	-	-	146
Proceeds from sale of premises and equipment	1	5	-
Net cash used in investing activities	(22,315)	(36,649)	(129,574)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in demand, interest-bearing and savings deposits	75,663	53,265	87,928
Net increase (decrease) in time deposits	2,841	(14,819)	(25,437)
Repayments of short-term borrowings to Federal Home Loan Bank	(4,000)	-	(10,000)
Redemption of preferred stock Series C	(7,000)	-	-
Purchase and retirement of common stock	-	(488)	-
Proceeds from exercise of stock options	789	385	680
Repurchase of common stock warrant	-	-	(185)
Excess tax benefit from exercise of stock options	17	26	116
Cash dividend payments on common stock	(2,048)	(480)	-
Cash dividend payments on preferred stock	(438)	(350)	(307)
Net cash provided by financing activities	65,824	37,539	52,795
Increase (decrease) in cash and cash equivalents	59,096	8,152	(56,195)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	52,956	44,804	100,999
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 112,052	$ 52,956	$ 44,804
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 1,430	$ 1,939	$ 3,186
Income taxes	$ 1,790	$ 1,193	$ 826
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	$ 190	$ 2,337	$ 244
Assumption of other real estate owned liabilities	$ -	$ -	$ 288
Transfer of loans to other assets	$ -	$ -	$ 209
Common stock issued in Visalia Community Bank acquisition	$ 12,494	$ -	$ -
Accrued preferred stock dividends	$ -	$ 88	$ 88

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.

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 21 full service offices in Clovis, Exeter, Fresno, Kerman, Lodi, Madera, Merced, Modesto, Oakhurst, Prather, Sacramento, Stockton, Tracy, and Visalia, 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. Depositors' accounts at an insured depository institution, including all non-interest bearing transactions accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount of $250,000 for each deposit insurance ownership category.

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.

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 not 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 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. 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 may differ from these estimates under different assumptions. 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 years ended December 31, 2013 and December 31, 2012, there were no transfers between categories. At December 31, 2013 and 2012, 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 prospect 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, for debt securities, 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 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 on 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Allowance for Credit Losses - The allowance for credit losses (the "allowance") is an estimate of probable credit losses 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.

For all loan classes, 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 a 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 Company has loans that were acquired in an acquisition, for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected. These purchased credit impaired loans are recorded at the amount paid, such that there is no carryover of the seller's allowance for loan losses. After acquisition, losses are recognized by an increase in the allowance for loan losses. The Company estimates the amount and timing of expected cash flows for each loan and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference). Over the life of the loan, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

For all portfolio segments, 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 a simple average of historical losses by portfolio segment over the most recent 20 quarters, 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, 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 2013. These risk ratings are also subject to examination by independent specialists engaged by the Company and the Company's regulators. During these internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate and the fair values of collateral securing these loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, defined as follows:

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

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

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

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

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

The general reserve component of the allowance for loan losses also consists of reserve factors that are based on management's assessment of the following for each portfolio segment: (1) inherent credit risk, (2) historical losses and (3) other 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. Inherent credit

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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. Past due receivables indicate the borrower's capacity to repay their obligations may be deteriorating.

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 flows. 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 loans secured by real estate 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 affecting 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 flows to service debt obligations.

Other Real Estate - Primarily loans secured by agricultural real estate for development and production of permanent plantings that 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 the liquidity of the 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 include 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 Business Oversight, as an integral part of their examination process, review the adequacy of the allowance. Also, subject to examination by independent specialists. 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.

Bank Owned Life Insurance - The Company has purchased life insurance policies on certain key executives. Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

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, 2013 and 2012 represents the excess of the cost of Visalia Community Bank, Service 1st Bancorp 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

result in impairment. For that reason, goodwill is assessed at least annually for impairment.

The Company has selected September 30 as the date to perform the annual impairment test. Management assessed qualitative factors including performance trends and noted no factors indicating goodwill impairment. 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 2013, so goodwill was not required to be retested. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Intangible Assets - The intangible assets at December 31, 2013 represent the estimated fair value of the core deposit relationships acquired in the acquisition of Service 1st Bank in 2008, and the 2013 acquisition of Visalia Community Bank. Core deposit intangibles are being amortized using the straight-line method over an estimated life of seven - ten years from the date of acquisition. 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, 2013 and determined no impairment was necessary.

Loan Commitments and Related Financial Instruments - Financial instruments include offbalance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount of these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Income Taxes - The Company files its income taxes on a consolidated basis with its Subsidiary. The allocation of income tax expense represents each entity's proportionate share of the consolidated provision for income taxes.

Income tax expense represents the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. 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 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) plan expense is the amount of employer matching contributions. Profit sharing plan expense is the amount of employer contributions. Contributions to the profit sharing plan are determined at the discretion of the Board of Directors. Deferred compensation and supplemental retirement plan expense is allocated 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.

Restrictions on Cash: - Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

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-Merton 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 award.

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, 2013, 2012, and 2011 were $17,000, $26,000, and $116,000, respectively.

Dividend Restriction: - Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Company or by the Company to shareholders.

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 3*. 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 years' financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior years' net income or shareholders' equity.

Recent Accounting Pronouncements

Impact of New Financial Accounting Standards

Presentation of Comprehensive Income

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income* ("Topic 220") - *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 13-02"). This ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

additional detail about those amounts. ASU 13-02 is effective prospectively for annual and interim periods beginning after December 15, 2012. The Company adopted this standard on January 1, 2013. The adoption of this ASU did not have a material impact on the Company's financial position, results of operations, or cash flows.

2. ACQUISITION OF VISALIA COMMUNITY BANK

Effective July 1, 2013, the Company acquired Visalia Community Bank, headquartered in Visalia, California, wherein Visalia Community Bank,with three branches in Visalia and one branch in Exeter, merged with and into Central Valley Community Bancorp's subsidiary, Central Valley Community Bank, in a combined cash and stock transaction. The acquired assets and liabilities were recorded at fair value at the date of acquisition.

Under the terms of the merger agreement, the Company issued an aggregate of approximately 1.263 million shares of its common stock and cash totaling approximately $11.05 million to the former shareholders of Visalia Community Bank. Each Visalia Community Bank common shareholder of record at the effective time of the merger became entitled to receive 2.971 shares of common stock of the Company for each of their shares of Visalia Community Bank common stock.

In accordance with GAAP guidance for business combinations, the Company recorded $6.34 million of goodwill and $1.37 million of other intangible assets on the acquisition date. The other intangible assets are primarily related to core deposits and are being amortized using a straight-line method over a period of ten years with no significant residual value. For tax purposes purchase accounting adjustments, including goodwill are all non-taxable and/or non-deductible.

The acquisition was consistent with the Company's strategy to build a regional presence in Central California. The acquisition offers the Company the opportunity to increase profitability by introducing existing products and services to the acquired customer base as well as add new customers in the expanded region. Goodwill arising from the acquisition consisted largely of synergies and the cost savings resulting from the combined operations.

The following table summarizes the consideration paid for Visalia Community Bank and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date (in thousands):

Merger consideration:	
Cash	$ 11,050
Common stock issued	12,727
Fair Value of Total Consideration Transferred	$ 23,777
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	$ 51,985
Loans, net	113,467
Investments	14,818
Core deposit intangible	1,365
Premises and equipment	4,263
Federal Home Loan Bank stock	698
Other real estate owned	263
Deferred taxes and taxes receivable	3,179
Bank owned life insurance	6,786
Other assets	797
Total assets acquired	197,621
Deposits	174,206
Other liabilities	5,978
Total liabilities assumed	180,184
Total identifiable net assets	17,437
Goodwill	$ 6,340

The fair value of net assets acquired includes fair value adjustments to certain loans that were not considered impaired as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. However, the Company believes that all contractual cash flows related to these financial instruments will be collected. As such, these loans were not considered impaired at the acquisition date and were not subject to the guidance relating to purchased credit impaired loans, which have shown evidence of credit deterioration since origination. Loans acquired that were not subject to these requirements include non-impaired loans and customer receivables with a fair value and gross contractual amounts receivable of $110,891,000 and $113,743,000, respectively, on the date of acquisition. See *Note 5* for discussion of purchased credit impaired loans.

Pro Forma Results of Operations

The following table presents pro forma results of operations information for the periods presented as if the acquisition had occurred on January 1, 2012 after giving effect to certain adjustments. The pro forma results of operations for the years ended December 31, 2013 and 2012 include the historical accounts of the Company and Visalia Community Bank and pro forma adjustments as may be required, including the amortization of intangibles with definite lives and the amortization or accretion of any premiums or discounts arising from fair value adjustments for assets acquired and liabilities assumed. The pro forma information is intended for informational purposes only and is not necessarily indicative of the Company's future operating results or operating results that would have occurred had the acquisition been completed at the beginning of 2012. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions. (In thousands, except per share amounts):

	For the Years Ended December 31,	
	2013	2012
Net interest income	$ 36,773	$ 36,964
Provision for credit losses	298	1,534
Non-interest income	8,576	9,394
Non-interest expense	36,917	35,531
Income before provision for income taxes	8,134	9,293
Provision for income taxes	783	1,625
Net income	$ 7,351	$ 7,668
Preferred stock dividends and accretion	350	350
Net income available to common shareholders	$ 7,001	$ 7,318
Basic earnings per common share	$ 0.68	$ 0.67
Diluted earnings per common share	$ 0.68	$ 0.68

3. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In accordance with applicable guidance, the Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1 - Quoted market prices (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.

3. FAIR VALUE MEASUREMENTS (Continued)

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.

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

	December 31, 2013				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$ 25,878	$ 25,878	$ -	$ -	$ 25,878
Interest-earning deposits in other banks	85,956	85,956	-	-	85,956
Federal funds sold	218	218	-	-	218
Available-for-sale investment securities	443,224	7,514	435,710	-	443,224
Loans, net	503,149	-	-	507,361	507,361
Federal Home Loan Bank stock	4,499	N/A	N/A	N/A	N/A
Accrued interest receivable	5,026	21	2,976	2,029	5,026
Financial liabilities:					
Deposits	1,004,143	834,864	169,065	-	1,003,929
Short-term borrowings	-	-	-	-	-
Junior subordinated deferrable interest debentures	5,155	-	-	2,750	2,750
Accrued interest payable	129	-	105	24	129

	December 31, 2012				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$ 22,405	$ 22,405	$ -	$ -	$ 22,405
Interest-earning deposits in other banks	30,123	30,123	-	-	30,123
Federal funds sold	428	428	-	-	428
Available-for-sale investment securities	393,965	7,948	386,017	-	393,965
Loans, net	385,185	-	-	388,834	388,834
Federal Home Loan Bank stock	3,850	N/A	N/A	N/A	N/A
Accrued interest receivable	4,267	22	2,395	1,850	4,267
Financial liabilities:					
Deposits	751,432	614,556	137,401	-	751,957
Short-term borrowings	4,000	-	4,016	-	4,016
Junior subordinated deferrable interest debentures	5,155	-	-	2,990	2,990
Accrued interest payable	174	-	149	25	174

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 methods and assumptions used to estimate fair values are described as follows:

(a) Cash and Cash Equivalents - The carrying amounts of cash and due from banks, interest-earning deposits in other banks, and Federal funds sold approximate fair values and are classified as Level 1.

(b) Available-for-Sale Investment Securities - Available-for-sale investment 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 classified in Level 2 are based on quoted market prices for similar securities in active markets. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators.

(c) Loans - Fair values of loans are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Purchased credit impaired (PCI) loans are measured at estimated fair value on the date of acquisition. Carrying value is calculated as the present value of expected cash flows and approximates fair value. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are initially valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

(d) FHLB Stock - It is not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability.

(e) Other real state owned - OREO is measured at fair value less estimated costs to sell when acquired, establishing a new cost basis. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process to adjust for differences between the comparable sales and income data available. The Company records OREO as non-recurring with level 3 measurement inputs.

(f) Deposits - Fair value of demand deposit, savings, and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 1 classification. Fair value for fixed and variable 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 resulting in a Level 2 classification.

3. FAIR VALUE MEASUREMENTS (Continued)

(g) Short-Term Borrowings - The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings, generally maturing within ninety days, approximate their fair values resulting in a Level 2 classification.

(h) Other Borrowings - The fair values of the Company's long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

The fair values of the Company's Subordinated Debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

(i) Accrued Interest Receivable/Payable - The fair value of accrued interest receivable and payable is based on the fair value hierarchy of the related asset or liability.

(j) Off-Balance Sheet Instruments - Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

Assets Recorded at Fair Value

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2013:

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):

	Fair Value	Level 1	Level 2	Level 3
Available-for-sale investment securities				
Debt Securities:				
U.S. Government agencies	$ 18,203	$ -	$ 18,203	$ -
Obligations of states and political subdivisions	158,407	-	158,407	-
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	253,709	-	253,709	-
Private label residential mortgage backed securities	5,391	-	5,391	-
Other equity securities	7,514	7,514	-	-
Total assets measured at fair value on a recurring basis	$ 443,224	$ 7,514	$ 435,710	$ -

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 in active markets. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators.

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, 2013, no transfers between levels occurred.

There were no Level 3 assets measured at fair value on a recurring basis at December 31, 2013. Also there were no liabilities measured at fair value on a recurring basis at December 31, 2013.

Non-recurring Basis

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a non-recurring basis. These include the following assets and liabilities that are measured at the lower of cost or fair value that were recognized at fair value which was below cost at December 31, 2013 (in thousands):

	Fair Value	Level 1	Level 2	Level 3
Impaired loans:				
Consumer:				
Equity loans and lines of credit	$ 133	$ -	$ -	$ 133
Total consumer	133	-	-	133
Total impaired loans	$ 133	$ -	$ -	$ 133
Total assets measured at fair value on a non-recurring basis	$ 133	$ -	$ -	$ 133

At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. The fair value of impaired loans is based on the fair value of the collateral. Impaired loans were determined to be collateral dependent and categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements. Impaired loans evaluated under the discounted cash flow method are excluded from the table above. The discounted cash flow method as prescribed by topic 310 is not a fair value measurement since the discount rate utilized is the loan's effective interest rate which is not a market rate. There were no changes in valuation techniques used during the year ended December 31, 2013.

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value is compared with independent data sources such as recent market data or industry-wide statistics.

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $194,000 with a valuation allowance of $61,000 at December 31, 2013, resulting in an additional allowance for loan losses of $61,000 for the year ended December 31, 2013, down to their fair value of $133,000.

3. FAIR VALUE MEASUREMENTS (Continued)

The following two tables present information about the Company's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2012:

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):

	Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities				
Debt Securities:				
U.S. Government agencies	$ 9,454	$ -	$ 9,454	$ -
Obligations of states and political subdivisions	161,678	-	161,678	-
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	208,510	-	208,510	-
Private label residential mortgage backed securities	6,375	-	6,375	-
Other equity securities	7,948	7,948	-	-
Total assets measured at fair value on a recurring basis	$ 393,965	$ 7,948	$ 386,017	$ -

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 in active markets. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators.

There were no Level 3 assets measured at fair value on a recurring basis at December 31, 2012. Also there were no liabilities measured at fair value on a recurring basis at December 31, 2012.

Non-recurring Basis

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a non-recurring basis. These include the following assets and liabilities that are measured at the lower of cost or fair value that were recognized at fair value which was below cost at December 31, 2012 (in thousands):

	Fair Value	Level 1	Level 2	Level 3
Impaired loans:				
Real estate:				
Owner occupied	$ 194	$ -	$ -	$ 194
Real estate-construction and other land loans	4,863	-	-	4,863
Total real estate	5,057	-	-	5,057
Consumer:				
Equity loans and lines of credit	233	-	-	233
Total consumer	233	-	-	233
Total impaired loans	$ 5,290	$ -	$ -	$ 5,290
Total assets measured at fair value on a non-recurring basis	$ 5,290	$ -	$ -	$ 5,290

At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. The fair value of impaired loans is based on the fair value of the collateral. Impaired loans were determined to be collateral dependent and categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements. Impaired loans evaluated under the discounted cash flow method are excluded from the table above. The discounted cash flow method as prescribed by topic 310 is not a fair value measurement since the discount rate utilized is the loan's effective interest rate which is not a market rate. There were no changes in valuation techniques used during the year ended December 31, 2012

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value is compared with independent data sources such as recent market data or industry-wide statistics.

Impaired loans that are measured for impairment using the fair value of the collateral for collateral collateral dependent loans had a principal balance of $5,386,000 with a valuation allowance of $96,000 at December 31, 2012, resulting in an additional allocation in the allowance for loan losses of $19,000 for the year ended December 31, 2012 down to their fair value of $5,290,000. The valuation allowance represents specific allocations for the allowance for credit losses for impaired loans.

There were no liabilities measured at fair value on a non-recurring basis at December 31, 2012.

4. INVESTMENT SECURITIES

The fair value of the available-for-sale investment portfolio reflected an unrealized loss of $3,884,000 at December 31, 2013 compared to an unrealized gain of

4. INVESTMENT SECURITIES (Continued)

$12,891,000 at December 31, 2012. The unrealized loss or gain recorded is net of $1,598,000 in tax benefits and $5,305,000 in tax liabilities as accumulated other comprehensive income within shareholders' equity at December 31, 2013 and 2012, respectively. The Company did not have any held-to-maturity securities during the years ended December 31, 2013 or 2012.

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

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities				
Debt Securities:				
U.S. Government agencies	$ 18,172	$ 115	$ (84)	$ 18,203
Obligations of states and political subdivisions	162,018	2,906	(6,517)	158,407
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	254,978	1,075	(2,344)	253,709
Private label residential mortgage backed securities	4,344	1,047	-	5,391
Other equity securities	7,596	2	(84)	7,514
	$ 447,108	$ 5,145	$ (9,029)	$ 443,224

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities				
Debt Securities:				
U.S. Government agencies	$ 9,443	$ 34	$ (23)	$ 9,454
Obligations of states and political subdivisions	151,312	10,751	(385)	161,678
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	206,465	3,152	(1,107)	208,510
Private label residential mortgage backed securities	6,258	323	(206)	6,375
Other equity securities	7,596	352	-	7,948
	$ 381,074	$ 14,612	$ (1,721)	$ 393,965

Proceeds and gross realized gains (losses) on investment securities for the years ended December 31, 2013, 2012, and 2011 are shown below (in thousands):

	Years Ended December 31,		
	2013	2012	2011
Available-for-Sale Securities			
Proceeds from sales or calls	$ 88,146	$ 39,119	$ 44,700
Gross realized gains from sales or calls	$ 2,728	$ 2,121	$ 1,119
Gross realized losses from sales or calls	$ (1,463)	$ (482)	$ (821)

The provision for income taxes includes $521,000, $674,000, and $110,000 income tax impact from the reclassification of unrealized net gains on available-for-sale securities to realized net gains on available-for-sale securities for the years ended December 31, 2013, 2012, and 2011, respectively.

Investment securities with unrealized losses at December 31, 2013 and 2012 are summarized and classified according to the duration of the loss period as follows (in thousands):

	December 31, 2013					
	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:						
U.S. Government agencies	$ 4,132	$ (75)	$ 968	$ (9)	$ 5,100	$ (84)
Obligations of states and political subdivisions	89,556	(5,007)	15,015	(1,510)	104,571	(6,517)
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	148,853	(2,070)	19,199	(274)	168,052	(2,344)
Other equity securities	7,416	(84)	-	-	7,416	(84)
	$ 249,957	$ (7,236)	$ 35,182	$ (1,793)	$ 285,139	$ (9,029)

	December 31, 2012					
	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:						
U.S. Government agencies	$ 3,590	$ (23)	$ -	$ -	$ 3,590	$ (23)
Obligations of states and political subdivisions	$ 30,572	$ (385)	$ -	$ -	$ 30,572	$ (385)
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	76,764	(809)	18,024	(298)	94,788	(1,107)
Private label residential mortgage backed securities	-	-	2,886	(206)	2,886	(206)
	$ 110,926	$ (1,217)	$ 20,910	$ (504)	$ 131,836	$ (1,721)

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. 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, 2013, 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, 2013, and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at December 31, 2013 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.

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

4. INVESTMENT SECURITIES (Continued)

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.

U.S. Government Agencies - At December 31, 2013, the Company held seven U.S. Government agency securities of which two were in a loss position for less than 12 months and one was in a loss position and has been in a loss position for 12 months or more. The unrealized losses on the Company's investments in U.S. Government Agencies 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, 2013.

Obligations of States and Political Subdivisions - At December 31, 2013, the Company held 162 obligations of states and political subdivision securities of which 66 were in a loss position for less than 12 months and 14 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, 2013.

U.S. Government Sponsored Entities and Agencies Collateralized by Residential Mortgage Obligations - At December 31, 2013, the Company held 209 U.S. Government sponsored entity and agency securities collateralized by residential mortgage obligation securities of which 65 were in a loss position for less than 12 months and 16 in a loss position for more than 12 months. The unrealized losses on the Company's investments in U.S. Government sponsored entity and agencies collateralized by residential mortgage obligations were caused by interest rate changes. The contractual cash flows of those investments are guaranteed or supported by an agency or sponsored entity 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, 2013.

Private Label Residential Mortgage Backed Securities - At December 31, 2013, the Company had a total of 21 PLRMBS with a remaining principal balance of $4,344,000 and a net unrealized gain of approximately $1,047,000. None of these securities had an unrealized loss at December 31, 2013. Eight of these PLRMBS with a remaining principal balance of $3,400,000 had credit ratings below investment grade, and the Company recorded an OTTI charge of $17,000 related to two of these securities. As of December 31, 2013, these two PLRMBS had an unrealized gain of $81,000. The Company continues to perform extensive analyses on all PLRMBS securities.

The following table provides a roll forward for the years ended December 31, 2013 and 2012 of investment securities credit losses recorded in earnings (in thousands). 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.

	Years ended December 31, 2013	Years ended December 31, 2012
Beginning balance	$ 783	$ 783
Amounts related to credit loss for which an OTTI charge was not previously recognized	17	-
Increases to the amount related to credit loss for which OTTI was previously recognized	-	-
Realized losses for securities sold	-	-
Ending balance	$ 800	$ 783

The amortized cost and estimated fair value of investment securities at December 31, 2013 and 2012 by contractual maturity are shown in the two tables 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, 2013	Amortized Cost	Estimated Fair Value
Within one year	$ -	$ -
After one year through five years	1,769	1,939
After five years through ten years	22,099	22,687
After ten years	138,150	133,781
	162,018	158,407
Investment securities not due at a single maturity date:		
U.S. Government agencies	18,172	18,203
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	254,978	253,709
Private label residential mortgage backed securities	4,344	5,391
Other equity securities	7,596	7,514
	$ 447,108	$ 443,224

December 31, 2012	Amortized Cost	Estimated Fair Value
Within one year	$ 150	$ 151
After one year through five years	10,355	11,250
After five years through ten years	20,256	22,176
After ten years	120,551	128,101
	151,312	161,678
Investment securities not due at a single maturity date:		
U.S. Government agencies	9,443	9,454
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	206,465	208,510
Private label residential mortgage backed securities	6,258	6,375
Other equity securities	7,596	7,948
Total	$ 381,074	$ 393,965

Investment securities with amortized costs totaling $98,701,000 and $81,245,000 and fair values totaling $99,209,000 and $89,343,000 were pledged as collateral for borrowing arrangements, public funds and for other purposes at December 31, 2013 and 2012, respectively.

5. LOANS AND ALLOWANCE FOR CREDIT LOSSES

Outstanding loans are summarized as follows (in thousands):

Loan Type	December 31, 2013	% of Total loans	December 31, 2012	% of Total loans
Commercial:				
Commercial and industrial	$ 87,082	17.0%	$ 77,956	19.7%
Agricultural land and production	31,649	6.1%	26,599	6.7%
Total commercial	118,731	23.1%	104,555	26.4%
Real estate:				
Owner occupied	156,781	30.6%	114,444	28.9%
Real estate construction and other land loans	42,329	8.3%	33,199	8.4%
Commercial real estate	86,117	16.8%	53,797	13.6%
Agricultural real estate	44,164	8.6%	28,400	7.2%
Other real estate	4,548	0.9%	8,098	2.0%
Total real estate	333,939	65.2%	237,938	60.1%
Consumer:				
Equity loans and lines of credit	48,594	9.5%	42,932	10.9%
Consumer and installment	11,252	2.2%	10,346	2.6%
Total consumer	59,846	11.7%	53,278	13.5%
Deferred loan fees, net	(159)		(453)	
Total gross loans	512,357	100.0%	395,318	100.0%
Allowance for credit losses	(9,208)		(10,133)	
Total loans	$ 503,149		$ 385,185	

The table above includes loans acquired at fair value on July 1, 2013 with outstanding balances of $99,948,000 as of December 31, 2013.

At December 31, 2013 and 2012, loans originated under Small Business Administration (SBA) programs totaling $7,345,000 and $5,586,000, respectively, were included in the real estate and commercial categories. Approximately $119,539,000 in loans were pledged under a blanket lien as collateral to the FHLB for the Bank's remaining borrowing capacity of $272,797,000 as of December 31, 2013. The Bank's credit limit varies according to the amount and composition of the investment and loan portfolios pledged as collateral.

Salaries and employee benefits totaling $1,373,000, $754,000, and $229,000 have been deferred as loan origination costs for the years ended December 31, 2013, 2012, and 2011, respectively.

Purchased Credit Impaired Loans

The Company has loans that were acquired in an acquisition, for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected.

These purchased credit impaired (PCI) loans are recorded at the amount paid, such that there is no carryover of the seller's allowance for loan losses. After acquisition, losses are recognized by an increase in the allowance for loan losses. The Company estimates the amount and timing of expected cash flows for each PCI loan and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan (accretable yield). The excess of each PCI loan's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference). Over the life of the loan, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

The carrying amount of PCI loans is included in the balance sheet amounts of loans receivable at December 31, 2013. The amounts of PCI loans at December 31, 2013 and 2012 are as follows (in thousands):

	December 31, 2013	December 31, 2012
Real estate	$ 2,465	$ -
Outstanding balance	$ 2,465	$ -
Carrying amount, net of allowance of $0	$ 2,465	$ -

Accretable yield, or income expected to be collected on PCI loans for the year ended December 31, 2013, 2012, and 2011 is as follows (in thousands):

	Years ended December 31, 2013	2012	2011
Balance at beginning of year	$ -	$ -	$ -
New loans acquired	105	-	-
Accretion of income	(124)	-	-
Reclassification from (to) non-accretable difference	113	-	-
Disposals	-	-	-
Balance at end of year	$ 94	$ -	$ -

During the year ended December 31, 2013, the Company did not increase or decrease the allowance for loan losses with respect to PCI loans.

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

	December 31, 2013	December 31, 2012
Contractually required payments receivable on PCI loans at acquisition:		
Real estate	$ 6,912	$ -
Total	$ 6,912	$ -
Cash flows expected to be collected at acquisition	$ 2,681	$ -
Fair value of acquired loans at acquisition	$ 2,576	$ -

Certain of the loans acquired by the Company that are within the scope of Topic ASC 310-30 are not accounted for using the income recognition model of the Topic because the Company cannot reliably estimate cash flows expected to be collected. The carrying amounts of such loans (which are included in the carrying amount, net of allowance, described above) are as follows (in thousands):

	December 31, 2013	December 31, 2012
Loans acquired during the year	$ 1,324	$ -
Loans at the end of the year	$ 1,324	$ -

5. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

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

	Years Ended December 31,		
	2013	2012	2011
Balance, beginning of year	$ 10,133	$ 11,396	$ 11,014
Provision charged to operations	-	700	1,050
Losses charged to allowance	(1,446)	(2,850)	(1,532)
Recoveries	521	887	864
Balance, end of year	$ 9,208	$ 10,133	$ 11,396

The following table shows the summary of activities for the allowance for credit losses as of and for the years ended December 31, 2013 and 2012 by portfolio segment (in thousands):

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
Beginning balance, January 1, 2013	$ 2,676	$ 5,877	$ 1,541	$ 39	$ 10,133
Provision charged to operations	166	(434)	(115)	383	-
Losses charged to allowance	(713)	(285)	(448)	-	(1,446)
Recoveries	315	16	190	-	521
Ending balance, December 31, 2013	$ 2,444	$ 5,174	$ 1,168	$ 422	$ 9,208
Allowance for credit losses:					
Beginning balance, January 1, 2012	$ 2,266	$ 7,155	$ 1,836	$ 139	$ 11,396
Provision charged to operations	18	643	139	(100)	700
Losses charged to allowance	(123)	(1,966)	(761)	-	(2,850)
Recoveries	515	45	327	-	887
Ending balance, December 31, 2012	$ 2,676	$ 5,877	$ 1,541	$ 39	$ 10,133

The following is a summary of the allowance for credit losses by impairment methodology and portfolio segment as of December 31, 2013 and December 31, 2012 (in thousands):

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
Ending balance, December 31, 2013	$ 2,444	$ 5,174	$ 1,168	$ 422	$ 9,208
Ending balance: individually evaluated for impairment	$ 469	$ 465	$ 73	$ -	$ 1,007
Ending balance: collectively evaluated for impairment	$ 1,975	$ 4,709	$ 1,095	$ 422	$ 8,201
Ending balance, December 31, 2012	$ 2,676	$ 5,877	$ 1,541	$ 39	$ 10,133
Ending balance: individually evaluated for impairment	$ 40	$ 465	$ 5	$ -	$ 510
Ending balance: collectively evaluated for impairment	$ 2,636	$ 5,412	$ 1,536	$ 39	$ 9,623

The table above excludes the recorded investment in loans acquired with deteriorated quality of $2,465,000 with no allowance at December 31, 2013.

5. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table shows the ending balances of loans as of December 31, 2013 and December 31, 2012 by portfolio segment and by impairment methodology (in thousands):

	Commercial	Real Estate	Consumer	Total
Loans:				
Ending balance, December 31, 2013	$ 118,731	$ 333,939	$ 59,846	$ 512,516
Ending balance: individually evaluated for impairment	$ 1,527	$ 9,540	$ 2,290	$ 13,357
Ending balance: collectively evaluated for impairment	$ 117,204	$ 324,399	$ 57,556	$ 499,159
Loans:				
Ending balance, December 31, 2012	$ 104,555	$ 237,938	$ 53,278	$ 395,771
Ending balance: individually evaluated for impairment	$ 2,405	$ 12,868	$ 1,832	$ 17,105
Ending balance: collectively evaluated for impairment	$ 102,150	$ 225,070	$ 51,446	$ 378,666

The following table shows the loan portfolio by class allocated by management's internal risk ratings at December 31, 2013 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial:					
Commercial and industrial	$ 81,732	$ 2,244	$ 3,106	$ -	$ 87,082
Agricultural land and production	31,649	-	-	-	31,649
Real Estate:					
Owner occupied	144,082	5,229	7,470	-	156,781
Real estate construction and other land loans	31,776	3,959	6,594	-	42,329
Commercial real estate	77,589	3,718	4,810	-	86,117
Agricultural real estate	42,151	2,013	-	-	44,164
Other real estate	4,548	-	-	-	4,548
Consumer:					
Equity loans and lines of credit	41,999	2,400	4,195	-	48,594
Consumer and installment	10,946	46	260	-	11,252
Total	$ 466,472	$ 19,609	$ 26,435	$ -	$ 512,516

The following table shows the loan portfolio by class allocated by management's internally assigned risk grade ratings at December 31, 2012 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial:					
Commercial and industrial	$ 71,125	$ 824	$ 6,007	$ -	$ 77,956
Agricultural land and production	26,599	-	-	-	26,599
Real Estate:					
Owner occupied	107,281	1,831	5,332	-	114,444
Real estate construction and other land loans	18,517	3,377	11,305	-	33,199
Commercial real estate	44,880	3,952	4,965	-	53,797
Agricultural real estate	26,883	1,517	-	-	28,400
Other real estate	8,098	-	-	-	8,098
Consumer:					
Equity loans and lines of credit	40,527	258	2,147	-	42,932
Consumer and installment	10,259	77	10	-	10,346
Total	$ 354,169	$ 11,836	$ 29,766	$ -	$ 395,771

5. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table shows an aging analysis of the loan portfolio by class and the time past due at December 31, 2013 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days Accruing	Non-accrual
Commercial:								
Commercial and industrial	$ 274	$ 236	$ -	$ 510	$ 86,572	$ 87,082	$ -	$ 1,527
Agricultural land and production	-	-	-	-	31,649	31,649	-	-
Real estate:	-				-	-		
Owner occupied	1,272	134	418	1,824	154,957	156,781	-	2,161
Real estate construction and other land loans	-	-	-	-	42,329	42,329	-	1,450
Commercial real estate	-	-	-	-	86,117	86,117	-	158
Agricultural real estate	-	-	-	-	44,164	44,164	-	-
Other real estate	-	-	-	-	4,548	4,548	-	-
Consumer:					-	-		
Equity loans and lines of credit	10	147	252	409	48,185	48,594	-	2,286
Consumer and installment	86	-	-	86	11,166	11,252	-	4
Total	$ 1,642	$ 517	$ 670	$ 2,829	$ 509,687	$ 512,516	$ -	$ 7,586

The following table shows an aging analysis of the loan portfolio by class and the time past due at December 31, 2012 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days Accruing	Non-accrual
Commercial:								
Commercial and industrial	$ -	$ -	$ -	$ -	$ 77,956	$ 77,956	$ -	$ -
Agricultural land and production	-	-	-	-	26,599	26,599	-	-
Real estate:	-					-		
Owner occupied	-	213	-	213	114,231	114,444	-	1,575
Real estate construction and other land loans	-	-	-	-	33,199	33,199	-	6,288
Commercial real estate	-	-	-	-	53,797	53,797	-	-
Agricultural real estate	-	-	-	-	28,400	28,400	-	-
Other real estate	-	-	-	-	8,098	8,098	-	-
Consumer:						-		
Equity loans and lines of credit	-	-	-	-	42,932	42,932	-	1,832
Consumer and installment	27	-	-	27	10,319	10,346	-	-
Total	$ 27	$ 213	$ -	$ 240	$ 395,531	$ 395,771	$ -	$ 9,695

5. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table shows information related to impaired loans by class at December 31, 2013 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial:			
Commercial and industrial	$ 350	$ 385	$ -
Agricultural land and production	-	-	-
Total commercial	350	385	-
Real estate:			
Owner occupied	3,160	4,159	-
Real estate construction and other land loans	1,449	2,136	-
Commercial real estate	502	891	-
Agricultural real estate	-	-	-
Other real estate	-	-	-
Total real estate	5,111	7,186	-
Consumer:			
Equity loans and lines of credit	2,029	2,826	-
Consumer and installment	4	5	-
Total consumer	2,033	2,831	-
Total with no related allowance recorded	7,494	10,402	-
With an allowance recorded:			
Commercial:			
Commercial and industrial	1,177	1,222	469
Agricultural land and production	-	-	-
Total commercial	1,177	1,222	469
Real estate:			
Owner occupied	385	425	3
Real estate construction and other land loans	4,044	4,044	462
Commercial real estate	-	-	-
Agricultural real estate	-	-	-
Other real estate	-	-	-
Total real estate	4,429	4,469	465
Consumer:			
Equity loans and lines of credit	257	264	73
Consumer and installment	-	-	-
Total consumer	257	264	73
Total with an allowance recorded	5,863	5,955	1,007
Total	$ 13,357	$ 16,357	$ 1,007

The recorded investment in loans excludes accrued interest receivable and net loan origination fees, due to immateriality.

The following table shows information related to impaired loans by class at December 31, 2012 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial:			
Commercial and industrial	$ -	$ -	$ -
Agricultural land and production	-	-	-
Total commercial	-	-	-
Real estate:			
Owner occupied	-	-	-
Real estate construction and other land loans	1,352	1,888	-
Commercial real estate	-	-	-
Agricultural real estate	-	-	-
Other real estate	-	-	-
Total real estate	1,352	1,888	-
Consumer:			
Equity loans and lines of credit	1,523	1,834	-
Consumer and installment	-	-	-
Total consumer	1,523	1,834	-
Total with no related allowance recorded	2,875	3,722	-
With an allowance recorded:			
Commercial:			
Commercial and industrial	2,405	2,405	40
Agricultural land and production	-	-	-
Total commercial	2,405	2,405	40
Real estate:			
Owner occupied	1,575	1,733	165
Real estate construction and other land loans	9,941	10,875	300
Commercial real estate	-	-	-
Agricultural real estate	-	-	-
Other real estate	-	-	-
Total real estate	11,516	12,608	465
Consumer:			
Equity loans and lines of credit	309	323	5
Consumer and installment	-	-	-
Total consumer	309	323	5
Total with an allowance recorded	14,230	15,336	510
Total	$ 17,105	$ 19,058	$ 510

The recorded investment in loans excludes accrued interest receivable and net loan origination fees, due to immateriality.

5. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following presents by class, information related to the average recorded investment and interest income recognized on impaired loans for the years ended December 31, 2013, 2012, and 2011 (in thousands):

	Year Ended December 31, 2013		Year Ended December 31, 2012		Year Ended December 31, 2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:						
Commercial:						
Commercial and industrial	$ 329	$ -	$ 952	$ -	$ 544	$ -
Agricultural land and production	-	-	-	-	-	-
Total commercial	329	-	952	-	544	-
Real estate:						
Owner occupied	2,321	-	1,053	-	1,100	-
Real estate construction and other land loans	2,342	-	4,933	-	1,690	-
Commercial real estate	279	-	301	-	1,591	-
Agricultural real estate	-	-	-	-	-	-
Other real estate	-	-	-	-	-	-
Total real estate	4,942	-	6,287	-	4,381	-
Consumer:						
Equity loans and lines of credit	1,998	-	1,561	-	357	-
Consumer and installment	9	-	6	-	-	-
Total consumer	2,007	-	1,567	-	357	-
Total with no related allowance recorded	7,278	-	8,806	-	5,282	-
With an allowance recorded:						
Commercial:						
Commercial and industrial	1,309	111	1,581	226	505	181
Agricultural land and production	-	-	-	-	-	-
Total commercial	1,309	111	1,581	226	505	181
Real estate:						
Owner occupied	997	86	633	-	1,193	-
Real estate construction and other land loans	4,295	329	6,490	375	6,544	230
Commercial real estate	-	47	145	-	849	-
Agricultural real estate	-	-	-	-	-	-
Other real estate	-	-	-	-	-	-
Total real estate	5,292	462	7,268	375	8,586	230
Consumer:						
Equity loans and lines of credit	489	-	600	-	1,640	-
Consumer and installment	-	-	37	-	101	-
Total consumer	489	-	637	-	1,741	-
Total with an allowance recorded	7,090	573	9,486	601	10,832	411
Total	$ 14,368	$ 573	$ 18,292	$ 601	$ 16,114	$ 411

Foregone interest on nonaccrual loans totaled $661,000, $693,000, and $954,000 for the year ended ended December 31, 2013, 2012, and 2011, respectively.

Troubled Debt Restructurings:

As of December 31, 2013 and 2012, the Company has a recorded investment in troubled debt restructurings of $10,366,000 and $16,655,000, respectively. The Company has allocated $946,000 and $487,000 of specific reserves for those loans at December 31, 2013 and 2012, respectively. The Company has committed to lend zero as of December 31, 2013 to customers with outstanding loans that are classified as troubled debt restructurings.

For the years ended December 31, 2013 and 2012 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 periods, there were no troubled debt restructurings in which the amount of principal or accrued interest owed from the borrower were forgiven.

5. LOANS AND 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, 2013 (in thousands):

	Number of Loans	Pre-Modification Outstanding Recorded Investment (1)	Principal Modification	Post Modification Outstanding Recorded Investment (2)	Outstanding Recorded Investment
Troubled Debt Restructurings:					
Real Estate:					
Real Estate - Commercial	1	$ 620	$ -	$ 620	$ 344

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

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

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2012 (in thousands):

	Number of Loans	Pre-Modification Outstanding Recorded Investment (1)	Principal Modification	Post Modification Outstanding Recorded Investment (2)	Outstanding Recorded Investment
Troubled Debt Restructurings:					
Real Estate:					
Owner occupied	1	$ 425	$ -	$ 425	$ 415
Consumer					
Equity loans and line of credit	1	75	-	75	72
Total	2	$ 500	$ -	$ 500	$ 487

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

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

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. There was no defaults on troubled debt restructurings within twelve months following the modification during the year ended ended December 31, 2013. There was one default on troubled debt restructurings within twelve months following the modification during the year ended December 31, 2012. The recorded investment in the one default was zero at December 31, 2012.

6. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following (in thousands):

	December 31, 2013	December 31, 2012
Land	$ 1,131	$ 838
Buildings and improvements	6,982	3,362
Furniture, fixtures and equipment	8,875	8,351
Leasehold improvements	4,091	3,804
	21,079	16,355
Less accumulated depreciation and amortization	(10,538)	(10,103)
	$ 10,541	$ 6,252

Depreciation and amortization included in occupancy and equipment expense totaled $1,133,000, $972,000 and $1,212,000 for the years ended December 31, 2013, 2012, and 2011, respectively.

7. OTHER REAL ESTATE OWNED

The Company had $190,000 in other real estate owned (OREO) at December 31, 2013 as compared to none at December 31, 2012. The table below provides a summary of the change in other real estate owned (OREO) balances for the years ended December 31, 2013 and 2012 (in thousands):

	December 31, 2013	December 31, 2012
Balance, beginning of year	$ -	$ -
Additions	453	2,337
Dispositions	(263)	(2,349)
Write-downs	-	-
Net gain on disposition	-	12
Balance, end of year	$ 190	$ -

As of December 31, 2013 the Bank had $190,000 in OREO properties. In 2013, the Bank foreclosed on one property collateralized by real estate. During the year ended December 31, 2013, the Bank assumed two properties via the Visalia Community Bank acquisition which were subsequently sold by year end 2013. Proceeds from OREO sales totaled $263,000 during 2013. The Company did not realize any gain or loss from the sale of all properties.

As of December 31, 2012 the Bank had no OREO properties. In 2012, the Bank foreclosed on six properties with net realizable values totaling $2,337,000 and sold them for a net gain of $12,000. The Bank received income of $90,000 during 2012 from operations of storage facilities held as OREO.

8. GOODWILL AND INTANGIBLE ASSETS

The change in goodwill during the years ended December 31, 2013, 2012, and 2011 (in thousands):

	2013	2012	2011
Beginning of year	$ 23,577	$ 23,577	$ 23,577
Acquired goodwill	6,340	-	-
Impairment	-	-	-
End of year	$ 29,917	$ 23,577	$ 23,577

Total goodwill at December 31, 2013 was $29,917,000 compared to $23,577,000. Total goodwill at December 31, 2013 consisted of $6,340,000, $14,643,000 and $8,934,000 representing the excess of the cost of Visalia Community Bank, Service 1st Bancorp 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 Company'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.

The Company has selected September 30 as the date to perform the annual impairment test. Management assessed qualitative factors including performance trends and noted no factors indicating goodwill impairment.

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 2013, so goodwill was not required to be retested.

The intangible assets at December 31, 2013 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 2013 acquisition of Visalia Community Bank of $1,365,000. Core deposit intangibles are being amortized using the straight-line method over an estimated life of seven to ten years from the date of acquisition. At December 31, 2013, the weighted average remaining amortization period is five years. The carrying value of intangible assets at December 31, 2013 was $1,680,000, net of $1,085,000 in accumulated amortization expense. The carrying value at December 31, 2012 was $583,000, net of $817,000 in accumulated amortization expense. Management evaluates the remaining useful lives quarterly to determine whether events or circumstances warrant a revision to the remaining periods of amortization. Based on the evaluation, no changes to the remaining useful lives was required. Management performed an annual impairment test on core deposit intangibles as of September 30, 2013 and determined no impairment was necessary. Amortization expense recognized was $268,000 for 2013, $200,000 for 2012, and $414,000 for 2011.

The following table summarizes the Company's estimated core deposit intangible amortization expense for each of the next five years (in thousands):

Years Ending December 31,	Estimated Core Deposit Intangible Amortization
2014	$ 337
2015	320
2016	137
2017	137
2018	137
Thereafter	612
Total	$ 1,680

9. DEPOSITS

Interest-bearing deposits consisted of the following (in thousands):

	December 31, 2013	December 31, 2012
Savings	$ 61,918	$ 39,573
Money market	234,515	173,486
NOW accounts	182,364	161,328
Time, $100,000 or more	116,016	91,880
Time, under $100,000	52,938	44,996
	$ 647,751	$ 511,263

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

Years Ending December 31,	
2014	$ 135,118
2015	16,461
2016	2,639
2017	10,335
2018	4,401
Thereafter	-
	$ 168,954

Interest expense recognized on interest-bearing deposits consisted of the following (in thousands):

	Years Ended December 31, 2013	2012	2011
Savings	$ 40	$ 32	$ 47
Money market	229	392	692
NOW accounts	251	270	321
Time certificates of deposit	750	936	1,602
	$ 1,270	$ 1,630	$ 2,662

10. BORROWING ARRANGEMENTS

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

December 31, 2013 Amount	December 31, 2012 Amount	Rate	Maturity Date
$ -	$ 4,000	3.59%	February 12, 2013
-	4,000		
-	4,000	Less short-term portion	
$ -	$ -	Long-term debt	

FHLB advances are secured by investment securities with amortized costs totaling $3,985,000 and $4,016,000 and market values totaling $4,084,000 and $4,225,000 at December 31, 2013 and 2012, 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, 2013 and 2012, the Company had no Federal funds purchased.

10. BORROWING ARRANGEMENTS (Continued)

Lines of Credit - The Bank had unsecured lines of credit with its correspondent banks which, in the aggregate, amounted to $40,000,000 at December 31, 2013 and $40,000,000 at December 31, 2012, at interest rates which vary with market conditions. The Bank also had a line of credit in the amount of $51,000 and $127,000 with the Federal Reserve Bank of San Francisco at December 31, 2013 and 2012, respectively which bears interest at the prevailing discount rate collateralized by investment securities with amortized costs totaling $48,000 and $115,000 and market values totaling $52,000 and $129,000, respectively. At December 31, 2013 and 2012, the Bank had no outstanding short-term borrowings under these lines of credit.

11. JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

Service 1st Capital Trust I is a Delaware business trust formed by Service 1st. The Company succeeded to all of the rights and obligations of Service 1st in connection with the merger with Service 1st as of November 12, 2008. The Trust was formed on August 17, 2006 for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by Service 1st. Under applicable regulatory guidance, the amount of trust preferred securities that is eligible as Tier 1 capital is limited to 25% of the Company's Tier 1 capital on a pro forma basis. At December 31, 2013, 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, 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 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, 2013, the rate was 1.84%. Interest expense recognized by the Company for the years ended December 31, 2013, 2012, and 2011 was $98,000, $107,000 and $100,000, respectively.

12. INCOME TAXES

The provision for (benefit from) income taxes for the years ended December 31, 2013, 2012, and 2011 consisted of the following (in thousands):

	Federal	State	Total
2013			
Current	$ 2,217	$ (445)	$ 1,772
Deferred	(645)	220	(425)
Provision for income taxes	$ 1,572	$ (225)	$ 1,347
2012			
Current	$ 1,196	$ 49	$ 1,245
Deferred	249	191	440
Provision for income taxes	$ 1,445	$ 240	$ 1,685
2011			
Current	$ 686	$ (95)	$ 591
Deferred	893	377	1,270
Benefit from income taxes	$ 1,579	$ 282	$ 1,861

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, 2013 and 2012, the Company established a deferred tax valuation allowance in the amount of $108,000 and $110,000, respectively, for California capital loss carryforwards.

12. INCOME TAXES (Continued)

Deferred tax assets (liabilities) consisted of the following (in thousands):

	December 31,	
	2013	2012
Deferred tax assets:		
Allowance for credit losses	$ 3,492	$ 4,170
Deferred compensation	5,102	3,832
Unrealized loss on available-for-sale investment securities	1,598	-
Net operating loss carryover from acquisition	206	521
Bank premises and equipment	264	862
Mark to market adjustment	154	184
Other deferred taxes	594	253
Other than temporary impairment	289	282
Loan and investment impairment	1,914	352
State Enterprise Zone credit carry-forward	981	783
State capital loss carry-forward	108	110
Alternative minimum tax credit	2,238	1,025
State taxes	32	20
Other	7	7
Partnership income	70	77
Total deferred tax assets	17,049	12,478
Valuation allowance	(108)	(110)
Net deferred tax asset after valuation allowance	16,941	12,368
Deferred tax liabilities:		
Finance leases	(1,963)	(2,548)
Unrealized gain on available-for-sale investment securities	-	(5,305)
Core deposit intangible	(692)	(240)
FHLB stock	(319)	(241)
Loan origination costs	(406)	(256)
Total deferred tax liabilities	(3,380)	(8,590)
Net deferred tax assets	$ 13,561	$ 3,778

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, 2013, 2012, and 2011 consisted of the following:

	2013	2012	2011
Federal income tax, at statutory rate	34.0 %	34.0 %	34.0 %
State taxes, net of Federal tax benefit	0.4 %	2.8 %	3.6 %
Tax exempt investment security income, net	(20.5)%	(16.7)%	(14.0)%
Bank owned life insurance, net	(1.8)%	(1.4)%	(1.6)%
Solar credits	(1.4)%	(1.4)%	(1.6)%
Change in uncertain tax positions	(1.4)%	0.5 %	0.5 %
Change in prior year estimates	1.4 %	- %	- %
Other	3.4 %	0.5 %	1.4 %
Effective tax rate	14.1 %	18.3 %	22.3 %

At December 31, 2013, the Company had California net operating loss ("NOL") carry-forwards of approximately $2,885,000 from the Service 1st and Visalia Community Bank acquisitions, subject to an Internal Revenue Code (IRC) Sec. 382 annual limitation of $1,802,000. Management expects to fully utilize the Service 1st and Visalia Community Bank California NOL carry-forwards. California suspended utilization of NOLs for 2009, 2010 and 2011 tax years for taxpayers with business income in excess of $300,000. The California NOL will begin to expire in 2019.

The Company and its Subsidiary file income tax returns in the U.S. federal and California jurisdictions. The Company conducts all of its business activities in the State of California. There are currently no pending U.S. federal, state or local income tax examinations by those taxing authorities. The Company is no longer subject to the examination by U.S. federal taxing authorities for the years ended before December 31, 2010 and by the state and local taxing authorities for the years ended before December 31, 2008.

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

Balance at January 1, 2013	$ 316
Additions based on tax positions related to the current year	55
Reductions for tax positions of prior years	(191)
Balance at December 31, 2013	$ 180

This 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, 2013, 2012, and 2011, the Company did not recognize any interest or penalties related to uncertain tax positions.

13. COMMITMENTS AND CONTINGENCIES

Leases - The Bank leases certain of its branch facilities and administrative offices under noncancelable operating leases. Rental expense included in occupancy and equipment and other expenses totaled $2,123,000, $1,947,000 and $1,982,000 for the years ended December 31, 2013, 2012, and 2011, respectively.

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

Years Ending December 31,	
2014	$ 2,267
2015	2,191
2016	1,639
2017	1,240
2018	1,227
Thereafter	3,138
	$ 11,702

Federal Reserve Requirements - Banks are required to maintain reserves with the Federal Reserve Bank equal to a percentage of their reservable deposits. The Bank had no reserve balances required at December 31, 2013.

Correspondent Banking Agreements - The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. Uninsured deposits totaled $11,480,000 at December 31, 2013.

Financial Instruments With Off-Balance-Sheet Risk - The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet.

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

13. COMMITMENTS AND CONTINGENCIES (Continued)

The following financial instruments represent off-balance-sheet credit risk (in thousands):

	December 31,	
	2013	2012
Commitments to extend credit	$ 191,072	$ 162,261
Standby letters of credit	$ 1,595	$ 590

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 financial obligation or 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, 2013 and 2012. The Company recognizes these fees as revenue over the term of the commitment or when the commitment is used.

At December 31, 2013, commercial loan commitments represent 53% of total commitments and are generally secured by collateral other than real estate or unsecured. Real estate loan commitments represent 34% 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 13% of total commitments and are generally unsecured. In addition, the majority of the Bank's loan commitments have variable interest rates.

At December 31, 2013, the balance of a contingent allocation for probable loan loss experience on unfunded obligations was $141,000. The contingent allocation for probable loan loss experience on unfunded obligations is calculated by management using an appropriate, systematic, and consistently applied process. While related to credit losses, this allocation is not a part of the ALLL and is considered separately as a liability for accounting and regulatory reporting purposes. There was no contingent allocation recorded at December 31, 2012.

Concentrations of Credit Risk - At December 31, 2013, in management's judgment, a concentration of loans existed in commercial loans and real-estate-related loans, representing approximately 97.8% of total loans of which 23.1% were commercial and 74.7% were real-estate-related.

At December 31, 2012, 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 26.4% were commercial and 71% 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 or drought-related decline in agricultural business in the Company's primary market area could have an adverse impact on collectibility, increase the level of real-estate-related nonperforming loans, or have other adverse effects which alone or in the aggregate could have a material adverse effect on the financial condition, results of operations and cash flows of the Company.

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

14. SHAREHOLDERS' EQUITY

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

The Company and the Bank each meet specific capital guidelines that involve quantitative measures of their respective assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. These quantitative measures are established by regulation and require that the Company and the Bank maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. 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. Management knows of no conditions or events since that notification that would change the Bank's category.

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

Management believes that the Company and the Bank met all their capital adequacy requirements as of December 31, 2013 and 2012. There are no conditions or events since those notifications that management believes have changed those categories.

14. SHAREHOLDERS' EQUITY (Continued)

	December 31, 2013		December 31, 2012	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Tier 1 Leverage Ratio				
Central Valley Community Bancorp and Subsidiary	$ 88,320	8.14%	$ 90,866	10.56%
Minimum regulatory requirement	$ 43,394	4.00%	$ 34,418	4.00%
Central Valley Community Bank	$ 87,674	8.09%	$ 87,911	10.22%
Minimum requirement for "Well-Capitalized" institution	$ 54,218	5.00%	$ 42,994	5.00%
Minimum regulatory requirement	$ 43,375	4.00%	$ 34,395	4.00%
Tier 1 Risk-Based Capital Ratio				
Central Valley Community Bancorp and Subsidiary	$ 88,320	13.88%	$ 90,866	18.24%
Minimum regulatory requirement	$ 25,454	4.00%	$ 19,926	4.00%
Central Valley Community Bank	$ 87,674	13.79%	$ 87,911	17.67%
Minimum requirement for "Well-Capitalized" institution	$ 38,151	6.00%	$ 29,848	6.00%
Minimum regulatory requirement	$ 25,434	4.00%	$ 19,899	4.00%
Total Risk-Based Capital Ratio				
Central Valley Community Bancorp and Subsidiary	$ 96,292	15.13%	$ 97,299	19.53%
Minimum regulatory requirement	$ 50,908	8.00%	$ 39,853	8.00%
Central Valley Community Bank	$ 95,639	15.04%	$ 94,336	18.96%
Minimum requirement for "Well-Capitalized" institution	$ 63,585	10.00%	$ 49,747	10.00%
Minimum regulatory requirement	$ 50,868	8.00%	$ 39,798	8.00%

Dividends - During 2013, the Bank declared and paid cash dividends to the Company in the amount of $18,000,000 in connection with the VCB acquisition, the Series C Preferred redemption, and cash dividends to the Company's shareholders approved by the Company's Board of Directors. The Bank may not pay any dividend that would cause it to be deemed not "well capitalized" under applicable banking laws and regulations. The Company declared and paid a total of $2,048,000 or $0.20 per common share cash dividend to shareholders of record during the year ended December 31, 2013.

During 2012, the Bank declared and paid cash dividends to the Company in the amount of $3,000,000, in connection with stock repurchase agreements and cash dividends approved by the Company's Board of Directors. On October 17, 2012, the Company declared a $480,000 or $0.05 per common share cash dividend to shareholders of record at the close of business on November 15, 2012 which was paid on November 30, 2012. No dividends on common shares were declared in 2011.

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 Business Oversight 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, 2013, retained earnings of $2,433,000 were free of such restrictions.

Share Repurchase Plan - On August 15, 2012, the Board of Directors of the Company approved the adoption of a program to effect repurchases of the Company's common stock. Under the program, the Company was to repurchase up to five percent of the Company's outstanding shares of common stock, or approximately 479,850 shares based on the shares outstanding as of August 15, 2012, for the period beginning on August 15, 2012 and ending February 15, 2013. During 2012, the Company repurchased and retired a total of 58,100 shares at an average price of $8.41 for a total cost of $488,000. The stock repurchase program was suspended after the Company entered into a Reorganization Agreement and Plan of Merger (the Merger Agreement) with Visalia Community Bank on December 19, 2012.

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.

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 the 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 the 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. No shares of Series B Preferred Stock or non-voting common stock remain outstanding.

Capital Purchase Program - Small Business Lending Fund - On August 18, 2011, the Company entered into a Securities Purchase Agreement (SPA) 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 (Series C Preferred) 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 repurchased 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 for total consideration of $185,000.

On December 31, 2013, the Company redeemed all 7,000 outstanding shares of its Series C Preferred from the Treasury, in exercise of its optional redemption rights pursuant to the terms of the Series C Preferred under the Company's charter and the SPA. The Company paid the Treasury $7,087,500 in connection with the redemption, representing $1,000 per share of the Series C Preferred plus all accrued and unpaid dividends through the date of the redemption. The obligations of the Company under the SPA are terminated as a result of the redemption. No additional shares of Series C Preferred are outstanding.

14. SHAREHOLDERS' EQUITY (Continued)

A reconciliation of the numerators and denominators of the basic and diluted earnings per common share computations is as follows (in thousands, except share and per share amounts):

	For the Years Ended December 31,		
	2013	2012	2011
Basic Earnings Per Common Share:			
Net income	$ 8,250	$ 7,520	$ 6,477
Less: Preferred stock dividends and accretion	(350)	(350)	(486)
Income available to common shareholders	$ 7,900	$ 7,170	$ 5,991
Weighted average shares outstanding	10,245,448	9,587,784	9,522,066
Net income per common share	$ 0.77	$ 0.75	$ 0.63
Diluted Earnings Per Common Share:			
Net income	$ 8,250	$ 7,520	$ 6,477
Less: Preferred stock dividends and accretion	(350)	(350)	(486)
Income available to common shareholders	$ 7,900	$ 7,170	$ 5,991
Weighted average shares outstanding	10,245,448	9,587,784	9,522,066
Effect of dilutive stock options and warrants	62,592	28,629	16,596
Weighted average shares of common stock and common stock equivalents	10,308,040	9,616,413	9,538,662
Net income per diluted common share	$ 0.77	$ 0.75	$ 0.63

Outstanding options and warrants of 202,355, 352,319, and 436,619 were not factored into the calculation of dilutive stock options at December 31, 2013, 2012, and 2011, respectively, because they were anti-dilutive.

15. SHARED-BASED COMPENSATION

On December 31, 2013, 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 203,660 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 5 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 176,770 shares reserved for issuance for options already granted to employees and 296,540 remain reserved for future grants as of December 31, 2013. 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 granted during the years ending December 31, 2013 and 2011 from any of the Company's stock based compensation plans. In 2012, options to purchase 92,150 shares of common stock were granted from the 2005 Plan at exercise prices between $8.02 and $8.75. 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, dividend yields, 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 and dividend yields. In addition to these assumptions, management makes estates regarding pre-vesting forfeitures that will impact total compensation expense recognized under the plans.

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

	2012
Dividend yield	0.00%
Expected volatility	42%
Risk-free interest rate	0.71%
Expected option term	6.5 years

For the years ended December 31, 2013, 2012, and 2011, the compensation cost recognized for share based compensation was $98,000, $108,000, and $196,000, respectively. The recognized tax benefit for share based compensation expense was $28,000, $16,000, and $36,000 for 2013, 2012, and 2011, respectively.

A summary of the combined activity of the Plans for the year ended December 31, 2013 follows (dollars in thousands, except per share amounts):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2013	499,289	$ 8.78		
Options exercised	(93,329)	$ 8.45		
Options forfeited	(25,530)	$ 9.15		
Options outstanding at December 31, 2013	380,430	$ 8.83	4.71	$ 1,176
Options vested or expected to vest at December 31, 2013	375,055	$ 8.85	4.66	$ 2,928
Options exercisable at December 31, 2013	278,890	$ 9.38	3.49	$ 776

15. SHARED-BASED COMPENSATION (Continued)

Information related to the stock option plan during each year follows (in thousands, except per share amounts):

	2013	2012	2011
Weighted-average per share grant-date fair value of options granted	$ -	$ 3.40	$ -
Intrinsic value of options exercised	$ 82	$ 93	$ 417
Cash received from options exercised	$ 789	$ 385	$ 680
Excess tax benefit realized for option exercises	$ 17	$ 26	$ 116

As of December 31, 2013, there was $268,000 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 3.15 years. The total fair value of options vested was $102,000 and $140,000 for the years ended December 31, 2013 and 2012, respectively.

16. EMPLOYEE BENEFITS

401(k) and Profit Sharing Plan - The Bank has established a 401(k) and profit sharing plan. The 401(k) plan covers substantially all employees who have completed a three-month period in which they are credited with at least 1000 hours of service. Participants in the profit sharing plan are eligible to receive employer contributions after completion of 2 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 $225,000 , $210,000, and $150,000 to the profit sharing plan in 2013, 2012 and 2011, respectively.

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, 2013, 2012, and 2011, 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, 2013, 2012, and 2011, the Bank made matching contributions totaling $382,000, $388,000, and $352,000, 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 (2.85% at December 31, 2013). At December 31, 2013 and 2012, the total net deferrals included in accrued interest payable and other liabilities were $2,976,000 and $1,978,000, 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 $3,416,000 and $3,308,000 and at December 31, 2013 and 2012, respectively. Income recognized on these policies, net of related expenses, for the years ended December 31, 2013, 2012, and 2011, was $108,000, $103,000, and $98,000, 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 15 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, 2013, 2012, and 2011, totaled $581,000, $658,000, and $341,000, respectively. Accrued compensation payable under the salary continuation plans totaled $4,834,000 and $4,339,000 at December 31, 2013 and 2012, respectively.

In connection with these plans, the Bank purchased single premium life insurance policies with cash surrender values totaling $4,804,000 and $4,659,000 at December 31, 2013 and 2012, respectively. Income recognized on these policies, net of related expense, for the years ended December 31, 2013, 2012, and 2011 totaled $145,000, $150,000, and $144,000, 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, 2013 and 2012, the total amount of the liability was $1,907,000 and $1,807,000, respectively. Expense recognized by the Bank in 2013, 2012 and 2011 associated with these plans was $194,000, $184,000, and $98,000, 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 $4,326,000, and $4,196,000 at December 31, 2013 and 2012, respectively. Income recognized on these policies, net of related expenses, for the years ended December 31, 2013, 2012, and 2011, was $130,000, $150,000, and $140,000, respectively.

In connection with the acquisition of Visalia Community Bank (VCB), the Bank assumed a liability for the estimated present value of future benefits payable to former key executives of VCB. The liability relates to change in control benefits associated with VCB's salary continuation plans. The benefits are payable to the individuals when they reach retirement age. At December 31, 2013, the total amount of the liability was $863,000. Expense recognized by the Company in 2013 associated with these plans was $8,000. 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 $6,897,000 at December 31, 2013. Income recognized on these policies, net of related expenses, for the year ended December 31, 2013 was $111,000.

The current annual tax-free interest rate on all life insurance policies is 4.91%.

17. 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, 2013	$ 716
Disbursements	162
Amounts repaid	(71)
Balance, December 31, 2013	$ 807
Undisbursed commitments to related parties, December 31, 2013	$ 1,426

18. PARENT ONLY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS
December 31, 2013 and 2012
(In thousands)

	2013	2012
ASSETS		
Cash and cash equivalents	$ 385	$ 2,807
Investment in Bank subsidiary	124,378	119,812
Other assets	523	576
Total assets	$ 125,286	$ 123,195
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Junior subordinated debentures due to subsidiary grantor trust	$ 5,155	$ 5,155
Other liabilities	88	375
Total liabilities	5,243	5,530
Shareholders' equity:		
Preferred stock, Series C	-	7,000
Common stock	53,981	40,583
Retained earnings	68,348	62,496
Accumulated other comprehensive (loss) income, net of tax	(2,286)	7,586
Total shareholders' equity	120,043	117,665
Total liabilities and shareholders' equity	$ 125,286	$ 123,195

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the Years Ended December 31, 2013, 2012, and 2011
(In thousands)

	2013	2012	2011
Income:			
Dividends declared by Subsidiary - eliminated in consolidation	$ 18,000	$ 3,000	$ -
Other income	5	3	3
Total income	18,005	3,003	3
Expenses:			
Interest on junior subordinated deferrable interest debentures	98	107	100
Professional fees	102	140	148
Other expenses	424	587	352
Total expenses	624	834	600
Income (loss) before equity in undistributed net income of Subsidiary	17,381	2,169	(597)
Equity in undistributed net income of Subsidiary, net of distributions	(9,414)	4,993	6,854
Income before income tax benefit	7,967	7,162	6,257
Benefit from income taxes	283	358	220
Net income	8,250	7,520	6,477
Preferred stock dividend and accretion of discount	350	350	486
Income available to common shareholders	$ 7,900	$ 7,170	$ 5,991
Comprehensive (loss) income	$ (1,622)	$ 10,982	$ 9,634

18. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013, 2012, and 2011
(In thousands)

	2013	2012	2011
Cash flows from operating activities:			
Net income	$ 8,250	$ 7,520	$ 6,477
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Undistributed net income of subsidiary, net of distributions	9,414	(4,993)	(6,854)
Stock-based compensation	98	108	196
Tax benefit from exercise of stock options	(17)	(26)	(116)
Net decrease (increase) in other assets	86	(28)	(50)
Net (decrease) increase in other liabilities	(198)	179	(23)
Benefit for deferred income taxes	(18)	(15)	(36)
Net cash provided by (used in) operating activities	17,615	2,745	(406)
Cash flows used in investing activities:			
Investment in subsidiary	(11,358)	-	-
Cash flows from financing activities:			
Cash dividend payments on common stock	(2,048)	(480)	-
Cash dividend payments on preferred stock	(437)	(350)	(307)
Share repurchase and retirement	-	(488)	-
Proceeds from exercise of stock options	789	385	680
Redemption of preferred stock Series C	(7,000)	-	-
Warrant purchase	-	-	(185)
Tax benefit from exercise of stock options	17	26	116
Net cash (used in) provided by financing activities	(8,679)	(907)	304
(Decrease) increase in cash and cash equivalents	(2,422)	1,838	(102)
Cash and cash equivalents at beginning of year	2,807	969	1,071
Cash and cash equivalents at end of year	$ 385	$ 2,807	$ 969
Cash paid during the year for interest	$ 125	$ 109	$ 98
Non-cash investing and financing activities:			
Redemption of preferred stock Series A and issuance of preferred stock Series C	$ -	$ -	$ 7,000
Common stock issued in Visalia Community Bank acquisition	$ 12,494	$ -	$ -

Supplementary
Financial Information

The following supplementary financial information is not a part of the Company's financial statements.

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

	Q4 2013 (1)	Q3 2013 (1)	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Net interest income	$ 9,192	$ 10,536	$ 6,878	$ 6,845	$ 7,189	$ 7,572	$ 7,510	$ 7,666
Provision for credit losses	-	-	-	-	200	-	100	400
Net interest income after provision for credit losses	9,192	10,536	6,878	6,845	6,989	7,572	7,410	7,266
Total non-interest income	1,965	1,813	1,828	2,226	1,829	2,284	1,471	1,658
Total non-interest expense	8,538	8,991	7,224	6,933	6,983	6,655	6,718	6,918
Provision for income taxes	408	389	195	355	193	745	454	293
Net income	$ 2,211	$ 2,969	$ 1,287	$ 1,783	$ 1,642	$ 2,456	$ 1,709	$ 1,713
Net income available to common shareholders	$ 2,123	$ 2,882	$ 1,199	$ 1,696	$ 1,554	$ 2,369	$ 1,622	$ 1,625
Basic earnings per share	$ 0.19	$ 0.26	$ 0.13	$ 0.18	$ 0.16	$ 0.25	$ 0.17	$ 0.17
Diluted earnings per share	$ 0.19	$ 0.26	$ 0.12	$ 0.18	$ 0.16	$ 0.25	$ 0.17	$ 0.17

(1) The increase in Q4 2013 and Q3 2013 is a result of the Visalia Community Bank acquisition effective July, 1, 2013.

Report of
Independent Registered Public Accounting Firm

The Shareholders and Board of Directors
Central Valley Community Bancorp and Subsidiary
Fresno, California

We have audited the accompanying consolidated balance sheets of Central Valley Community Bancorp and subsidiary (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. 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 audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our 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 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 financial position of the Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

Crowe Horwath LLP

Sacramento, California
March 21, 2014

Selected
Consolidated Financial Data

Statements of Income	2013	2012	2011	2010	2009
	Years Ended December 31, (In thousands, except per share amounts)				
Total interest income	$ 34,836	$ 31,820	$ 34,299	$ 36,013	$ 40,734
Total interest expense	1,385	1,883	2,942	4,283	6,627
Net interest income before provision for credit losses	33,451	29,937	31,357	31,730	34,107
Provision for credit losses	-	700	1,050	3,800	10,514
Net interest income after provision for credit losses	33,451	29,237	30,307	27,930	23,593
Non-interest income	7,832	7,242	6,271	3,711	5,850
Non-interest expenses	31,686	27,274	28,240	28,731	27,531
Income before provision for (benefit from) income taxes	9,597	9,205	8,338	2,910	1,912
Provision for (benefit from) income taxes	1,347	1,685	1,861	(369)	(676)
Net income	8,250	7,520	6,477	3,279	2,588
Preferred stock dividends and accretion of discount	350	350	486	395	365
Net income available to common shareholders	$ 7,900	$ 7,170	$ 5,991	$ 2,884	$ 2,223
Basic earnings per share	$ 0.77	$ 0.75	$ 0.63	$ 0.31	$ 0.29
Diluted earnings per share	$ 0.77	$ 0.75	$ 0.63	$ 0.31	$ 0.28
Cash dividends declared per common share	$ 0.20	$ 0.05	$ -	$ -	$ -

Balances at end of year:	2013	2012	2011	2010	2009
	December 31, (In thousands)				
Investment securities, Federal funds sold and deposits in other banks	$ 529,398	$ 424,516	$ 353,808	$ 280,967	$ 232,142
Net loans	503,149	385,185	415,999	420,583	449,007
Total deposits	1,004,143	751,432	712,986	650,495	640,167
Total assets	1,145,635	890,228	849,023	777,594	765,488
Shareholders' equity	120,043	117,665	107,482	97,391	91,223
Earning assets	1,042,552	801,098	762,654	695,410	677,955
Average balances:					
Investment securities, Federal funds sold and deposits in other banks	$ 445,859	$ 368,818	$ 299,935	$ 231,761	$ 199,425
Net loans	444,770	394,675	417,273	444,418	473,850
Total deposits	848,493	719,601	677,789	636,166	632,263
Total assets	986,924	853,078	800,178	758,852	752,509
Shareholders' equity	119,746	114,561	103,386	96,174	83,400
Earning assets	895,330	766,937	715,862	672,804	671,906

Data from 2013 reflects the partial year impact of the acquisition of Visalia Community Bank on July 1, 2013.

Management's Discussion and Analysis
of Financial Condition and Results of Operations

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."

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. Effective July 1, 2013, the Company and Visalia Community Bank (VCB) completed a merger under which Visalia Community Bank, with three full-service offices in Visalia and one in Exeter, merged with and into the Bank. The Company's market area includes the central valley area from Sacramento, California to Bakersfield, California.

During 2013, 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.

The Bank now operates 21 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. Since 2007, 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. During early 2014, California experienced a severe drought. If the drought significantly harms the business of our customers, the credit quality of the loans to those customers could decline as a specific consequence of the drought.

OVERVIEW

Diluted earnings per share (EPS) for the year ended December 31, 2013 was $0.77 compared to $0.75 and $0.63 for the years ended December 31, 2012 and 2011, respectively. Net income for 2013 was $8,250,000 compared to $7,520,000 and $6,477,000 for the years ended December 31, 2013, 2012, and 2011, respectively. The increase in net income and EPS was primarily driven by increases in net interest income, lower provision for credit losses, increase in non-interest income, partially offset by increases in non-interest expense in 2013 compared to 2012. Total assets at December 31, 2013 were $1,145,635,000 compared to $890,228,000 at December 31, 2012.

Return on average equity for 2013 was 6.89% compared to 6.56% and 6.26% for 2012 and 2011, respectively. Return on average assets for 2013 was 0.84% compared to 0.88% and 0.81% for 2012 and 2011, respectively. Total equity was $120,043,000 at December 31, 2013 compared to $117,665,000 at December 31, 2012. The increase in assets and equity in 2013 compared to 2012 is primarily related to the VCB acquisition on July 1, 2013, and also due to increases in deposits and retained earnings offset by a decrease in other comprehensive income.

Average total loans increased $49,443,000 or 12.21% to $454,483,000 in 2013 compared to $405,040,000 in 2012. In 2013, we recorded no provision for credit losses compared to $700,000 in 2012 and $1,050,000 in 2011. The Company had nonperforming assets totaling $7,776,000 at December 31, 2013. Nonperforming assets included nonaccrual loans totaling $7,586,000 and Other Real Estate Owned (OREO) totaling $190,000. At December 31, 2012, nonperforming assets totaled $9,695,000 consisting of $9,695,000 in nonaccrual loans. Net charge-offs for 2013 were $925,000 compared to $1,963,000 for 2012 and $668,000 for 2011. Refer to "Asset Quality" below for further information.

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 shareholders;
- Return on average assets;
- Development of revenue streams, including net interest income and non-interest income;
- Asset quality;
- Asset growth;
- Capital adequacy;
- Operating efficiency; and
- Liquidity.

OVERVIEW (Continued)

Return to Our Shareholders

One measure of our return to our shareholders is the return on average equity (ROE). Our ROE was 6.89% for the year ended 2013 compared to 6.56% and 6.26% for the years ended 2012 and 2011, respectively. In 2013, compared to 2012 we experienced both an increase in net income and an increase in capital due to increases in retained earnings, offset by a decrease in other comprehensive income.

Our net income for the year ended December 31, 2013 increased $730,000 compared to 2012 and increased $1,043,000 for 2012 compared to 2011. During 2013, net income increased due to increases in net interest income, increases in non-interest income, a decrease in the provision for credit losses and a decrease in tax expense, partially offset by increases in non-interest expenses in 2013 compared to 2012. Net interest income increased because of increases in loan and investment income, partially offset by decreases in interest expense on deposits. Net interest income during 2013 was positively impacted by the collection in full of a non-accrual loan of $4,731,000 which resulted in a recovery of foregone interest of $1,484,000. Non-interest income increased primarily driven by a $382,000 increase in service charge income, a $195,000 increase in interchange fees, a $141,000 increase in Federal Home Loan Bank dividends, and an increase in loan placement fees of $46,000, partially offset by a $374,000 decrease in net realized gains on sales and calls of investment securities and a decrease of $12,000 in gains on the sale of other real estate owned.

Non-interest expenses increased in 2013 compared to 2012 primarily due to increases in acquisition and integration-related expenses of $692,000, salary and employee benefit expenses of $1,830,000, occupancy and equipment expenses of $531,000, consulting expenses of $299,000, data processing expenses of $258,000, amortization of core deposit intangibles of $68,000, and regulatory assessments of $44,000, partially offset by decreases in legal fees of $69,000, and advertising fees of $82,000. During 2013, our net interest margin (NIM) decreased 12 basis points compared to 2012. Basic EPS was $0.77 for 2013 compared to $0.75 and $0.63 for 2012 and 2011, respectively. Diluted EPS was $0.77 for 2013 compared to $0.75 and $0.63 for 2012 and 2011, respectively. The increase in EPS in 2013 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 2013 was 0.84% compared to 0.88% and 0.81% for the years ended December 31, 2012 and 2011, respectively. The 2013 decrease in ROA is primarily due to the increase in average assets as a result of the VCB acquisition. Annualized ROA for our peer group was 0.86% at September 30, 2013. Peer group information from SNL Financial data includes bank holding companies in central California with assets from $300 million to $1.2 billion that are not subchapter S corporations.

Development of Revenue Streams

Over the past several years, we have focused on not only our net income, but improving the consistency of our revenue streams in order to create more predictable future earnings and reduce the effect of changes in our operating environment on our net income. 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 4.09% for the year ended December 31, 2013, compared to 4.21% and 4.63% for the years ended December 31, 2012 and 2011, respectively. The decrease in net interest margin compared to 2012 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 22 basis points, while the cost of total interest-bearing liabilities decreased 13 basis points and the cost of total deposits decreased 8 basis points. Our cost of total deposits in 2013 was 0.15% compared to 0.23% for the same period in 2012 and 0.39% for the year ended December 31, 2011. Our net interest income before provision for credit losses increased $3,514,000 or 11.74% to $33,451,000 for the year ended 2013 compared to $29,937,000 and $31,357,000 for the years ended 2012 and 2011, 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 2013 increased $590,000 or 8.15% to $7,832,000 compared to $7,242,000 in 2012 and $6,271,000 in 2011. The increase resulted primarily from increases in service charge income, interchange fees, and loan placement fees compared to the comparable 2012 period, partially offset by a decreases in net realized gains on sales and calls of investment securities and gain on sale of other real estate owned. Customer service charges increased $382,000 or 13.77% to $3,156,000 in 2013 compared to $2,774,000 and $2,903,000 in 2012 and 2011, 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 $7,776,000 and $9,695,000 at December 31, 2013 and 2012, respectively. Nonperforming assets totaled 1.52% of gross loans as of December 31, 2013 and 2.45% of gross loans as of December 31, 2012. The Company had $190,000 in other real estate owned (OREO) at December 31, 2013 as compared to none at December 31, 2012. The OREO property held at December 31, 2013 was sold for book value during January 2014. 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 28.69% during 2013 to $1,145,635,000 as of December 31, 2013 from $890,228,000 as of December 31, 2012. Total gross loans increased 29.61% to $512,357,000 as of December 31, 2013, compared to $395,318,000 at December 31, 2012. Total investment securities and Federal funds sold increased 12.44% to $443,442,000 as of December 31, 2013 compared to $394,393,000 as of December 31, 2012. Total deposits increased 33.63% to $1,004,143,000 as of December 31, 2013 compared to $751,432,000 as of December 31, 2012. The asset growth in 2013 was largely due to the VCB Acquisition. Our loan to deposit ratio at December 31, 2013 was 51.02% compared to 52.61% at December 31, 2012. The loan to deposit ratio of our peers was 70.41% at September 30, 2013.

Capital Adequacy

At December 31, 2013, we had a total capital to risk-weighted assets ratio of 15.13%, a Tier 1 risk-based capital ratio of 13.88% and a leverage ratio of 8.14%. At December 31, 2012, we had a total capital to risk-weighted assets ratio of 19.53%, a Tier 1 risk-based capital ratio of 18.24% and a leverage ratio of 10.56%. At December 31, 2013, on a stand-alone basis, the Bank had a total risk-based capital ratio of 15.04%, a Tier 1 risk based capital ratio of 13.79% and a leverage ratio of 8.09%. At December 31, 2012, the Bank had a total risk-based capital ratio of 18.96%, Tier 1 risk-based capital of 17.67% and a leverage ratio of 10.22%. The deterioration in 2013 is due to an increase in risk weighted assets while risk adjusted capital decreased primarily due to the redemption of Series C Preferred Stock. *Note 14* 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 78.50% for 2013 compared to 75.99% for 2012 and 75.68% for 2011. The increase in the efficiency ratio in 2013 is due to an increase in net interest income that is less than the increase in operating expenses. The decline in the efficiency ratio in 2012 compared to 2011 is due to a decrease in net interest income that is greater than the decrease in operating expenses. The Company's net interest income before provision for credit losses plus non-interest income increased 11.04% to $41,283,000 in 2013 compared to $37,179,000 in 2012 and $37,628,000 in 2011, while operating expenses increased 16.18% in 2013, decreased 3.42% in 2012, and decreased 1.71% in 2011.

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 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. We have available unsecured lines of credit with correspondent banks totaling approximately $40,000,000 and secured borrowing lines of approximately $272,797,000 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 $555,276,000 or 48.47% of total assets at December 31, 2013 and $446,921,000 or 50.20% of total assets as of December 31, 2012.

RESULTS OF OPERATIONS

NET INCOME

Net income was $8,250,000 in 2013 compared to $7,520,000 and $6,477,000 in 2012 and 2011, respectively. Basic earnings per share was $0.77, $0.75, and $0.63 for 2013, 2012, and 2011, respectively. Diluted earnings per share was $0.77, $0.75, and $0.63 for 2013, 2012, and 2011, respectively. ROE was 6.89% for 2013 compared to 6.56% for 2012 and 6.26% for 2011. ROA for 2013 was 0.84% compared to 0.88% for 2012 and 0.81% for 2011.

The increase in net income for 2013 compared to 2012 can be attributed to a decrease in the provision for credit losses, an increase in interest income, an increase in non interest income, and a decrease in provision for income taxes, partially offset by an increase in non-interest expense. The increase in net income for 2012 compared to 2011 can be attributed to the decrease in the provision for credit losses, an increase in non-interest income, and a decrease in provision for income taxes, partially offset by decrease in interest income.

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, AVERAGE YIELDS AND RATES (Dollars in thousands)	Year Ended December 31, 2013			Year Ended December 31, 2012			Year Ended December 31, 2011		
	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	$ 46,672	$ 164	0.35%	$ 36,836	$ 108	0.29%	$ 73,016	$ 187	0.26%
Securities									
Taxable securities	235,487	2,375	1.01%	218,325	3,289	1.51%	150,559	4,548	3.02%
Non-taxable securities(1)	163,494	8,755	5.35%	113,039	6,830	6.04%	75,665	5,248	6.94%
Total investment securities	398,981	11,130	2.79%	331,364	10,119	3.05%	226,224	9,796	4.33%
Federal funds sold	206	1	0.25%	618	2	0.30%	695	2	0.29%
Total securities and interest-earning deposits	445,859	11,295	2.53%	368,818	10,229	2.77%	299,935	9,985	3.33%
Loans(2)(3)	445,300	26,519	5.96%	394,575	23,913	6.06%	412,969	26,098	6.32%
Federal Home Loan Bank stock	4,171	177	4.24%	3,544	36	1.02%	2,958	9	0.30%
Total interest-earning assets	895,330	$ 37,991	4.24%	766,937	$ 34,178	4.46%	715,862	$ 36,092	5.04%
Allowance for credit losses	(9,713)			(10,365)			(11,018)		
Non-accrual loans	9,183			10,465			15,322		
Other real estate owned	50			919			217		
Cash and due from banks	21,296			19,525			17,977		
Bank premises and equipment	7,816			6,217			5,788		
Other non-earning assets	62,962			59,380			56,030		
Total average assets	$ 986,924			$ 853,078			$ 800,178		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
Savings and NOW accounts	$ 215,668	$ 291	0.13%	$ 177,205	$ 302	0.17%	$ 154,765	$ 368	0.24%
Money market accounts	193,833	229	0.12%	178,734	392	0.22%	174,049	692	0.40%
Time certificates of deposit, under $100,000	48,729	219	0.45%	59,838	466	0.78%	70,111	688	0.98%
Time certificates of deposit, $100,000 and over	106,307	531	0.50%	86,295	470	0.54%	96,620	914	0.95%
Total interest-bearing deposits	564,537	1,270	0.22%	502,072	1,630	0.32%	495,545	2,662	0.54%
Other borrowed funds	5,645	116	2.05%	9,156	253	2.76%	10,265	280	2.73%
Total interest-bearing liabilities	570,182	$ 1,386	0.24%	511,228	$ 1,883	0.37%	505,810	$ 2,942	0.58%
Non-interest bearing demand deposits	283,956			217,529			182,244		
Other liabilities	13,040			9,760			8,738		
Shareholders' equity	119,746			114,561			103,386		
Total average liabilities and shareholders' equity	$ 986,924			$ 853,078			$ 800,178		
Interest income and rate earned on average earning assets		$ 37,991	4.24%		$ 34,178	4.46%		$ 36,092	5.04%
Interest expense and interest cost related to average interest-bearing liabilities		1,386	0.24%		1,883	0.37%		2,942	0.58%
Net interest income and net interest margin(4)		$ 36,605	4.09%		$ 32,295	4.21%		$ 33,150	4.63%

(1) Calculated on a fully tax equivalent basis, which includes Federal tax benefits relating to income earned on municipal bonds totaling $2,977, $2,322, and $1,784 in 2013, 2012, and 2011, respectively.

(2) Loan interest income includes loan fees of $320 in 2013, $646 in 2012, and $399 in 2011.

(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 INCOME AND EXPENSE (Continued)

Interest and fee income from loans increased $2,606,000 or 10.90% in 2013 compared to 2012. Interest and fee income decreased $2,185,000 or 8.37% in 2012 compared to 2011. The increase in 2013 is attributable to a increase in average total loans outstanding offset by a 10 basis point decrease in the yield on loans. Net interest income during 2013 was positively impacted by VCB acquisition in addition to the collection in full of a non-accrual loan of $4,731,000 which resulted in a recovery of foregone interest of $1,484,000. The decrease in 2012 is attributable to a decrease in average total loans outstanding and a 26 basis point decrease in yield on loans compared to 2011. Average total loans for 2013 increased $49,443,000 to $454,483,000 compared to $405,040,000 for 2012 and $428,291,000 for 2011. The yield on loans for 2013 was 5.96% compared to 6.06% and 6.32% for 2012 and 2011, respectively.

Interest income from total investments on a non tax-equivalent basis, (total investments include investment securities, Federal funds sold, interest-bearing deposits in other banks, and other securities), increased $410,000 or 5.19% in 2013 compared to 2012. The yield on average investments decreased 24 basis points to 2.53% for the year ended December 31, 2013 from 2.77% for the year ended December 31, 2012. The increase of the investment portfolio balance at significantly reduced yields contributed to the decreases in net interest income and net interest margin. Average total investments increased $77,041,000 to $445,859,000 in 2013 compared to $368,818,000 in 2012. In 2012, total investment income decreased $294,000 or 3.58% compared to 2011. The increase of the investment portfolio balance at significantly reduced yields contributed to the decreases in net interest income and net interest margin.

A significant portion of the investment portfolio is mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs). At December 31, 2013, we held $259,100,000 or 58.46% of the total market value of the investment portfolio in MBS and CMOs with an average yield of 0.94%. 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 loss of $2,286,000 and is reflected in the Company's equity. At December 31, 2013, the average life of the investment portfolio was 5.62 years and the market value reflected a pre-tax loss of $3,884,000. Management reviews market value declines on individual investment securities to determine whether they represent other-than-temporary impairment (OTTI). For the years ended December 31, 2013 and 2011, OTTI was recorded in the amount of $17,000 and $31,000, respectively. No OTTI was recorded in 2012. 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, 2013, an immediate rate increase of 200 basis points would result in an estimated decrease in the market value of the investment portfolio by approximately $40,981,000. Conversely, with an immediate rate decrease of 200 basis points, the estimated increase in the market value of the investment portfolio would be $32,152,000. The modeling environment assumes management would take no action during an immediate shock of 200 basis points. However, the Company uses those increments to measure its interest rate risk in accordance with regulatory requirements and to measure the possible future risk in the investment portfolio. For further discussion of the Company's market risk, refer to 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 2013 increased $3,016,000 to $34,836,000 compared to $31,820,000 in 2012 and $34,299,000 in 2011. The increase was the result of collection of $1,484,000 of foregone interest, asset mix changes, and an increase in average earning assets, partially offset by an increase in interest-bearing liabilities. The yield on interest earning assets decreased to 4.24% for the year ended December 31, 2013 from 4.46% for the year ended December 31, 2012. Average interest earning assets increased to $895,330,000 for the year ended December 31, 2013 compared to $766,937,000 for the year ended December 31, 2012. Average interest-earning deposits in other banks increased $9,836,000 comparing 2013 to 2012. Average yield on these deposits was 0.35%. Average investments increased $77,041,000 but the tax equivalent yield on average investment securities decreased 24 basis points. Average total loans increased $49,443,000 and the yield on average loans decreased 10 basis points.

The decrease in total interest income in 2012 was due to the 58 basis point decrease in the tax equivalent yield on average interest earning asset and a change in the mix of interest earning assets. The yield on interest-earning assets decreased to 4.46% for the year ended December 31, 2012 from 5.04% for the year ended December 31, 2011. Average interest-earning assets increased to 766,937,000 for the year ended December 31, 2012 compared to $715,862,000 for the year ended December 31, 2011.

Interest expense on deposits in 2013 decreased $360,000 or 22.09% to $1,270,000 compared to $1,630,000 in 2012 and $2,662,000 in 2011. The decrease in interest expense in 2013 compared to 2012 was primarily due to the repricing of interest-bearing deposits which decreased 10 basis points to 0.22% in 2013 from 0.32% in 2012. The decrease in interest expense in 2012 compared to 2011 was due to repricing of interest-bearing deposits, which decreased 22 basis points to 0.32% in 2012 from 0.54% in 2011. Average interest-bearing deposits were $564,537,000 for 2013 compared to $502,072,000 and $495,545,000 for 2012 and 2011, respectively. The increases in average interest-bearing deposits in 2013 was the result of the Visalia Community Bank acquisition and our own organic growth.

Average other borrowings decreased to $5,645,000 with an effective rate of 2.05% for 2013 compared to $9,156,000 with an effective rate of 2.76% for 2012. In 2011, the average other borrowings were $10,265,000 with an effective rate of 2.73%. 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 3.64 for 2013, and 3.59% 2012, and 2011.

The cost of all of our interest-bearing liabilities decreased 13 basis points to 0.24% for 2013 compared to 0.37% for 2012 and 0.58% for 2011. The cost of total deposits decreased to 0.15% for the year ended December 31, 2013 compared to 0.23% and 0.39% for the years ended December 31, 2012 and 2011, respectively. Average demand deposits increased 30.54% to $283,956,000 in 2013 compared to $217,529,000 for 2012 and $182,244,000 for 2011. The ratio of non-interest demand deposits to total deposits increased to 33.47% for 2013 compared to 30.23% and 26.89% for 2012 and 2011, respectively.

NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES

Net interest income before provision for credit losses for 2013 increased $3,514,000 or 11.74% to $33,451,000 compared to $29,937,000 for 2012 and $31,357,000 for 2011. The increase in 2013 was due to the increase in average earning assets and 9 basis point decrease in the average interest rate on deposits, partially offset by the decrease in the average rate on earning assets. Our net interest margin (NIM) decreased 12 basis point. Yield on interest earning assets decreased 22 basis points while the effective rate on interest bearing liabilities only decreased 13 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. Net interest

NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES
(Continued)

income before provision for credit losses decreased $1,420,000 in 2012 compared to 2011 mainly due to the 42 basis point decrease in our net interest margin (NIM). Average interest-earning assets were $895,330,000 for the year ended December 31, 2013 with a net interest margin (NIM) of 4.09% compared to $766,937,000 with a NIM of 4.21% in 2012, and $715,862,000 with a NIM of 4.63% in 2011. For a discussion of the repricing of our assets and liabilities, refer to Quantitative and Qualitative Disclosure about Market Risk.

PROVISION FOR CREDIT LOSSES

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

The establishment of an adequate credit allowance is based on both an accurate risk rating system and loan portfolio management tools. The Board has established initial responsibility for the accuracy of credit risk grades with the individual credit officer. The grading is then submitted to the Chief Credit 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 based on inherent risk in those loans.

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, 2013	% of Total Loans	December 31, 2012	% of Total Loans
Commercial:				
Commercial and industrial	$ 1,928	17.0%	$ 2,071	19.7%
Agricultural land and production	516	6.1%	605	6.7%
Real estate:				
Owner occupied	1,697	30.6%	2,153	28.9%
Real estate construction and other land loans	1,289	8.3%	1,035	8.4%
Commercial real estate	1,406	16.8%	1,886	13.6%
Agricultural real estate	672	8.6%	646	7.2%
Other real estate	110	0.9%	157	2.0%
Total real estate	5,174	65.2%	5,877	60.1%
Consumer:				
Equity loans and lines of credit	874	9.5%	1,158	10.9%
Consumer and installment	294	2.2%	383	2.6%
Unallocated reserves	422		39	
Total allowance for credit losses	$ 9,208		$ 10,133	

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. We assign qualitative and environmental factors (Q factors) to each loan category. 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. See further discussion of the impact of the VCB acquisition on the allowance for credit losses in the Results of Operations Allowance for Credit Losses section below.

There were no additions made to the allowance for credit losses in 2013, compared to $700,000, and $1,050,000 for the same period in 2012, and 2011, 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. The increase in unallocated reserves in the current period is primarily due to an additional risk factor which management is further analyzing related to the recent increase in long-term interest rates and the effects that higher rates may have on certain borrowers' debt service capabilities, particularly those with home equity loans. During the year ended December 31, 2013, the Company had net charge offs totaling $925,000 compared to $1,963,000 and $668,000 for the same periods in 2012 and 2011, respectively. The net charge off ratio, which reflects net charge-offs to average loans, was 0.20%, 0.48% and 0.16% for 2013, 2012, and 2011, respectively. The charged off loans were previously identified and adequately reserved for as of December 31, 2012.

Nonperforming loans were $7,586,000 and $9,695,000 at December 31, 2013 and 2012, respectively. Nonperforming loans as a percentage of total loans were 1.48% at December 31, 2013 compared to 2.45% at December 31, 2012. There was other real estate owned in the amount of $190,000 at December 31, 2013 compared to none at December 31, 2012 and December 31, 2011.

We had loans past due, not including non accrual loans, totaling $637,000 at December 31, 2013 compared to $27,000 at December 31, 2012. 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 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, 2013, we believe, based on all current and available information, the allowance for credit losses is adequate to absorb probable incurred 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 $0 in 2013, $700,000 in 2012, and $1,050,000 in 2011, was $33,451,000 for 2013 compared to $29,237,000 and $30,307,000 for 2012 and 2011, 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 $7,832,000 in 2013 compared to $7,242,000 and $6,271,000 in 2012 and 2011, respectively. The $590,000 or 8.15% increase in non-interest income was due to increases in

NON-INTEREST INCOME (Continued)

service charge income, interchange fees, Federal Home Loan Bank dividends, and loan placement fees, partially offset by a decrease in gains on sales and calls of investment securities. The $971,000 or 15.48% increase in non-interest income comparing 2012 to 2011 was due to increases in gains on sales and calls of investment securities, and an increase in loan placement fees, partially offset by a decrease in gains on disposal of other real estate owned and a decrease in service charge income.

Customer service charges increased $382,000 to $3,156,000 in 2013 compared to $2,774,000 in 2012 and $2,903,000 in 2011. The increase in 2013 from 2012, and in 2012 from 2011 is mainly due to increases in overdraft and analyzed service charge fee income. The $382,000 increase in 2013 is due to the inclusion of VCB service charges of approximately $510,000 offset by a decrease in the legacy Company service charge income of 128,000.

During the year ended December 31, 2013, we realized net gain on sales and calls of investment securities of $1,265,000. In 2012, we realized a net gain of $1,639,000 compared to a net loss of $298,000 in 2011 from sales and calls of securities. The net gains in 2013 and 2012 were the results of partial restructuring of the investment portfolio designed to improve the future performance of the portfolio. For the year ended December 31, 2011, we realized a $31,000 other-than-temporary impairment write down on certain investment securities. See *Footnote 4* to the audited Consolidated Financial Statements for more detail.

Income from the appreciation in cash surrender value of bank owned life insurance (BOLI) totaled $495,000 in 2013 compared to $391,000 and $382,000 in 2012 and 2011, 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.

Interchange fees totaled $962,000 in 2013 compared to $767,000 and $758,000 in 2012 and 2011, respectively. Part of the increase in 2013 is attributable to the VCB acquisition.

We earn loan placement fees from the brokerage of single-family residential mortgage loans provided for the convenience of our customers. Loan placement fees increased $46,000 in 2013 to $677,000 compared to $631,000 in 2012 and $274,000 in 2011. Fees were higher in 2013 compared to 2012 and 2011. Refinancing and new mortgage activity increased in 2013 and 2012 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, 2013, we held $4,499,000 in FHLB stock compared to $3,850,000 at December 31, 2012. Dividends in 2013 increased to $177,000 compared to $36,000 in 2012 and $9,000 in 2011.

Other income increased to $1,100,000 in 2013 compared to $992,000 and $1,063,000 in 2012 and 2011, respectively. The period-to-period increase in 2013 compared to 2012 was primarily due to increases in electronic funds transfer fee income and non-customer check cashing fees.

NON-INTEREST EXPENSES

Salaries and employee benefits, occupancy and equipment, regulatory assessments,acquisition and integration-related expenses, data processing expenses, ATM/Debit card expenses, license and maintenance contract expenses, and professional services (consisting of audit, accounting, consulting and legal fees) are the major categories of non-interest expenses. Non-interest expenses increased $4,412,000 or 16.18% to $31,686,000 in 2013 compared to $27,274,000 in 2012, compared to $28,240,000 in 2011, which was a decrease of $966,000 in 2012.

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 78.50% for 2013 compared to 75.99% for 2012 and 75.68% for 2011. The deterioration in the efficiency ratio in 2013 is due to an increase in operating expenses partially offset by an increase in net interest income. The decline in the efficiency ratio in 2012 compared to 2011 is due to a decrease in net interest income that is greater than the decrease in operating expenses.

Salaries and employee benefits increased $1,830,000 or 11.73% to $17,427,000 in 2013 compared to $15,597,000 in 2012 and $15,762,000 in 2011. Full time equivalents were 241 at December 31, 2013 compared to 208 at December 31, 2012.

At December 31, 2013, 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 203,660 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 176,770 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, 2013, 2012, and 2011, the compensation cost recognized for share based compensation was $98,000, $108,000 and $196,000, respectively.

As of December 31, 2013, there was $268,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the two plans. The cost is expected to be recognized over a weighted average period of 3.15 years. See *Notes 1 and 15* to the audited Consolidated Financial Statements for more detail.

No options to purchase shares of the Company's common stock were issued during the years ending December 31, 2013 and 2011. In 2012, options to purchase 92,150 shares of common stock were granted from the 2005 Plan at exercise prices between $8.02 and $8.75. All options were granted with an exercise price equal to the market value on the grant date.

Occupancy and equipment expense increased $531,000 or 14.84% to $4,109,000 in 2013 compared to $3,578,000 in 2012 and $3,795,000 in 2011. The increase in 2013 was primarily due to increases in rent and depreciation expense for the premises acquired from VCB. The Company made no changes in depreciation expense methodology.

Regulatory assessments decreased $44,000 or 6.75% to $696,000 in 2013 compared to $652,000 and $845,000 in 2012 and 2011, respectively. The FDIC finalized a new assessment system which took effect the third quarter of 2011. The final rule changed the assessment base from domestic deposits to average assets minus average tangible equity.

Acquisition and integration-related expenses increased $692,000 to $976,000 in 2013 compared to $284,000 in 2012, which were all related to the VCB acquisition. There were no acquisition and integration expenses in 2011.

Data processing expenses were $1,383,000 in 2013 compared to $1,125,000 in 2012 and $1,178,000 in 2011. The $258,000 or 22.93% increase in 2013, is the result of increased processing charges related to increase of accounts and services provided to our customers and branches. The $53,000 decrease in 2012 compared to 2011 was a result of a reduction in terms of our core processing contract.

Legal fees decreased $69,000 or 37.30% to $116,000 for the year ended December 31, 2013 compared to $185,000 and $335,000 in 2012 and 2011, respectively. The higher legal fees in 2012 and 2011 are primarily due to issues related to nonperforming assets and other loan related legal expenses.

Amortization of core deposit intangibles was $268,000 for 2013, $200,000 for 2012, and $414,000 for 2011. During 2013, amortization expense related to Service 1st Bank core deposit intangible (CDI) was $200,000, and amortization expense related to VCB CDI was $68,000. During 2012, CDI amortization expense related solely to Service 1st Bank CDI. Bank of Madera County CDI was fully amortized at the end of 2011. During 2011, CDI amortization expense included $200,000 for Service 1st Bank CDI and $214,000 for the Bank of Madera County CDI.

NON-INTEREST EXPENSES (Continued)

Consulting fees increased $299,000 to $461,000 for the year ended December 31, 2013 compared to $162,000 and $340,000 in 2012 and 2011, respectively. Higher consulting fees in 2013 related to costs for recruiting qualified candidates for a Bank President position and for support and defense for the Company's tax examination.

ATM/Debit card expenses increased $158,000 to $527,000 for the year ended December 31, 2013 compared to $369,000 in 2012 and 2011. License and maintenance contracts increased $110,000 to $472,000 for the year ended December 31, 2013 compared to $362,000 and $324,000 in 2012 and 2011, respectively. Other non-interest expenses increased $576,000 or 15.62% to $4,264,000 in 2013 compared to $3,688,000 in 2012 and $3,652,000 in 2011, primarily due to the VCB acquisition.

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

	For the years ended December 31,					
	Other Expense 2013	% Average Assets	Other Expense 2012	% Average Assets	Other Expense 2011	% Average Assets
	(Dollars in thousands)					
Internet banking expense	$ 397	0.04%	$ 270	0.03%	$ 247	0.03%
Stationery/supplies	257	0.03%	221	0.03%	245	0.03%
Amortization of software	243	0.02%	196	0.02%	232	0.03%
Director fees and related expenses	233	0.02%	215	0.03%	219	0.03%
Telephone	219	0.02%	169	0.02%	236	0.03%
Postage	202	0.02%	183	0.02%	198	0.02%
Donations	160	0.02%	148	0.02%	154	0.02%
Education/training	135	0.01%	155	0.02%	160	0.02%
General insurance	126	0.01%	120	0.01%	125	0.01%
Appraisal fees	89	0.01%	77	0.01%	112	0.01%
Operating losses	67	0.01%	85	0.01%	125	0.01%
Other	2,136	0.22%	1,849	0.22%	1,599	0.19%
Total other non-interest expense	$ 4,264	0.43%	$ 3,688	0.43%	$ 3,652	0.43%

PROVISION FOR INCOME TAXES

Our effective income tax rate was 14.04% for 2013 compared to 18.31% for 2012 and 22.32% for 2011. The Company reported an income tax provision of $1,347,000, $1,685,000, and $1,861,000 for the years ended December 31, 2013, 2012, and 2011, respectively. The decrease in the effective tax rate in 2013 compared to 2012 is due to an increase in interest income on non-taxable investment securities and the reversal of a reserve for prior years' uncertain tax positions. The Company maintains a reserve for uncertain income taxes in accordance with ASC 710-10-25 (formerly FIN 48). During the third quarter of 2013, the California Franchise Tax Board concluded the tax examination of the Company's 2008, 2009, and 2010 tax filings; and we accordingly reversed the unneeded reserve for those tax years. The Company has also benefited from tax credits and deductions related to the California enterprise zone program; however, those benefits will be reduced beginning January 1, 2014 due to the legislative changes affecting the program. Our low effective tax rate is due primarily to federal tax deductions for tax free municipal bond income, solar tax credits, the state tax deduction for loans in designated enterprise zones in California, and state hiring tax credits.

PREFERRED STOCK DIVIDENDS AND ACCRETION

On August 18, 2011, the Company entered into a Securities Purchase Agreement (SPA) 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 (Series C Preferred) 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 repurchased 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 for total consideration of $185,000.

On December 31, 2013, the Company redeemed all 7,000 outstanding shares of its Series C Preferred from the Treasury, in exercise of its optional redemption rights pursuant to the terms of the Series C Preferred under the Company's charter and the SPA. The Company paid the Treasury $7,087,500 in connection with the redemption, representing $1,000 per share of the Series C Preferred plus all accrued and unpaid dividends through the date of the redemption. The obligations of the Company under the SPA are terminated as a result of the redemption. No additional shares of Series C Preferred are outstanding.

We accrued preferred stock dividends to the Treasury and accretion of the issuance discount in the amount of $350,000 and $350,000 during the years ended December 31, 2013 and 2012, respectively.

FINANCIAL CONDITION

SUMMARY OF CHANGES IN CONSOLIDATED BALANCE SHEETS

December 31, 2013 compared to December 31, 2012.

Total assets were $1,145,635,000 as of December 31, 2013, compared to $890,228,000 as of December 31, 2012, an increase of 28.69% or $255,407,000. Total gross loans were $512,357,000 as of December 31, 2013, compared to $395,318,000 as of December 31, 2012, an increase of $117,039,000 or 29.61%. The total investment portfolio (including Federal funds sold and interest-earning deposits in other banks) increased 24.71% or $104,882,000 to $529,398,000. Total deposits increased 33.63% or $252,711,000 to $1,004,143,000 as of December 31, 2013, compared to $751,432,000 as of December 31, 2012. Shareholders' equity increased $2,378,000 or 2.02% to $120,043,000 as of December 31, 2013, compared to $117,665,000 as of December 31, 2012. The increase in shareholders' equity was driven by the issuance of stock as part of the Visalia Community Bank (VCB) acquisition and a net increase in retained earnings partially offset by decreases in other accumulated other comprehensive income (AOCI) and preferred stock. Accrued interest payable and other liabilities were $16,294,000 as of December 31, 2013, compared to $11,976,000 as of December 31, 2012, an increase of $4,318,000. The balance sheet increases during 2013 were primarily driven by the VCB acquisition which closed on July 1, 2013.

FAIR VALUE

The Company measures the fair values of its financial instruments utilizing a hierarchical framework associated with the level of observable pricing scenarios utilized in measuring financial instruments at fair value. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of the observable pricing scenario. Financial instruments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of observable pricing and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no observable pricing and a higher degree of judgment utilized in measuring fair value. Observable pricing scenarios are impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction.

See *Note 3* of the Notes to 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 U.S. Government sponsored entities and agencies collateralized by residential mortgage backed obligations and obligations of states and political subdivision securities and are classified at the date of acquisition as available for sale or held to maturity. As of December 31,

INVESTMENTS (Continued)

2013, investment securities with a fair value of $99,209,000, or 22.38% 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, 2013 was 51.02% compared to 52.61% at December 31, 2012. The loan to deposit ratio of our peers was 70.41% at September 30, 2013. Peer group information from SNL Financial data includes bank holding companies in central California with assets from $300 million to $1.2 billion that are not subchapter S corporations. The total investment portfolio, including Federal funds sold and interest-earning deposits in other banks, increased 24.71% or $104,882,000 to $529,398,000 at December 31, 2013, from $424,516,000 at December 31, 2012. The market value of the portfolio reflected an unrealized loss of $3,884,000 at December 31, 2013, compared to an unrealized gain of $12,891,000 at December 31, 2012.

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. 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, 2013, 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, 2013, and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at December 31, 2013 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.

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.

At December 31, 2013, the Company had a total of 21 PLRMBS with a remaining principal balance of $4,344,000 and a net unrealized gain of approximately $1,047,000. Eight of these PLRMBS with a remaining principal balance of $3,400,000 had credit ratings below investment grade. The Company continues to perform extensive analyses on these securities as well as all whole loan CMOs. No credit related OTTI charges related to PLRMBS were recorded during the year ended December 31, 2013.

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

LOANS

Total gross loans increased $117,039,000 or 29.61% to $512,357,000 as of December 31, 2013, compared to $395,318,000 as of December 31, 2012.

The following table sets forth information concerning the composition of our loan portfolio as of and for the years ended December 31, 2013, 2012, 2011, 2010, and 2009.

Loan Type (In thousands)	2013 Amount	2013 % of Total Loans	2012 Amount	2012 % of Total Loans	2011 Amount	2011 % of Total Loans	2010 Amount	2010 % of Total Loans	2009 Amount	2009 % of Total Loans
Commercial:										
Commercial and industrial	$ 87,082	17.0%	$ 77,956	19.7%	$ 78,089	18.3%	$ 81,318	18.8%	$ 93,282	20.3%
Agricultural land and production	31,649	6.1%	26,599	6.7%	29,958	7.0%	20,604	4.8%	13,903	3.0%
Total commercial	118,731	23.1%	104,555	26.4%	108,047	25.3%	101,922	23.6%	107,185	23.3%
Real estate:										
Owner occupied	156,781	30.6%	114,444	28.9%	113,183	26.4%	111,888	25.9%	106,606	23.2%
Real estate-construction and other land loans	42,329	8.3%	33,199	8.4%	33,047	7.7%	32,038	7.4%	51,633	11.2%
Commercial real estate	86,117	16.8%	53,797	13.6%	62,523	14.6%	63,627	14.7%	71,420	15.6%
Agricultural real estate	44,164	8.6%	28,400	7.2%	42,596	9.9%	44,397	10.3%	38,759	8.4%
Other real estate	4,548	0.9%	8,098	2.0%	7,892	1.8%	8,103	1.9%	4,610	1.0%
Total real estate	333,939	65.2%	237,938	60.1%	259,241	60.4%	260,053	60.2%	273,028	59.4%
Consumer:										
Equity loans and lines of credit	48,594	9.5%	42,932	10.9%	51,106	12.0%	58,860	13.6%	65,353	14.2%
Consumer and installment	11,252	2.2%	10,346	2.6%	9,765	2.3%	11,261	2.6%	14,033	3.1%
Total consumer	59,846	11.7%	53,278	13.5%	60,871	14.3%	70,121	16.2%	79,386	17.3%
Deferred loan fees, net	(159)		(453)		(764)		(499)		(392)	
Total gross loans	512,357	100.0%	395,318	100.0%	427,395	100.0%	431,597	100.0%	459,207	100.0%
Allowance for credit losses	(9,208)		(10,133)		(11,396)		(11,014)		(10,200)	
Total loans	$ 503,149		$ 385,185		$ 415,999		$ 420,583		$ 449,007	

At December 31, 2013, loans acquired in the VCB acquisition had a balance of $99,948,000, of which $12,686,000 were commercial loans, $71,833,000 were real estate loans, and $15,429,000 were consumer loans.

LOANS (Continued)

At December 31, 2013, in management's judgment, a concentration of loans existed in commercial loans and real-estate-related loans, representing approximately 97.8% of total loans of which 23.1% were commercial and 74.7% were real-estate-related. This level of concentration is consistent with 97.4% at December 31, 2012. 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, 2013 and 2012.

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

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

NONPERFORMING ASSETS

Nonperforming assets consist of loans past due 90 days or more that are still accruing interest, loans on nonaccrual status, and foreclosed property classified as Other Real Estate Owned (OREO). We measure all loans placed on nonaccrual status for impairment based on the fair value of the underlying collateral or the net present value of the expected cash flows.

At December 31, 2013, total nonperforming assets totaled $7,776,000, or 0.68% of total assets, compared to $9,695,000, or 1.09% of total assets at December 31, 2012. Total nonperforming assets at December 31, 2013, included nonaccrual loans totaling $7,586,000, $190,000 in OREO, and no repossessed assets. Nonperforming assets at December 31, 2012 consisted of $9,695,000 in nonaccrual loans and no OREO or repossessed assets. At December 31, 2013, we had ten loans considered troubled debt restructurings ("TDRs") totaling $4,595,000 which are included in nonaccrual loans compared to seven TDRs totaling $9,245,000 at December 31, 2012. 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, 2013 and 2012 is set forth below. The Company had no loans past due more than 90 days and still accruing interest at December 31, 2013 and 2012. Management is not aware of any potential problem loans, which were current and accruing at December 31, 2013, where serious doubt exists as to the ability of the borrower to comply with the present repayment terms. Management can give no assurance that nonaccrual and other nonperforming loans will not increase in the future.

Composition of Non-accrual, Past Due and Restructured Loans

(In thousands)	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009
Non-accrual Loans					
Commercial and industrial	$ 335	$ -	$ 267	$ 377	$ 2,868
Owner occupied	1,777	213	353	1,407	2,218
Real estate construction and other land loans	-	-	-	5,634	7,691
Commercial real estate	158	-	2,434	-	965
Equity loans and line of credit	721	237	705	488	301
Consumer and installment	-	-	74	-	348
Restructured loans (non-accruing)					
Commercial and industrial	1,192	-	-	1,978	28
Owner occupied	384	1,362	1,019	2,370	2,282
Real estate construction and other land loans	1,450	6,288	6,823	2,193	2,214
Commercial real estate	-	-	1,110	1,828	-
Other real estate	-	-	-	2,286	-
Equity loans and line of credit	1,565	1,595	1,649	-	44
Consumer and Installment	4	-	-	-	-
Total non-accrual	7,586	9,695	14,434	18,561	18,959
Accruing loans past due 90 days or more	-	-		-	-
Total nonperforming loans	$ 7,586	$ 9,695	$ 14,434	$ 18,561	$ 18,959
Nonperforming loans to total loans	1.48%	2.45%	3.38%	4.30%	4.13%
Ratio of nonperforming loans to allowance for credit losses	82.38%	95.68%	126.66%	168.52%	185.87%
Loans considered to be impaired	$ 13,357	$ 17,105	$ 23,644	$ 18,561	$ 18,959
Related allowance for credit losses on impaired loans	$ 1,007	$ 510	$ 4,368	$ 2,124	$ 752

We measure our impaired loans by using the fair value of the collateral if the loan is collateral dependent and the present value of the expected future cash flows discounted at the loan's original contractual interest rate if the loan is not collateral dependent. As of December 31, 2013 and 2012, we had impaired loans totaling $13,357,000 and $17,105,000, 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 less selling costs value of the 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 $661,000 for the year ended December 31, 2013 of which $279,000 was attributable to troubled debt restructurings. Foregone interest on nonaccrual loans totaled $693,000 and $954,000 for the years ended December 31, 2012 and 2011, respectively of which $669,000 and $769,000 was attributable to troubled debt restructurings, respectively.

NONPERFORMING ASSETS (Continued)

The following table provides a reconciliation of the change in non-accrual loans for the year ended December 31, 2013.

(Dollars in thousands)	Balances December 31, 2012	Additions to Non-accrual Loans	Net Pay Downs	Transfer to Foreclosed Collateral - OREO	Returns to Accrual Status	Charge Offs	Balances December 31, 2013
Non-accrual loans:							
Commercial and industrial	$ -	$ 389	$ (54)	$ -	$ -	$ -	$ 335
Real estate	213	1,847	(125)	-	-	-	1,935
Equity loans and lines of credit	237	1,013	(66)	(190)	-	(273)	721
Consumer	-	9	(2)	-	(7)	-	-
Restructured loans (non-accruing):							
Commercial and industrial	-	2,100	(211)	-	-	(697)	1,192
Real estate	1,362	7	(65)	-	(920)	-	384
Real estate construction and land development	6,288	285	(5,123)	-	-	-	1,450
Equity loans and lines of credit	1,595	111	(141)	-	-	-	1,565
Consumer	-	5	(1)	-	-	-	4
Total non-accrual	$ 9,695	$ 5,766	$ (5,788)	$ (190)	$ (927)	$ (970)	$ 7,586

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

(Dollars in thousands)	Years Ended December 31, 2013	2012
Balance, Beginning of year	$ -	$ -
Additions	453	2,337
Dispositions	(263)	(2,349)
Write-downs	-	-
Net gain on disposition	-	12
Balance, End of year	$ 190	$ -

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, 2013 the Company had $190,000 in OREO property which was subsequently sold for book value during January 2014. As of December 31, 2012, the Company had no OREO properties.

ALLOWANCE FOR CREDIT LOSSES

We have established a methodology for the determination of provisions for credit losses made up of general and specific allocations. 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. The allowance for credit losses is an estimate of probable credit losses inherent in the Company's loan portfolio as of the balance-sheet date. The 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.

For all portfolio segments, 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 20 quarters, 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. During the first quarter of 2013, management determined that the most recent 20 quarters was an appropriate look back period based on several factors including the current global economic uncertainty and various national and local economic indicators. The impact to the general reserve, as a result of moving from a 16 quarter rolling average to a 20 quarter rolling average, did not have a material impact on the level of allowance required, but it did ensure that the significant loss years for the Bank would continue to be factored into the general reserve analysis. Management determined that it was necessary to expand the average period to capture enough data due to the size of the portfolio to produce statistically accurate historical loss calculations. We believe this period is an appropriate look back period.

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

The allowance for credit losses is maintained to cover probable incurred 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 to 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 probable incurred losses in our loan and lease portfolio as of the balance sheet date. The allowance is based on principles of accounting: (1) ASC 450-20 which requires losses to be accrued for on loans when they are probable of occurring and can be reasonably estimated and (2) ASC 310-10 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 and are placed on nonaccrual.

ALLOWANCE FOR CREDIT LOSSES (Continued)

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

(Dollars in thousands)	Years Ended December 31, 2013	2012
Balance, beginning of year	$ 10,133	$ 11,396
Provision charged to operations	-	700
Losses charged to allowance	(1,446)	(2,850)
Recoveries	521	887
Balance, end of year	$ 9,208	$ 10,133
Allowance for credit losses to total loans	1.80%	2.56%

As of December 31, 2013, the balance in the allowance for credit losses was $9,208,000 compared to $10,133,000 as of December 31, 2012. The decrease was due to net charge offs during the year ended December 31, 2013 being greater than the amount of the provision for credit losses. Net charge offs totaled $925,000 while the provision for credit losses was $0. Loans charged off in 2013 were fully reserved at December 31, 2012. The balance of commitments to extend credit on undisbursed construction and other loans and letters of credit was $192,667,000 as of December 31, 2013, compared to $162,851,000 as of December 31, 2012. At December 31, 2013, the balance of a contingent allocation for probable loan loss experience on unfunded obligations was $141,000. The contingent allocation for probable loan loss experience on unfunded obligations is calculated by management using appropriate, systematic, and consistently applied process. While related to credit losses, this allocation is not a part of ALLL and is considered separately as a liability for accounting and regulatory reporting purposes. 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, 2013, the allowance for credit losses was 1.80% of total gross loans compared to 2.56% as of December 31, 2012. During the year ended December 31, 2013, there were no major changes in loan concentrations that significantly affected the allowance for credit losses. The decrease in the ALLL as a percentage of total loans is primarily due to the inclusion of $99,948,000 from VCB loans that were recorded at fair value in connection with the acquisition and therefore have no related allowance. Excluding these VCB loans from the calculation, the allowance for credit losses to total gross loans as of December 31, 2013 was 2.23%. The increase in loan totals was driven primarily by an increase in agricultural loans which have a favorable loss history and from the loans acquired as part of the VCB acquisition. Approximately $2,000,000 in VCB loan balances and an additional $4,850,000 in unfunded commitments were refinanced during the later half of 2013, which decreased the allowance allocation by approximately $300,000 as of December 31, 2013.

The 2013 decrease in the ALLL balance was due to improvement in our historical losses along with improvements in the risk and composition of the loan portfolio. Historic loss rates declined substantially, as high-loss quarters began dropping off from the five-year moving average. Qualitative factors also declined to reflect the trends in losses, improvements in the general economy, and the lower level of substandard loans.

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 20 quarters, and qualitative factors. The increase in unallocated reserves in the current period is primarily due to an additional risk factor which management is further analyzing related to the recent increase in long-term interest rates and the effects that higher rates may have on certain borrowers' debt service capabilities, particularly those with home equity loans. During the period ended December 31, 2012, the Company enhanced the process for estimating the allowance for credit losses related to impaired loans through inclusion of the use of the discounted cash flow method on certain credits where sufficient payment history exists and future payments can be reasonably projected based on a global borrower cash flow analysis in addition to collateral dependent analysis. 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. Q factors include reserves held for the effects of lending policies, economic trends, and portfolio trends along with other dynamics which may cause additional stress to the portfolio. Assumptions regarding the collateral value of various under-performing loans may affect the level and allocation of the allowance for credit losses in future periods. The allowance may also be affected by trends in the amount of charge offs experienced or expected trends within different loan portfolios.

Non-performing loans totaled $7,586,000 as of December 31, 2013, and $9,695,000 as of December 31, 2012. The allowance for credit losses as a percentage of nonperforming loans was 121.38% and 104.52% as of December 31, 2013 and December 31, 2012, respectively. Management believes the allowance at December 31, 2013 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, 2013 was $29,917,000 compared to $23,577,000 at December 31, 2012. The total goodwill at December 31, 2013 consisted of $6,340,000, $14,643,000 and $8,934,000 representing the excess of the cost of Visalia Community Bank, Service 1st Bancorp 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.

The Company has selected September 30 as the date to perform the annual impairment test. Management assessed qualitative factors including performance trends and noted no factors indicating goodwill impairment.

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 2013, so goodwill was not required to be retested.

The intangible assets at December 31, 2013 represent the estimated fair value of the core deposit relationships acquired in the 2008 acquisition of Service 1st Bank of $1,400,000 and the 2013 acquisition of Visalia Community Bank of $1,365,000. Core deposit intangibles are being amortized using the straight-line method over an estimated life of seven to ten years from the date of acquisition. The carrying value of intangible assets at December 31, 2013 was $1,680,000, net of $1,085,000 in accumulated amortization expense. The carrying value at December 31, 2012 was $583,000, net of $817,000 in accumulated amortization expense. Management evaluates the remaining useful lives quarterly to determine whether events or circumstances warrant a revision to the remaining periods of amortization. Based on the evaluation, no changes to the remaining useful lives was required. Management performed an annual impairment test on core deposit intangibles as of September 30, 2013 and determined no impairment was necessary. Amortization expense recognized was $268,000 for 2013, $200,000 for 2012 and $414,000 2011. $214,000 of the 2011 amortization was the remaining amortization for the Bank of Madera County core deposit intangible. The core deposit intangible from the 2005 acquisition of Bank of Madera County was fully amortized as of December 31, 2011.

GOODWILL AND INTANGIBLE ASSETS (Continued)

The following table summarizes the Company's estimated core deposit intangible amortization expense for each of the next five years (in thousands):

Years Ending December 31,	Estimated Core Deposit Intangible Amortization
2014	$ 337
2015	320
2016	137
2017	137
2018	137
Thereafter	612
Total	$ 1,680

DEPOSITS AND BORROWINGS

The Bank's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to applicable legal limits. The FDIC's unlimited deposit insurance coverage on non-interest bearing transaction accounts mandated by the Dodd-Frank Act ended December 31, 2012. Beginning January 1, 2013, all of a depositors' accounts at an insured depository institution, including all non-interest bearing transactions accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount of $250,000 for each deposit insurance ownership category.

Total deposits increased $252,711,000 or 33.63% to $1,004,143,000 as of December 31, 2013, compared to $751,432,000 as of December 31, 2012. Interest-bearing deposits increased $136,488,000 or 26.70% to $647,751,000 as of December 31, 2013, compared to $511,263,000 as of December 31, 2012. Non-interest bearing deposits increased $116,223,000 or 48.39% to $356,392,000 as of December 31, 2013, compared to $240,169,000 as of December 31, 2012. These deposit increases are primarily related to the VCB acquisition which closed on July 1, 2013. Approximately $174 million in deposits were recorded as a part of the acquisition. Average non-interest bearing deposits to average total deposits was 33.47% for the year ended December 31, 2013 compared to 30.23% for the same period in 2012. Our total market share of deposits in Fresno, Madera, and San Joaquin counties was 3.50% in 2013 compared to 3.58% in 2012 based on FDIC deposit market share information published as of June 2013.

The composition of the deposits and average interest rates paid at December 31, 2013 and December 31, 2012 is summarized in the table below.

(Dollars in thousands)	December 31, 2013	% of Total Deposits	Effective Rate	December 31, 2012	% of Total Deposits	Effective Rate
NOW accounts	$ 182,364	18.2%	0.15%	$ 161,328	21.4%	0.19%
MMA accounts	234,515	23.3%	0.12%	173,486	23.1%	0.22%
Time deposits	168,954	16.8%	0.48%	136,876	18.2%	0.64%
Savings deposits	61,918	6.2%	0.08%	39,573	5.3%	0.09%
Total interest-bearing	647,751	64.5%	0.22%	511,263	68.0%	0.32%
Non-interest bearing	356,392	35.5%		240,169	32.0%	
Total deposits	$ 1,004,143	100.0%		$ 751,432	100.0%	

There were no short term borrowings as of December 31, 2013, compared to $4,000,000 as of December 31, 2012 which represented FHLB advances with a weighted average interest of 3.59% and weighted average maturity of 0.1 years.

There were no long-term FHLB borrowings outstanding at December 31, 2013 or December 31, 2012. 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.

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, 2013, 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, 2013, the rate was 1.84%. Interest expense recognized by the Company for the years ended December 31, 2013, 2012, and 2011 was $98,000, $107,000 and $100,000, respectively.

CAPITAL RESOURCES

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

The Company has historically maintained substantial levels of capital. The assessment of capital adequacy is dependent on several factors including asset quality, earnings trends, liquidity and economic conditions. Maintenance of adequate capital levels is integral to providing stability to the Company. The Company needs to maintain substantial levels of regulatory capital to give it maximum flexibility in the changing regulatory environment and to respond to changes in the market and economic conditions.

Our shareholders' equity was $120,043,000 as of December 31, 2013, compared to $117,665,000 as of December 31, 2012. The increase in shareholders' equity is the result of increase in retained earnings from net income of $8,250,000, issuance of common stock as a part of the VCB acquisition of $12,494,000, exercise of stock options, including the related tax benefit of $806,000, and the effect of share based compensation expense of $98,000 offset by a decrease in accumulated other comprehensive income (AOCI) of $9,872,000, redemption of preferred stocked of $7,000,000, preferred stock dividends of $350,000, and common stock cash dividends of $2,048,000.

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.

CAPITAL RESOURCES (Continued)

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 the 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 the 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. No shares of Series B Preferred Stock or non-voting common stock remain outstanding. See *Note 14* to the audited Consolidated Financial Statements in this report for a more detailed discussion.

On August 18, 2011, the Company entered into a Securities Purchase Agreement (SPA) 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 repurchased 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 for total consideration of $185,000. See *Note 14* to the audited Consolidated Financial Statements in this report for a more detailed discussion.

On August 15, 2012, the Board of Directors of the Company approved the adoption of a program to effect repurchases of the Company's common stock. Under the program, the Company was to repurchase up to five percent of the Company's outstanding shares of common stock, or approximately 479,850 shares based on the shares outstanding as of August 15, 2012, for the period beginning on August 15, 2012, and ending February 15, 2013. During 2012, the Company repurchased and retired a total of 58,100 shares at an average price of $8.41 for a total cost of $488,000. The stock repurchase program was suspended after the Company entered into a Reorganization Agreement and Plan of Merger (the Merger Agreement) with Visalia Community Bank on December 19, 2012.

During 2013, the Bank declared and paid cash dividends to the Company in the amount of $18,000,000 in connection with the VCB acquisition, the Series C Preferred redemption, and cash dividends to the Company's shareholders approved by the Company's Board of Directors. The Bank may not pay any dividend that would cause it to be deemed not "well capitalized" under applicable banking laws and regulations. The Company declared and paid a total of $2,048,000 or $0.20 per common share cash dividend to shareholders of record during the year ended December 31, 2013.

During 2012, the Bank declared and paid cash dividends to the Company of $3,000,000, in connection with stock repurchase agreements and cash dividends approved by the Company's Board of Directors. On October 17, 2012, the Company declared a $0.05 per common share cash dividend to shareholders of record at the close of business on November 15, 2012 which was paid on November 30, 2012. No dividends on common shares were declared in 2011.

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 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 including acquisition opportunities.

The following table presents the Company's and the Bank's Regulatory capital ratios as of December 31, 2013 and December 31, 2012.

	December 31, 2013		December 31, 2012	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Tier 1 Leverage Ratio				
Central Valley Community Bancorp and Subsidiary	$ 88,320	8.14%	$ 90,866	10.56%
Minimum regulatory requirement	$ 43,394	4.00%	$ 34,418	4.00%
Central Valley Community Bank	$ 87,674	8.09%	$ 87,911	10.22%
Minimum requirement for "Well-Capitalized" institution	$ 54,218	5.00%	$ 42,994	5.00%
Minimum regulatory requirement	$ 43,375	4.00%	$ 34,395	4.00%
Tier 1 Risk-Based Capital Ratio				
Central Valley Community Bancorp and Subsidiary	$ 88,320	13.88%	$ 90,866	18.24%
Minimum regulatory requirement	$ 25,454	4.00%	$ 19,926	4.00%
Central Valley Community Bank	$ 87,674	13.79%	$ 87,911	17.67%
Minimum requirement for "Well-Capitalized" institution	$ 38,151	6.00%	$ 29,848	6.00%
Minimum regulatory requirement	$ 25,434	4.00%	$ 19,899	4.00%
Total Risk-Based Capital Ratio				
Central Valley Community Bancorp and Subsidiary	$ 96,292	15.13%	$ 97,299	19.53%
Minimum regulatory requirement	$ 50,908	8.00%	$ 39,853	8.00%
Central Valley Community Bank	$ 95,639	15.04%	$ 94,336	18.96%
Minimum requirement for "Well-Capitalized" institution	$ 63,585	10.00%	$ 49,747	10.00%
Minimum regulatory requirement	$ 50,868	8.00%	$ 39,798	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 $7,330,000 and $53,000 at December 31, 2013 and 2012, 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 (FHLB). 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, 2013, the Company had unpledged securities totaling $344,015,000 available as a secondary source of liquidity and total cash and cash equivalents of $112,052,000. Cash and cash equivalents at December 31, 2013 increased 111.59% compared to December 31, 2012. Primary uses of funds include withdrawal of and interest payments on deposits, origination and purchases of loans, purchases of investment securities, and payment of operating expenses. Due to the negative impact of the slow economic recovery, we have been cautiously managing our asset quality. Consequently, expanding our loan portfolio or finding adequate investments to utilize some of our excess liquidity has been difficult in the current economic environment.

As a means of augmenting our liquidity, we have established Federal funds lines with various correspondent banks. At December 31, 2013, our available

LIQUIDITY (Continued)

borrowing capacity includes approximately $40,000,000 in Federal funds lines with our correspondent banks and $272,797,000 in unused FHLB advances. At December 31, 2013, 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, 2013 and 2012:

Credit Lines (In thousands)	December 31, 2013	December 31, 2012
Unsecured Credit Lines (interest rate varies with market):		
Credit limit	$ 40,000	$ 40,000
Balance outstanding	$ -	$ -
Federal Home Loan Bank (interest rate at prevailing interest rate):		
Credit limit	$272,797	$133,034
Balance outstanding	$ -	$ 4,000
Collateral pledged	$119,539	$ 94,368
Fair value of collateral	$119,902	$ 94,809
Federal Reserve Bank (interest rate at prevailing discount interest rate):		
Credit limit	$ 51	$ 127
Balance outstanding	$ -	$ -
Collateral pledged	$ 48	$ 115
Fair value of collateral	$ 52	$ 129

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 $192,667,000 as of December 31, 2013 compared to $162,851,000 as of December 31, 2012. For a more detailed discussion of these financial instruments, see *Note 13* 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 13* 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. 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 may differ from these estimates under different assumptions. The allowance for credit losses, deferred taxes assets and fair values of financial instruments are estimates which are particularly subject to change.

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 an estimate of probable credit losses inherent in the Company's loan portfolio that have been incurred as of the balance sheet date. 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 prospect 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 15* 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, 2013, 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 December 31, 2013, the Company had approximately 888 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, 2012	$ 5.25	$ 7.25
June 30, 2012	6.77	7.75
September 30, 2012	6.90	8.50
December 31, 2012	7.74	9.25
March 31, 2013	7.69	9.00
June 30, 2013	8.00	10.14
September 30, 2013	9.09	10.50
December 31, 2013	9.50	12.82

The Company paid $0.20 per common share cash dividends in 2013. The Company paid a $0.05 per common share cash dividend in 2012. The Company's primary source of income with which to pay cash dividends are dividends from the Bank. The Bank would not pay any dividend that would cause it to be deemed not "well capitalized" under applicable banking laws and regulations. See Note 14 in the audited Consolidated Financial Statements in 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) 616-8935

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 by calling 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

Central Valley Community Bank

Investing In Relationships.

www.cvcb.com

CUSTOMER SERVICE
(800) 298-1775
(559) 298-1775

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

Exeter
300 East Pine Street
Exeter, CA 93221
(559) 594-9919

FRESNO

Fig Garden Village
5180 North Palm Avenue,
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

VISALIA

Caldwell
2245 West Caldwell Avenue
Visalia, CA 93277
(559) 737-5641

Floral
120 North Floral Street
Visalia, CA 93291
(559) 625-8733

Mission Oaks Plaza
5412 Avenida de los Robles
Visalia, CA 93291
(559) 730-2851

Mary's Vineyard Shopping Center
Walk-Up and Drive-Up ATMs only
1349 East Noble Avenue
Visalia, CA 93292

BUSINESS LENDING

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

Agribusiness
1044 East Herndon Avenue,
Suite 106
Fresno, CA 93720
(559) 323-3493

Real Estate
1044 East Herndon Avenue,
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Fresno, CA 93720
(559) 323-3365

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

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