

CENTRAL VALLEY COMMUNITY BANCORP

Form 10-K

March 20, 2013

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-31977

CENTRAL VALLEY COMMUNITY BANCORP

(Exact name of registrant as specified in its charter)

CALIFORNIA

77-0539125

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

7100 N. Financial Dr., Suite 101, Fresno, CA

93720

(Address of principal executive offices)

(Zip Code)

559-298-1775

(Registrant's telephone number, including area code)

[None]

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

None

NASDAQ Capital Market

[Common Stock, \$ \_\_\_\_\_ par value per share]

[EXCHANGE]

Securities registered pursuant to Section 12(g) of the Act: Common Stock, No Par Value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of June 30, 2012, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$44,885,000 based on the price at which the stock was last sold on June 30, 2012.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, No Par Value

Outstanding at March 18, 2013

[Common Stock, No par value per share]

9,559,066 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document

Parts into Which Incorporated

Proxy Statement for the Annual Meeting of Shareholders to be held May 15, 2013 (Proxy Statement)

Part III

Table of Contents

TABLE OF CONTENTS

<u>ITEM 1 -</u>	<u>DESCRIPTION OF BUSINESS</u>	<u>1</u>
<u>ITEM 1A -</u>	<u>RISK FACTORS</u>	<u>23</u>
<u>ITEM 2 -</u>	<u>DESCRIPTION OF PROPERTY</u>	<u>29</u>
<u>ITEM 3 -</u>	<u>LEGAL PROCEEDINGS</u>	<u>29</u>
<u>ITEM 4 -</u>	<u>MINE SAFETY DISCLOSURES</u>	<u>29</u>
<u>ITEM 5 -</u>	<u>MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	<u>29</u>
<u>ITEM 6 -</u>	<u>SELECTED FINANCIAL DATA</u>	<u>32</u>
<u>ITEM 7-</u>	<u>MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION</u>	<u>33</u>
<u>ITEM 7A-</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>57</u>
<u>ITEM 8 -</u>	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	<u>59</u>
<u>ITEM 9 -</u>	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	<u>106</u>
<u>ITEM 9A -</u>	<u>CONTROLS AND PROCEDURES</u>	<u>106</u>
<u>ITEM 9B-</u>	<u>OTHER INFORMATION</u>	<u>106</u>
<u>ITEM 10 -</u>	<u>DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS: COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT</u>	<u>107</u>
<u>ITEM 11 -</u>	<u>EXECUTIVE COMPENSATION</u>	<u>107</u>
<u>ITEM 12 -</u>	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	<u>107</u>
<u>ITEM 13 -</u>	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	<u>107</u>
<u>ITEM 14 -</u>	<u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	<u>107</u>
<u>ITEM 15 -</u>	<u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u>	<u>107</u>
	<u>SIGNATURES</u>	<u>108</u>



Table of Contents

ADDITIONAL INFORMATION; INQUIRIES

Under the Securities Exchange Act of 1934, Sections 13 and 15(d), periodic and current reports must be filed with the SEC. We electronically file the following reports with the SEC:

- Form 10-K — Annual Report;
- Form 10-Q — Quarterly Report;
- Form 8-K — Report of Unscheduled Material Events; and
- Form DEF 14A — Proxy Statement.

We may file additional forms. The SEC maintains an Internet site, [www.sec.gov](http://www.sec.gov), in which all forms filed electronically may be accessed. Additional shareholder information regarding the Company and our Directors is available on our website: [www.cvcb.com](http://www.cvcb.com). None of the information on or hyperlinked from our website is incorporated into this Report.

Copies of the annual report on Form 10-K for the year ended December 31, 2012 may be obtained without charge upon written request to Dave Kinross, Chief Financial Officer, at the Company's administrative offices, 7100 N. Financial Dr., Suite 101, Fresno, CA 93720.

Inquiries regarding Central Valley Community Bancorp's accounting, internal controls or auditing concerns should be directed to Steven D. McDonald, chairman of the Board of Directors' Audit Committee, at [steve.mcdonald@cvcb.com](mailto:steve.mcdonald@cvcb.com) or anonymously at [www.ethicspoint.com](http://www.ethicspoint.com) or EthicsPoint, Inc. at 1-866-294-9588.

General inquiries about Central Valley Community Bancorp or Central Valley Community Bank should be directed to Cathy Ponte, Assistant Corporate Secretary at 1-800-298-1775.

PART I

ITEM 1 - DESCRIPTION OF BUSINESS

General

Central Valley Community Bancorp (the Company) was incorporated on February 7, 2000 as a California corporation, for the purpose of becoming the holding company for Central Valley Community Bank (the Bank), formerly known as Clovis Community Bank, a California state chartered bank, through a corporate reorganization. In the reorganization, the Bank became the wholly-owned subsidiary of the Company, and the shareholders of the Bank became the shareholders of the Company. The Company is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (the BHC Act), and is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the Board of Governors).

At December 31, 2012, we had one banking subsidiary, the Bank. Our principal business is to provide, through our banking subsidiary, financial services in our primary market area in California. We serve Fresno County, Madera County, Sacramento County, San Joaquin County, Merced County, and Stanislaus County and their surrounding areas through the Bank. We do not currently conduct any operations other than through the Bank. Unless the context otherwise requires, references to us refer to the Company and the Bank on a consolidated basis. At December 31, 2012, we had consolidated total assets of approximately \$890,228,000. See Items 7 and 8, Management's Discussion and Analysis or Plan of Operation and Financial Statements.

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 (S1 Bank) was merged with and into the Bank. S1 Bank had three branches in Stockton, Tracy, and Lodi which continue to be operated by the Bank.

On August 18, 2011, the Company entered into a Securities Purchase Agreement with the Small Business Lending Fund of the United States Department of the Treasury (the Treasury), under which the Company issued 7,000 shares

of Senior Non-Cumulative Perpetual Preferred Stock, Series C (the Preferred Shares) to the Treasury for an aggregate purchase price of \$7,000,000. Simultaneously, the Company agreed with Treasury under a Letter Agreement to redeem, for an aggregate price of \$7,000,000, the 7,000 shares of the Company's Series A Fixed Rate Cumulative Preferred Stock (Series A Stock) originally issued pursuant to the Treasury's Capital Purchase Program (CPP) in 2009. The redemption of the Series A Stock resulted in an acceleration of the remaining discount booked at the time of the CPP transaction.

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

## Table of Contents

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

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

If dividends on the Preferred Shares are not paid in full for six dividend periods, whether or not consecutive, the holders of the Preferred Shares will have the right to elect 2 directors. The right to elect directors will end when full dividends have been paid for four consecutive dividend periods. The Company has paid all scheduled dividend payments as of December 31, 2012.

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

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

In May 2010, the shareholders of the Company approved an amendment to the Company's governing instruments to create a series of non-voting common stock. In June 2010, the Company exercised its option to require the Purchasers to exchange 1,359 shares of Series B Preferred Stock for 258,862 shares of non-voting common stock. In August 2011, the Company agreed to exchange 258,862 shares of the Company's non-voting common stock for 258,862 shares of the Company's voting common stock.

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 the Merger Agreement with Visalia Community Bank on December 19, 2012. The Company had no stock repurchase plans in place during 2011 or 2010. On December 19, 2012, Central Valley Community Bancorp and Visalia Community Bank, headquartered in Visalia, California, entered into a Reorganization Agreement and Plan of Merger (the Merger Agreement). Under the terms of the agreement, Visalia Community Bank with four branches in Visalia and one branch in Exeter, will merge with Central Valley Community Bancorp's subsidiary, Central Valley Community Bank (the Merger). The transaction is subject to customary closing conditions, including regulatory approvals and approval by Visalia Community Bank's shareholders. The Central Valley Community Bancorp and Visalia Community Bank boards of directors have unanimously approved the transaction, which is expected to close in the second quarter of 2013.

As of March 1, 2013, we had a total of 232 employees and 202 full time equivalent employees, including the employees of the Bank.

## The Bank

The Bank was organized in 1979 and commenced business as a California state chartered bank in 1980. The deposits of the Bank are insured by the Federal Deposit Insurance Corporation (the FDIC) up to applicable limits. The Bank is not a member of the Federal Reserve System

The Bank operates 17 full-service banking offices in Clovis, Fresno, Kerman, Lodi, Madera, Merced, Modesto, Oakhurst, Prather, Sacramento, Stockton, and Tracy. The Oakhurst and Madera branches were added through the Bank of Madera County merger in 2005. The Tracy, Stockton and Lodi offices were added through the merger with Service 1st Bank in November of 2008. 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. Our total market share of deposits in Fresno and Madera counties increased to 4.81% in 2012 compared to 4.55% in 2011 based on FDIC deposit market share information published as of June 30, 2012.

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



## Table of Contents

In November of 2008, The Company acquired Service 1st and its banking subsidiary, S1 Bank, adding three branches located in Tracy, Stockton and Lodi, California.

In 2009, we opened a new full service office in Merced, California and relocated our Oakhurst office to a new smaller facility in a more desirable location.

In 2010, the Company expanded the existing Modesto loan production office opened in 2007, to a larger full-service branch.

Branch expansions provide the Company with opportunities to expand its loan and deposit base; however, based on past experience, management expects these new offices will initially have a negative impact on earnings until the volume of business grows to cover fixed overhead expenses. The Bank anticipates additional future branch openings to meet the growing service needs of its customers, although none are planned during 2012.

The Bank established an interest in Central Valley Community Insurance Services, LLC at the end of 2006. The purpose of this entity is to market health, commercial property and casualty insurance products and services primarily to business customers.

The Bank conducts a commercial banking business, which includes accepting demand, savings and time deposits and making commercial, real estate and consumer loans. It also provides domestic and international wire transfer services and provides safe deposit boxes and other customary banking services. The Bank also has offered Internet Banking since 2000. Internet Banking consists of inquiry, account status, bill paying, account transfers, and cash management. The Bank does not offer trust services or international banking services and does not currently plan to do so in the near future.

Since August of 1995 the Bank has been a party to an agreement with Investment Centers of America, pursuant to which Investment Centers of America provides Bank customers with access to investment services. In connection with entering into this agreement, the Bank adopted a policy intended to comply with FDIC Regulation Section 337.4, which outlines the guidelines under which an insured non-member bank may be affiliated with a company that directly engages in the sale, distribution, or underwriting of stocks, bonds, debentures, notes, or other securities. The Bank's operating policy since its inception has emphasized serving the banking needs of individuals and the business and professional communities in the central valley area of California. At December 31, 2012, we had total loans of \$395,318,000. Total commercial and industrial loans outstanding were \$77,956,000, total agricultural land and production loans outstanding were \$26,599,000, total real estate construction and other land loans outstanding were \$33,199,000; total other real estate loans outstanding were \$204,739,000, total equity loans and lines of credit were \$42,932,000 and total consumer installment loans outstanding were \$10,346,000. We accept real estate, listed securities, savings and time deposits, automobiles, inventory, machinery and equipment as collateral for loans.

No individual or single group of related accounts is considered material in relation to the Bank's assets or deposits, or in relation to the overall business of the Company. However, at December 31, 2012 approximately 71.0% of our loan portfolio held for investment consisted of real estate-related loans, including construction loans, equity loans and lines of credit and commercial loans secured by real estate and 26.4% consisted of commercial loans. See [Item 7](#) — Management's Discussion and Analysis of Financial Condition and Results of Operations. We believe that these concentrations are mitigated by the diversification of our loan portfolio among commercial, real estate and consumer loans. In addition, our business activities currently are mainly concentrated in Fresno, Madera and San Joaquin County, California. Consequently, our results of operations and financial condition are dependent upon the general trends in this part of the California economy and, in particular, the residential and commercial real estate markets. In addition, our concentration of operations in this area of California exposes us to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires and floods in this region or as a result of energy shortages in California.

Our deposits are attracted from individual and commercial customers. A material portion of our deposits have not been obtained from a single person or a few persons, the loss of any one or more of which would have a material adverse effect on our business.

In order to attract loan and deposit business from individuals and small businesses, we maintain the following lobby hours at our branches:



Table of Contents

Branch	Monday — Thursday 9:00 a.m. to 4:00 p.m.	Friday 9:00 a.m. to 6:00 p.m.	Saturday
Clovis Main	Drive Up 8:00 a.m. to 5:30 p.m. 9:00 a.m. to 4:00 p.m.	Drive Up 8:00 a.m. to 6:00 p.m. 9:00 a.m. to 5:00 p.m.	None
Fresno Downtown	Walk-up window 8:00 a.m. to 9:00 a.m.	Walk-up window 8:00 a.m. to 9:00 a.m.	None
Fig Garden Village	9:00 a.m. to 5:00 p.m. 9:00 a.m. to 5:00 p.m.	9:00 a.m. to 6:00 p.m. 9:00 a.m. to 6:00 p.m.	10:00 a.m. to 2:00 p.m. 9:00 a.m. to 2:00 p.m.
Herndon & Fowler	Drive Up 8:30 a.m. to 5:30 p.m. 9:00 a.m. to 5:00 p.m.	Drive Up 8:30 a.m. to 6:00 p.m. 9:00 a.m. to 6:00 p.m.	Drive Up 9:00 a.m. to 2:00 p.m. 10:00 a.m. to 2:00 p.m.
River Park	Drive Up 9:00 a.m. to 5:30 p.m. 9:00 a.m. to 5:00 p.m.	Drive Up 9:00 a.m. to 6:00 p.m. 9:00 a.m. to 6:00 p.m.	Drive Up 10:00 a.m. to 2:00 p.m.
Sunnyside	Drive Up 8:30 a.m. to 5:00 p.m. 9:00 a.m. to 5:00 p.m.	Drive Up 8:30 a.m. to 6:00 p.m. 9:00 a.m. to 6:00 p.m.	None
Kerman	Drive Up 8:30 a.m. to 5:00 p.m.	Drive Up 8:30 a.m. to 6:00 p.m.	None
Lodi	9:00 a.m. to 5:00 p.m.	9:00 a.m. to 6:00 p.m.	None
Madera	8:30 a.m. to 5:00 p.m.	8:30 a.m. to 6:00 p.m.	None
Merced	9:00 a.m. to 5:00 p.m. 9:00 a.m. to 5:00 p.m.	9:00 a.m. to 6:00 p.m. 9:00 a.m. to 6:00 p.m.	None
Modesto	Drive Up 8:30 a.m. to 5:00 p.m.	Drive Up 8:30 a.m. to 6:00 p.m.	None
Oakhurst	8:30 a.m. to 5:00 p.m.	8:30 a.m. to 6:00 p.m.	None
Prather (Foothill office)	9:00 a.m. to 5:00 p.m.	9:00 a.m. to 6:00 p.m.	9:00 a.m. to 1:00 p.m.
Sacramento Private Banking	9:00 a.m. to 4:00 p.m.	9:00 a.m. to 4:00 p.m.	None
Stockton	9:00 a.m. to 5:00 p.m.	9:00 a.m. to 6:00 p.m.	None
Tracy	9:00 a.m. to 5:00 p.m.	9:00 a.m. to 6:00 p.m.	None
Financial Drive	8:00 a.m. to 5:00 p.m.	8:00 a.m. to 5:00 p.m.	None

Automated teller machines operate at 16 branch locations. All operate 24 hours per day, seven days per week. No automated teller machines are currently located at the Sacramento office. Our Real Estate, Small Business Administration (SBA) Departments and Agribusiness office maintain business hours of 8:00 A.M. to 5:00 P.M., Monday through Friday, and extended hours are available upon customer request.

To compete effectively, we rely substantially on local promotional activity, personal contacts by our officers, directors and employees, referrals by our shareholders, extended hours, personalized service and our reputation in the communities we serve.

In Fresno and Madera Counties, in addition to our 12 full-service branch locations, serving the Bank's primary service areas, as of December 31, 2012 there were 161 operating banking and credit union offices in our primary service area, which consists of the cities of Clovis, Fresno, Kerman, Oakhurst, Madera, and Prather, California. Prather does not contain any banking offices other than our office. The June 2012 FDIC Summary of Deposits report indicated the Company had 4.60% of the total deposits held by all depositories in Fresno County and 7.09% in Madera County. In San Joaquin County, in addition to our three full service branch locations acquired from Service 1st, as of December 31, 2012 there were 114 operating banking and credit union offices. The FDIC Summary of Deposits as of June 2012 report indicated the Company had 1.72% of total deposits held by all depositories in San Joaquin County. In Sacramento County, in addition to our one branch, as of December 31, 2012 there were 232 operating banking and credit union offices in our primary service area. In Stanislaus County, in addition to our one branch, there were 96 operating banking and credit union offices in our primary service area. Business activity in our primary service area is oriented toward light industry, small business and agriculture.

## Table of Contents

The banking business in California generally, and our primary service area specifically, is highly competitive with respect to both loans and deposits, and is dominated by a relatively small number of major banks with many offices operating over a wide geographic area. Among the advantages such major banks have over us is their ability to finance wide-ranging advertising campaigns and to allocate their investment assets, including loans, to regions of higher yield and demand. Major banks offer certain services such as international banking and trust services which we do not offer directly but which we usually can offer indirectly through correspondent institutions. In addition, by virtue of their greater total capitalization, such banks have substantially higher lending limits than we do. Legal lending limits to an individual customer are limited to a percentage of our total capital accounts. As of December 31, 2012, the Bank's legal lending limits to individual customers were \$14,127,000 for unsecured loans and \$23,545,000 for unsecured and secured loans combined. For borrowers desiring loans in excess of the Bank's lending limits, the Bank makes, and may in the future make, such loans on a participation basis with other community banks taking the amount of loans in excess of the Bank's lending limits. In other cases, the Bank may refer such borrowers to larger banks or other lending institutions.

Other entities, both governmental and in private industry, seeking to raise capital through the issuance and sale of debt or equity securities also provide competition for us in the acquisition of deposits. Banks also compete with money market funds and other money market instruments, which are not subject to interest rate ceilings. In recent years, increased competition has also developed from specialized finance and non-finance companies that offer wholesale finance, credit card, and other consumer finance services, including on-line banking services and personal finance software. Competition for deposit and loan products remains strong, from both banking and non-banking firms, and affects the rates of those products as well as the terms on which they are offered to customers.

Technological innovation continues to contribute to greater competition in domestic and international financial services markets. Technological innovation has, for example, made it possible for non-depository institutions to offer customers automated transfer payment services that previously have been traditional banking products. In addition, customers now expect a choice of several delivery systems and channels, including telephone, mail, home computer, ATMs, remote deposit, self-service branches, and in-store branches.

Mergers between financial institutions have placed additional pressure on banks to streamline their operations, reduce expenses, and increase revenues to remain competitive. In addition, competition has intensified due to federal and state interstate banking laws, which permit banking organizations to expand geographically with fewer restrictions than in the past. Such laws allow banks to merge with other banks across state lines, thereby enabling banks to establish or expand banking operations in our market. The competitive environment also is significantly impacted by federal and state legislation, which may make it easier for non-bank financial institutions to compete with us.

## Statistical Disclosure

The information in the tables set out below should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included in Items 7 and 8 of this annual report.

## Distribution of Average Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential

Table A sets forth our average consolidated balance sheets for the years ended December 31, 2012, 2011, and 2010 and an analysis of interest rates and the interest rate differential for the years then ended. Table B sets forth the changes in interest income and interest expense in 2012 and 2011 resulting from changes in volume and changes in rates.

## Investment Portfolio

The book value (amortized cost) of investment securities at December 31, 2012, 2011, and 2010 and the book value, maturities and weighted average yield of investment securities at December 31, 2012 are set forth in Table C.

## Loan Portfolio

The composition of the loan portfolio at December 31, 2012, 2011, 2010, 2009, and 2008, is summarized in Table D. Maturities and sensitivity to changes in interest rates in the loan portfolio at December 31, 2012 are summarized in Table E. Table F shows the composition of nonaccrual, past due and restructured loans at December 31, 2012, 2011, 2010 2009, and 2008. Set forth in the text accompanying Table F is a discussion of the Company's policy for placing loans on nonaccrual status.

## Summary of Loan Loss Experience

5

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Table of Contents

Table G sets forth an analysis of loan loss experience as of and for the years ended December 31, 2012, 2011, 2010, 2009, and 2008.

Set forth in the text accompanying Table G is a description of the factors which influenced management's judgment in determining the amount of the additions to the allowance charged to operating expense in each fiscal year, a table showing the allocation of the allowance for credit losses to the various types of loans in the portfolio, as well as a discussion of management's policy for establishing and maintaining the allowance for credit losses.

Deposits

Table H sets forth the average amount of and the average rate paid on major deposit categories for the years ended December 31, 2012, 2011, and 2010. Table I sets forth the maturity of time certificates of deposit of \$100,000 or more at December 31, 2012.

Return on Equity and Assets

Table J sets forth certain financial ratios for the years ended December 31, 2012, 2011, and 2010.

Table of Contents

Table A

## DISTRIBUTION OF AVERAGE ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL

The following table sets forth consolidated average assets, liabilities and shareholders' equity; interest income earned and interest expense paid; and the average yields earned or rates paid thereon for the years ended December 31, 2012, 2011, and 2010. The average balances reflect daily averages except nonaccrual loans, which were computed using quarterly averages.

(Dollars in thousands)	2012			2011			2010		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
<b>ASSETS:</b>									
Interest-earning deposits in other banks	\$36,836	\$108	0.29 %	\$73,016	\$187	0.26 %	\$42,047	\$110	0.26 %
Securities:									
Taxable securities	218,325	3,289	1.51 %	150,559	4,548	3.02 %	124,163	5,472	4.41 %
Non-taxable securities (1)	113,039	6,830	6.04 %	75,665	5,248	6.94 %	64,838	4,605	7.10 %
Total investment securities	331,364	10,119	3.05 %	226,224	9,796	4.33 %	189,001	10,077	5.33 %
Federal funds sold	618	2	0.30 %	695	2	0.29 %	713	2	0.28 %
Total securities and interest-earning deposits	368,818	10,229	2.77 %	299,935	9,985	3.33 %	231,761	10,189	4.40 %
Loans (2)(3)	394,575	23,913	6.06 %	412,969	26,098	6.32 %	437,959	27,390	6.25 %
Federal Home Loan Bank stock	3,544	36	1.02 %	2,958	9	0.30 %	3,084	11	0.36 %
Total interest-earning assets (1)	766,937	\$34,178	4.46 %	715,862	\$36,092	5.04 %	672,804	\$37,590	5.59 %
Allowance for credit losses	(10,365 )			(11,018 )			(10,922 )		
Nonaccrual loans	10,465			15,322			17,381		
Other real estate owned	919			217			2,972		
Cash and due from banks	19,525			17,977			16,479		
Bank premises and equipment	6,217			5,788			6,089		
Other non-earning assets	59,380			56,030			54,049		
Total average assets	\$853,078			\$800,178			\$758,852		



Table of Contents

(Dollars in thousands)	2012			2011			2010		
	Average Balance	Interest Income/Expense	Average Interest Rate	Average Balance	Interest Income/Expense	Average Interest Rate	Average Balance	Interest Income/Expense	Average Interest Rate
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>									
Interest-bearing liabilities									
Interest-bearing deposits:									
Savings and NOW accounts	\$177,205	\$302	0.17 %	\$154,765	\$368	0.24 %	\$142,350	\$498	0.35 %
Money market accounts (MMA)	178,734	392	0.22 %	174,049	692	0.40 %	157,761	1,036	0.66 %
Time certificates of deposit, under \$100,000	59,838	466	0.78 %	70,111	688	0.98 %	69,066	866	1.25 %
Time certificates of deposit, \$100,000 and over	86,295	470	0.54 %	96,620	914	0.95 %	114,043	1,313	1.15 %
Total interest-bearing deposits	502,072	1,630	0.32 %	495,545	2,662	0.54 %	483,220	3,713	0.77 %
Other borrowed funds	9,156	253	2.76 %	10,265	280	2.73 %	19,634	570	2.90 %
Total interest-bearing liabilities	511,228	\$1,883	0.37 %	505,810	\$2,942	0.58 %	502,854	\$4,283	0.85 %
Non-interest bearing demand deposits	217,529			182,244			152,946		
Other liabilities	9,760			8,738			6,878		
Shareholders' equity	114,561			103,386			96,174		
Total average liabilities and shareholders' equity	\$853,078			\$800,178			\$758,852		
Interest income and rate earned on average earning assets (1)		\$34,178	4.46 %		\$36,092	5.04 %		\$37,590	5.59 %
Interest expense and interest cost related to average interest-bearing liabilities		1,883	0.37 %		2,942	0.58 %		4,283	0.85 %
Net interest income and net interest margin (4)		\$32,295	4.21 %		\$33,150	4.63 %		\$33,307	4.95 %

(1) Calculated on a fully tax equivalent basis, which includes Federal tax benefits relating to income earned on municipal bonds totaling \$2,322, \$1,784 and \$1,566 in 2012, 2011 and 2010, respectively.

(2) Loan interest income includes loan fees of \$646 in 2012, \$399 in 2011, and \$460 in 2010.

(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.

Table of Contents

## Table B

## VOLUME AND RATE ANALYSIS

The following table sets forth, for the years indicated, a summary of the changes in interest earned and interest paid resulting from changes in asset and liability volumes and changes in rates. The change in interest due to both volume and rate has been allocated to change due to volume and rate in proportion to the relationship of absolute dollar amounts of change in each.

(In thousands)	Years Ended December 31, 2012 Compared to 2011			2011 Compared to 2010		
	Volume	Rate	Net	Volume	Rate	Net
Increase (decrease) due to changes in:						
Interest income:						
Interest-earning deposits in other banks	\$(111 )	\$32	\$(79 )	\$80	\$(3 )	\$77
Investment securities:						
Taxable	11,056	(12,315 )	(1,259 )	1,926	(2,850 )	(924 )
Non-taxable (1)	2,141	(559 )	1,582	746	(103 )	643
Total investment securities	13,197	(12,874 )	323	2,672	(2,953 )	(281 )
Loans	(1,389 )	(796 )	(2,185 )	(1,654 )	362	(1,292 )
FHLB Stock	2	25	27	—	(2 )	(2 )
Total earning assets (1)	11,699	(13,613 )	(1,914 )	1,098	(2,596 )	(1,498 )
Interest expense:						
Deposits:						
Savings, NOW and MMA	97	(463 )	(366 )	167	(641 )	(474 )
Certificates of deposit under \$100,000	(92 )	(130 )	(222 )	13	(191 )	(178 )
Certificates of deposit \$100,000 and over	(89 )	(355 )	(444 )	(184 )	(215 )	(399 )
Total interest-bearing deposits	(84 )	(948 )	(1,032 )	(4 )	(1,047 )	(1,051 )
Other borrowed funds	(31 )	4	(27 )	(336 )	46	(290 )
Total interest bearing liabilities	(115 )	(944 )	(1,059 )	(340 )	(1,001 )	(1,341 )
Net interest income (1)	\$11,814	\$(12,669 )	\$(855 )	\$1,438	\$(1,595 )	\$(157 )

(1) Computed on a tax equivalent basis for securities exempt from federal income taxes.

Table of Contents

## Table C

## INVESTMENT PORTFOLIO

The book value of investment securities at December 31, 2012, 2011, and 2010 is set forth in the following table. At December 31, 2012, we held no investment securities from any issuer which totaled over 10% of our shareholders' equity.

Available-for-Sale (In thousands)	Book Value at December 31,		
	2012	2011	2010
U.S. Government agencies	\$9,443	\$149	\$190
Obligations of states and political subdivisions	151,312	101,030	74,598
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	206,465	204,222	88,105
Private label residential mortgage backed securities	6,258	8,408	18,661
Corporate debt securities	—	—	500
Other equity securities	7,596	7,596	7,628
Total Available-for-Sale Securities	\$381,074	\$321,405	\$189,682

The book value, maturities and weighted average yield of investment securities at December 31, 2012 are summarized in the following table.

(Dollars in thousands)	In one year or less		After one through five years		After five through ten years		After ten years		Total	
	Amount	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Yield(1)
Available-for-Sale Securities										
Debt securities(2)										
U.S. Government agencies	\$—	—	\$—	—	\$—	—	\$9,443	4.06 %	\$9,443	4.06 %
Obligations of states and political subdivisions	150	5.25 %	10,355	4.36 %	20,256	4.46 %	120,551	4.33 %	151,312	4.35 %
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	6	5.56 %	242	6.00 %	14,803	4.59 %	191,414	4.90 %	206,465	4.88 %
Private label residential mortgage backed securities	—	—	—	—	916	4.75 %	5,342	5.66 %	6,258	5.53 %
Other equity securities	7,596	3.14 %	—	—	—	—	—	—	7,596	3.14 %
	\$7,752	3.18 %	\$10,597	4.40 %	\$35,975	4.52 %	\$326,750	4.68 %	\$381,074	4.62 %

(1) Not computed on a tax equivalent basis.

Expected maturities will differ from contractual maturities because the issuers of the securities may have the right (2) to call or prepay obligations with or without call or prepayment penalties. Expected maturities will also differ from contractual maturities due to unscheduled principal pay downs.

Table of Contents

## Table D

## LOAN PORTFOLIO

The composition of the loan portfolio at December 31, 2012, 2011, 2010, 2009, and 2008 is summarized in the table below.

(In thousands)	2012	2011	2010	2009	2008
Commercial:					
Commercial and industrial	\$77,956	\$78,089	\$81,318	\$93,282	\$109,664
Agricultural land and production	26,599	29,958	20,604	13,903	20,406
Total commercial	104,555	108,047	101,922	107,185	130,070
Real estate:					
Owner occupied	114,444	113,183	111,888	106,606	113,414
Real estate construction and other land loans	33,199	33,047	32,038	51,633	57,923
Commercial real estate	53,797	62,523	63,627	71,420	64,358
Agricultural real estate	28,400	42,596	44,397	38,759	32,136
Other real estate	8,098	7,892	8,103	4,610	2,926
Total real estate	237,938	259,241	260,053	273,028	270,757
Consumer:					
Equity loans and lines of credit	42,932	51,106	58,860	65,353	63,828
Consumer and installment	10,346	9,765	11,261	14,033	19,801
Total consumer	53,278	60,871	70,121	79,386	83,629
Deferred loan fees, net	(453 )	(764 )	(499 )	(392 )	(218 )
Total gross loans	395,318	427,395	431,597	459,207	484,238
Allowance for credit losses	(10,133 )	(11,396 )	(11,014 )	(10,200 )	(7,223 )
Total (1)	\$385,185	\$415,999	\$420,583	\$449,007	\$477,015
	2012	2011	2010	2009	2008
(1) Includes nonaccrual loans of:	\$9,695	\$14,434	\$18,561	\$18,959	\$15,750

Table of Contents

Table E

## LOAN MATURITIES AND SENSITIVITY TO CHANGES IN INTEREST RATES

The following table presents information concerning loan maturities and sensitivity to changes in interest rates of the indicated categories of our loan portfolio, as well as loans in those categories maturing after one year that have fixed or floating interest rates at December 31, 2012.

(In thousands)	One Year or Less	After One Through Five Years	After Five Years	Total
Loan Maturities:				
Commercial and agricultural	\$64,748	\$29,924	\$9,883	\$104,555
Real estate construction and other land loans	13,703	15,025	4,471	33,199
Other real estate	7,925	25,097	171,717	204,739
Consumer and installment	9,032	11,751	32,495	53,278
	\$95,408	\$81,797	\$218,566	\$395,771
Sensitivity to Changes in Interest Rates:				
Loans with fixed interest rates	\$20,936	\$42,559	\$30,192	\$93,687
Loans with floating interest rates	74,472	39,238	188,374	302,084
	\$95,408	\$81,797	\$218,566	\$395,771

Table F

## COMPOSITION OF NONACCRUAL, PAST DUE AND RESTRUCTURED LOANS

A summary of nonaccrual, restructured and past due loans at December 31, 2012, 2011, 2010, 2009, and 2008 is set forth below:

(Dollars in thousands)	December 31,					
	2012	2011	2010	2009	2008	
Nonaccrual	\$450	\$3,833	\$7,906	\$14,391	\$14,047	
Restructured nonaccrual loans	9,245	10,601	10,655	4,568	1,703	
	\$9,695	\$14,434	\$18,561	\$18,959	\$15,750	
Accruing loans past due 90 days or more	—	—	—	—	—	
Accruing troubled debt restructurings	7,410	9,210	—	—	—	
Nonaccrual loans to total loans	2.45	% 3.38	% 4.30	% 4.13	% 3.25	%

Our consolidated financial statements are prepared on the accrual basis of accounting, including the recognition of interest income on loans. Interest income from nonaccrual loans is recorded only if collection of principal in full is not in doubt and when and if received.

Loans are placed on nonaccrual status and any accrued but unpaid interest income is reversed and charged against income when the payment of interest or principal is 90 days or more past due. Loans in the nonaccrual category are treated as nonaccrual loans even though we may ultimately recover all or a portion of the interest due. These loans return to accrual status when the loan becomes contractually current, future collectibility of amounts due is reasonably assured, and a minimum of six months of satisfactory principal repayment performance has occurred. As of December 31, 2012, nonaccrual loans totaled \$9,695,000 and interest foregone on nonaccrual loans totaled \$693,000 for the year then ended. As of December 31, 2011, we had nonaccrual loans totaling \$14,434,000 and interest

foregone on nonaccrual loans totaled \$954,000 for the year then ended. As of December 31, 2010, we had nonaccrual loans totaling \$18,561,000 and interest foregone on nonaccrual loans totaled \$1,228,000 for the year then ended. We had nonaccrual loans totaling \$18,959,000 at December 31, 2009 and interest foregone on nonaccrual loans totaled \$852,000 for the year then ended. As of December 31, 2008, we had nonaccrual loans totaling \$15,750,000 and interest foregone on nonaccrual loans totaled \$371,000 for the year then ended. See Note 5 of the Company's audited Consolidated Financial Statements in Item 8 of this Annual Report.

Table of Contents

Included in nonaccrual loans at December 31, 2012 were seven loans totaling \$9,245,000 that were considered troubled debt restructurings (TDRs). None of these TDR loans were in default at December 31, 2012. There are no outstanding commitments to lend additional funds to any of these borrowers. Included in nonaccrual loans at December 31, 2011 were six loans that totaled \$10,601,000 that were considered to be TDRs at December 31, 2011. The Company had twelve loans at December 31, 2010 totaling \$10,655,000 that were considered to be TDRs. As of December 31, 2009, the Company had seven loans totaling \$4,568,000 that were on nonaccrual and considered TDR. At December 31, 2008, the Company had two loans totaling \$1,703,000 that were on nonaccrual and considered TDR. See Note 5 of the Company's audited Consolidated Financial Statements in Item 8 of this Annual Report concerning our recorded investment in loans for which impairment has been recognized. Impaired loans are identified from internal credit review reports, past due reports, overdraft listings, and regulatory reports of examination. Borrowers experiencing problems such as operating losses, marginal working capital, inadequate cash flow or business interruptions which jeopardize collection of the loan are also reviewed for possible impairment classification. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the original agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Loans determined to be impaired are individually evaluated for impairment. When a loan is impaired, the Company measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, it may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral. We perform quarterly internal reviews on substandard loans. We place loans on nonaccrual status and classify them as impaired when a reasonable doubt exists as to the collectibility of 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 \$693,000 for the year ended December 31, 2012 of which \$669,000 was attributable to troubled debt restructurings. Foregone interest on nonaccrual loans was \$954,000 and \$1,228,000 for 2011 and 2010, respectively of which \$769,000 and \$376,000 was attributable to troubled debt restructurings, respectively. Other than as discussed above, as of December 31, 2012, we had no loans where known information about possible credit problems of borrowers caused management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as impaired loans.

Table of Contents

## Table G

## SUMMARY OF LOAN LOSS EXPERIENCE

The following table summarizes loan loss experience as of and for the years ended December 31, 2012, 2011, 2010, 2009, and 2008.

(Dollars in thousands)	2012	2011	2010	2009	2008	
Loans outstanding at December 31,	\$395,771	\$428,159	\$432,096	\$459,599	\$484,456	
Average loans outstanding during the year	\$405,040	\$428,291	\$455,340	\$482,458	\$367,009	
Allowance for credit losses:						
Balance at beginning of year	\$11,396	\$11,014	\$10,200	\$7,223	\$3,887	
Deduct loans charged-off:						
Commercial and industrial	(123 )	(280 )	(1,938 )	(1,383 )	(175 )	
Owner occupied	(217 )	—	(218 )	(1,160 )	—	
Real estate construction and other land loans	(319 )	(286 )	(823 )	(569 )	—	
Commercial real estate	(1,430 )	(26 )	(11 )	(1,588 )	—	
Other real estate	—	—	(453 )	(2,450 )	(393 )	
Consumer loans	(761 )	(940 )	(679 )	(776 )	(283 )	
Total loans charged-off	(2,850 )	(1,532 )	(4,122 )	(7,926 )	(851 )	
Add recoveries of loans previously charged off:						
Commercial and industrial	515	286	429	45	22	
Owner occupied	45	—	258	20	—	
Real estate construction and other land loans	—	52	42	55	—	
Commercial real estate	—	176	—	5	—	
Other real estate	—	—	81	201	22	
Consumer loans	327	350	326	63	67	
Total recoveries	887	864	1,136	389	111	
Net charge-offs	(1,963 )	(668 )	(2,986 )	(7,537 )	(740 )	
Allowance acquired in mergers	—	—	—	—	2,786	
Add provision charged to operating expense	700	1,050	3,800	10,514	1,290	
Balance at end of year	\$10,133	\$11,396	\$11,014	\$10,200	\$7,223	
Allowance for credit losses as a percentage of outstanding loan balance	2.56	% 2.66	% 2.55	% 2.22	% 1.49	%
Net charge-offs to average loans outstanding	(0.48 )%	(0.16 )%	(0.66 )%	(1.56 )%	(0.20 )%	%

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

The allowance for credit losses is reviewed at least quarterly by the Bank's and our Board of Directors' Audit/Compliance Committee. Reserves are allocated to loan portfolio segments 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 reserve does not properly reflect the potential loss exposure.

The provision for credit losses for the years ended December 31, 2012 was \$700,000. The amount of provision is primarily the result of our assessment of the overall adequacy of the allowance for credit losses considering a number of factors, including the increase or decrease in the volume of outstanding loans and the level of net charge offs during the year. For 2011, the provision decreased to \$1,050,000 which was due to a reduction in net charge offs which were \$668,000 and a

Table of Contents

period-to-period decrease in the level of outstanding loans. As in December 31, 2010 the provision decreased to \$3,800,000 because of the reduction in net charge offs which were \$2,986,000 with a period-to-period decrease in the level of outstanding loans. In 2009, the Bank added \$10,514,000 to the provision. The increase in 2009 was primarily the result of our assessment of the overall adequacy of the allowance for credit losses including the increase in the volume of outstanding loans and the level of net charge offs during the year of \$7,537,000. In 2008, the Bank added \$1,290,000 to the allowance for credit losses. The increase in 2008 resulted from management's overall assessment of the probable losses within the loan portfolio at December 31, 2008, the growth in loans and considering the level of net charge-offs during the year of \$740,000.

Using the criteria on the previous page, the allocation of the allowance for credit losses is set forth below:

(Dollars in thousands)	2012			2011			2010			2009			2008		
	Amount	Percent of Loans in Each Category to Total Loans		Amount	Percent of Loans in Each Category to Total Loans		Amount	Percent of Loans in Each Category to Total Loans		Amount	Percent of Loans in Each Category to Total Loans		Amount	Percent of Loans in Each Category to Total Loans	
Commercial and industrial	\$1,955	18.4 %		\$1,853	16.8 %		\$2,149	17.4 %		\$2,861	22.2 %		\$1,777	26.7 %	
Real estate construction, land development and other land loans	1,035	8.4 %		2,954	7.7 %		1,791	7.4 %		836	10.3 %		820	9.6 %	
Real estate - other	4,196	44.5 %		3,712	42.8 %		3,579	42.5 %		3,813	48.2 %		2,570	46.9 %	
Equity loans and lines of credit	1,158	10.9 %		1,419	12.0 %		1,975	13.6 %		334	7.8 %		64	6.8 %	
Loans to finance agricultural and other loans to farmers	1,251	13.9 %		831	16.9 %		674	15.1 %		708	7.8 %		235	6.7 %	
Loans to individuals for household, family and other personal expenditures and other loans	383	2.6 %		417	2.3 %		528	2.6 %		423	2.4 %		593	3.1 %	
Other	116	1.3 %		71	1.5 %		80	1.4 %		48	1.3 %		64	0.2 %	
Unallocated reserve	39	—		139	—		238	—		1,177	—		1,100	—	
	\$10,133	100.0 %		\$11,396	100.0 %		\$11,014	100.0 %		\$10,200	100.0 %		\$7,223	100.0 %	

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

Table of Contents

## Table H

## DEPOSITS

We have no known foreign deposits. The following table sets forth the average amount of and the average rate paid on certain deposit categories which were in excess of 10% of average total deposits for the years ended December 31, 2012, 2011, and 2010.

(Dollars in thousands)	2012		2011		2010			
	Balance	Rate	Balance	Rate	Balance	Rate		
NOW accounts	\$142,231	0.19	% \$124,899	0.26	% \$116,504	0.38	%	
Money market accounts	\$178,734	0.22	% \$174,049	0.40	% \$157,761	0.66	%	
Time certificates of deposit	\$146,133	0.64	% \$166,731	0.96	% \$183,109	1.19	%	
Non-interest bearing demand	\$217,529	—	\$182,244	—	\$152,946	—		
Total deposits	\$719,601	0.23	% \$677,789	0.39	% \$636,166	0.58	%	

## Table I

## TIME DEPOSITS

The following table sets forth the maturity of time certificates of deposit and other time deposits of \$100,000 or more at December 31, 2012.

(In thousands)	
Three months or less	\$32,119
Over 3 months through 6 months	18,299
Over 6 through 12 months	22,842
Over 12 months	18,620
	\$91,880

## Table J

## FINANCIAL RATIOS

The following table sets forth certain financial ratios for the years ended December 31, 2012, 2011, and 2010.

	2012	2011	2010	
Net income:				
To average assets	0.88	% 0.81	% 0.43	%
To average shareholders' equity	6.56	% 6.26	% 3.41	%
Dividends declared per share to net income per share	6.33	% —	—	
Average shareholders' equity to average assets	13.43	% 12.92	% 12.67	%

## Supervision and Regulation

## GENERAL

The banking and financial services businesses in which we engage are highly regulated. Such regulation is intended, among other things, to protect depositors whose deposits are insured by the FDIC and the banking system as a whole. The monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the Board of Governors, also influence the commercial banking business. The Board of Governors implements national monetary policies

## Table of Contents

(with objectives such as curbing inflation and combating recession) by its open-market operations in United States Government securities, by adjusting the required level of reserves for financial intermediaries subject to its reserve requirements and by varying the discount rates applicable to borrowings by depository institutions. The actions of the Board of Governors in these areas influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. Indirectly such actions may also affect the ability of non-bank financial institutions to compete with the Bank. The nature and impact of any future changes in monetary policies cannot be predicted.

The laws, regulations, and policies affecting financial services businesses are continuously under review by Congress and state legislatures, and federal and state regulatory agencies. From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial intermediaries. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial intermediaries are frequently made in Congress, in the California legislature and before various bank regulatory and other professional agencies. Changes in the laws, regulations or policies that affect us cannot necessarily be predicted, but they may have a material effect on our business and earnings.

## BANK HOLDING COMPANY REGULATION

The Company, as a bank holding company, is subject to regulation under the BHC Act, and is subject to the supervision and examination of the Board of Governors. Pursuant to the BHC Act, we are required to obtain the prior approval of the Board of Governors before we may acquire all or substantially all of the assets of any bank, or ownership or control of voting shares of any bank if, after giving effect to such acquisition, we would own or control, directly or indirectly, more than five percent of such bank.

Under the BHC Act, we may not engage in any business other than managing or controlling banks or furnishing services to our subsidiaries that the Board of Governors deems to be so closely related to banking as to be a proper incident to banking. We are also prohibited, with certain exceptions, from acquiring direct or indirect ownership or control of more than five percent of the voting shares of any company unless the company is engaged in banking activities or the Board of Governors determines that the activity is so closely related to banking to be a proper incident to banking. The Board of Governors' approval must be obtained before the shares of any such company can be acquired and, in certain cases, before any approved company can open new offices.

The BHC Act and regulations of the Board of Governors also impose certain constraints on the redemption or purchase by a bank holding company of its own shares of stock.

Our earnings and activities are affected by legislation, by actions of regulators, and by local legislative and administrative bodies and decisions of courts in the jurisdictions in which both the Company and the Bank conduct business. For example, these include limitations on the ability of the Bank to pay dividends to the Company and the ability of the Company to pay dividends to its shareholders. It is the policy of the Board of Governors that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries. Various federal and state statutory provisions limit the amount of dividends that subsidiary banks can pay to their holding companies without regulatory approval. In addition to these explicit limitations, the federal regulatory agencies are authorized to prohibit a banking subsidiary or bank holding company from engaging in an unsafe or unsound banking practice. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

In addition, banking subsidiaries of bank holding companies are subject to certain restrictions imposed by federal law in dealings with their holding companies and other affiliates. Subject to certain exceptions set forth in the Federal Reserve Act and Regulation W, a bank can make a loan or extend credit to an affiliate, purchase or invest in the securities of an affiliate, purchase assets from an affiliate, accept securities of an affiliate as collateral security for a

loan or extension of credit to any person or company, issue a guarantee, or accept letters of credit on behalf of an affiliate only if the aggregate amount of the above transactions of such subsidiary does not exceed 10 percent of such subsidiary's capital stock and surplus on a per affiliate basis or 20 percent of such subsidiary's capital stock and surplus on an aggregate affiliate basis. Such transactions must be on terms and conditions that are consistent with safe and sound banking practices. A bank and its subsidiaries generally may not purchase a "low-quality asset," as that term is defined in the Federal Reserve Act, from an affiliate. Such restrictions also generally prevent a holding company and its other affiliates from borrowing from a banking subsidiary of the holding company unless the loans are secured by collateral.

A holding company and its banking subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, sale or lease of property or provision of services. For example, with certain exceptions a bank may not condition an extension of credit on a customer obtaining other services provided by it, a holding company or any of its other bank affiliates, or on a promise by the customer not to obtain other services from a competitor.

The Board of Governors has cease and desist powers over parent bank holding companies and non-banking subsidiaries where actions of a parent bank holding company or its non-financial institution subsidiaries represent an unsafe or

## Table of Contents

unsound practice or violation of law. The Board of Governors has the authority to regulate debt obligations (other than commercial paper) issued by bank holding companies by imposing interest ceilings and reserve requirements on such debt obligations.

We are also a bank holding company within the meaning of Section 3700 of the California Financial Code. As such, we and our subsidiaries are subject to examination by the Department of Financial Institutions (DFI).

Further, we are required by the Board of Governors to maintain certain capital levels. See “Capital Standards.”

## REGULATION OF THE BANK

Banks are extensively regulated under both federal and state law. The Bank, as a California state-chartered bank, is subject to primary supervision, regulation and periodic examination by the DFI and the FDIC. The Bank is not a member of the Federal Reserve System, but is nevertheless subject to certain regulations of the Board of Governors. If, as a result of an examination of a bank, the FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the Bank’s operations are unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, various remedies are available to the FDIC. Such remedies include the power to enjoin “unsafe or unsound” practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the growth of the Bank, to assess civil monetary penalties, to remove officers and directors, and ultimately to terminate the Bank’s deposit insurance, which for a California chartered bank would result in a revocation of the Bank’s charter. The DFI has many of the same remedial powers. The Bank is a member of the FDIC, which currently insures customer deposits in each member bank to a maximum of \$250,000 per depositor. For this protection, the Bank is subject to the rules and regulations of the FDIC, and, as is the case with all insured banks, may be required to pay a semi-annual statutory assessment. The FDIC’s unlimited deposit insurance coverage on non-interest bearing transaction accounts mandated by the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) ended December 31, 2012. This coverage replaced the unlimited coverage under the Transaction Account Guarantee Program (“TAG”) and was confined to non-interest bearing accounts. Although the temporary coverage excluded interest-bearing NOW accounts, it did include interest on Lawyers Trust Accounts (IOLTAs). Beginning January 1, 2013, all of a depositor’s 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. Various requirements and restrictions under the laws of the State of California and the United States affect the operations of the Bank. State and federal statutes and regulations relate to many aspects of the Bank’s operations, including standards for safety and soundness, reserves against deposits, interest rates payable on deposits, loans, investments, mergers and acquisitions, borrowings, dividends, locations of branch offices, fair lending requirements, Community Reinvestment Act activities, and loans to affiliates.

## PAYMENT OF DIVIDENDS

## THE COMPANY

Our shareholders are entitled to receive dividends when and as declared by our Board of Directors, out of funds legally available, subject to the dividends preference, if any, on preferred shares that may be outstanding, and also subject to the restrictions of the California Corporations Code. See Note 13 of the Company’s audited Consolidated Financial Statements in Item 8 of this Annual Report concerning preferred stock issued through the Small Business Lending Fund of the United States Department of the Treasury on August 18, 2011 and preferred stock and common stock issued pursuant to Stock Purchase Agreements with accredited private investors.

The principal source of cash revenue to the Company is dividends received from the Bank. The Bank’s ability to make dividend payments to the Company is subject to state and federal regulatory restrictions.

THE BANK

Dividends payable by the Bank to the Company are restricted under California law to the lesser of the Bank's retained earnings, or the Bank's net income for the latest three fiscal years, less dividends paid during that period, or, with the approval of the DFI, to the greater of the retained earnings of the Bank, the net income of the Bank for its last fiscal year or the net income of the Bank for its current fiscal year.

In addition to the regulations concerning minimum uniform capital adequacy requirements described below, the FDIC has established guidelines regarding the maintenance of an adequate allowance for credit losses. Therefore, the future payment of cash dividends by the Bank will generally depend, in addition to regulatory constraints, upon the Bank's earnings during any



Table of Contents

fiscal period, the assessment of the Board of Directors of the capital requirements of the Bank and other factors, including the maintenance of an adequate allowance for credit losses.

## CAPITAL STANDARDS

The Board of Governors, the FDIC and other federal banking agencies have issued risk-based capital adequacy guidelines intended to provide a measure of capital adequacy that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets, and transactions, such as letters of credit and recourse arrangements, which are reported as off-balance-sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off-balance-sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain U.S. government securities, to 100% for assets with relatively higher credit risk, such as business loans.

A banking organization's risk-based capital ratios are obtained by dividing its qualifying capital by its total risk-adjusted assets and off-balance-sheet items. The regulators measure risk-adjusted assets and off-balance-sheet items against both total qualifying capital (the sum of Tier 1 capital and limited amounts of Tier 2 capital) and Tier 1 capital. Tier 1 capital consists of common stock, retained earnings, noncumulative perpetual preferred stock and minority interests in certain subsidiaries, less most other intangible assets. Tier 2 capital may consist of a limited amount of the allowance for possible loan and lease losses and certain other instruments with some characteristics of equity. The inclusion of elements of Tier 2 capital is subject to certain other requirements and limitations of the federal banking agencies. Since December 31, 1992, the federal banking agencies have required a minimum ratio of qualifying total capital to risk-adjusted assets and off-balance-sheet items of 8%, and a minimum ratio of Tier 1 capital to risk-adjusted assets and off-balance-sheet items of 4%.

In addition to the risk-based guidelines, federal banking regulators require banking organizations to maintain a minimum amount of Tier 1 capital to average total assets, referred to as the leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets is 3%. It is improbable, however, that an institution with a 3% leverage ratio would receive the highest rating by the regulators since a strong capital position is a significant part of the regulators' rating. For all banking organizations not rated in the highest category, the minimum leverage ratio is at least 100 to 200 basis points above the 3% minimum. Thus, the effective minimum leverage ratio, for all practical purposes, is at least 4% or 5%. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios.

A bank that does not achieve and maintain the required capital levels may be issued a capital directive by the FDIC to ensure the maintenance of required capital levels. As discussed above, the Company and the Bank are required to maintain certain levels of capital. The regulatory capital guidelines as well as the actual capitalization for the Bank and the Company on a consolidated basis as of December 31, 2012 are as follows:

	REQUIREMENT		ACTUAL			
	FOR THE ADEQUATELY BANK TO BE CAPITALIZED WELL CAPITALIZED		BANK	COMPANY		
Total risk-based capital ratio	8.00	% 10.00	% 18.96	% 19.53	%	%
Tier 1 risk-based capital ratio	4.00	% 6.00	% 17.67	% 18.24	%	%
Tier 1 leverage capital ratio	4.00	% 5.00	% 10.22	% 10.56	%	%

## USA PATRIOT ACT

On October 26, 2001, President Bush signed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001. The USA PATRIOT Act also made

significant changes to the Bank Secrecy Act. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and of identifying customers when establishing new relationships and standards in their dealings with foreign financial institutions and foreign customers. For example, the enhanced due diligence policies, procedures, and controls generally require financial institutions to take reasonable steps:

- \* To conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transaction;
- \* To ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions;
- \* To ascertain for any foreign bank, the shares of which are not publicly traded, the identity of the owners of the foreign bank, and the nature and extent of the ownership interest of each such owner; and

## Table of Contents

\* To ascertain whether any foreign bank provides correspondent accounts to other foreign banks and, if so, the identity of those foreign banks and related due diligence information.

Under the USA PATRIOT Act, financial institutions are to establish anti-money laundering programs to enhance their Bank Secrecy Act program. The USA PATRIOT Act sets forth minimum standards for these programs, including:

- \* The development of internal policies, procedures, and controls;
- \* The designation of a compliance officer;
- \* An ongoing employee training program; and
- \* An independent audit function to test the programs.

Bank management believes that the Bank is currently in compliance with the Act.

## FINANCIAL SERVICES MODERNIZATION LEGISLATION

On November 12, 1999, President Clinton signed into law the Gramm-Leach-Bliley Act, also known as the Financial Services Modernization Act. This legislation eliminated many of the barriers that have separated the insurance, securities and banking industries since the Great Depression. The federal banking agencies (the Board of Governors, FDIC and the Office of the Comptroller of the Currency) among others, continue to draft regulations to implement the Gramm-Leach-Bliley Act. The Gramm-Leach-Bliley Act is the result of a decade of debate in the Congress regarding a fundamental reformation of the nation's financial system. The law is subdivided into seven titles, by functional area. The major provisions of the Gramm-Leach-Bliley Act are:

**FINANCIAL HOLDING COMPANIES AND FINANCIAL ACTIVITIES.** Title I establishes a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms, and other financial service providers by revising and expanding the BHC Act framework to permit a holding company system to engage in a full range of financial activities through qualification as a new entity known as a financial holding company. Final regulations adopted by the FDIC in January 2001, in the form of amendments to Part 362 of the FDIC rules and regulations, provide the framework for subsidiaries of state nonmember banks to engage in financial activities that the Gramm-Leach-Bliley Act permits national banks to conduct through a financial subsidiary.

Activities permissible for financial subsidiaries of national banks, and, pursuant to Section 362 of the FDIC rules and regulations, also permissible for financial subsidiaries of state nonmember banks, include, but are not limited to, the following: (a) Lending, exchanging, transferring, investing for others, or safeguarding money or securities; (b) Insuring, guaranteeing, or indemnifying against loss, harm, damage, illness, disability, or death, or providing and issuing annuities, and acting as principal, agent, or broker for purposes of the foregoing, in any State; (c) Providing financial, investment, or economic advisory services, including advising an investment company; (d) Issuing or selling instruments representing interests in pools of assets permissible for a bank to hold directly; and (e) Underwriting, dealing in, or making a market in securities.

**SECURITIES ACTIVITIES.** Title II narrows the exemptions from the securities laws previously enjoyed by banks and creates a new, voluntary investment bank holding company. The Board of Governors and the SEC continue to work together to draft rules governing certain securities activities of banks.

**INSURANCE ACTIVITIES.** Title III restates the proposition that the states are the functional regulators for all insurance activities, including the insurance activities of federally-chartered banks, and bars the states from prohibiting insurance activities by depository institutions.

**PRIVACY.** Under Title V, federal banking regulators were required to adopt rules that have limited the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. Federal banking regulators issued final rules on May 10, 2000 to implement the privacy provisions of Title V. Under the rules, financial institutions must provide:

- \* initial notices to customers about their privacy policies, describing the conditions under which they may disclose nonpublic personal information to nonaffiliated third parties and affiliates;
- \* annual notices of their privacy policies to current customers; and

\* a reasonable method for customers to “opt out” of disclosures to nonaffiliated third parties.

Compliance with these rules was mandatory after July 1, 2001. The Company and the Bank were in full compliance with the rules as of or prior to their respective effective dates.

**SAFEGUARDING CONFIDENTIAL CUSTOMER INFORMATION.** Under Title V, federal banking regulators are required to adopt rules requiring financial institutions to implement a program to protect confidential customer information. In January 2000, the federal banking agencies adopted guidelines requiring financial institutions to establish an information security program.

The Bank implemented a security program appropriate to its size and complexity and the nature and scope of its operations prior to the July 1, 2001 effective date of the regulatory guidelines, and since initial implementation has, as necessary, updated and improved that program.

**COMMUNITY REINVESTMENT ACT SUNSHINE REQUIREMENTS.** The federal banking agencies have adopted final regulations implementing Section 711 of Title VII of the Gramm-Leach-Bliley Act, the Sunshine Requirements. The

## Table of Contents

regulations require nongovernmental entities or persons and insured depository institutions and affiliates that are parties to written agreements made in connection with the fulfillment of the institution's CRA obligations to make available to the public and the federal banking agencies a copy of each agreement. Neither the Company nor the Bank is a party to any agreement that would be the subject of reporting pursuant to the CRA Sunshine Requirements. The Company continues to evaluate the strategic opportunities presented by the broad powers granted to bank holding companies that elect to be treated as financial holding companies. In the event that the Company determines that access to the broader powers of a financial holding company is in the best interests of the Company, its shareholders and the Bank, the Company will file the appropriate election with the Board of Governors. The Company and the Bank intend to comply with all provisions of the Gramm-Leach-Bliley Act and all implementing regulations as they become effective.

## CONSUMER PROTECTION LAWS AND REGULATIONS

The bank regulatory agencies are focusing greater attention on compliance with consumer protection laws and their implementing regulations. Examination and enforcement have become more intense in nature, and insured institutions have been advised to monitor carefully compliance with such laws and regulations. The Dodd-Frank Act transferred rulemaking authority for many consumer protection laws from various Federal agencies to the Consumer Financial Protection Bureau (CFPB). The Bank is subject to many federal consumer protection statutes and regulations, some of which are discussed below.

The Community Reinvestment Act (CRA) is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal regulatory agencies, in examining insured depository institutions, to assess a bank's record of helping meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices. The CRA further requires the agencies to take a financial institution's record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, mergers or acquisitions, or holding company formations. The agencies use the CRA assessment factors in order to provide a rating to the financial institution. The ratings range from a high of "outstanding" to a low of "substantial noncompliance." The Bank was last examined for CRA compliance by its primary regulator, the FDIC, as of November 2009.

The Equal Credit Opportunity Act (ECOA) generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age, receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

The Truth in Lending Act (TILA) is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As a result of the TILA, all creditors must use the same credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things.

The Fair Housing Act (FH Act) regulates many practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. A number of lending practices have been found by the courts to be, or may be considered, illegal under the FH Act, including some that are not specifically mentioned in the FH Act itself.

The Home Mortgage Disclosure Act (HMDA) grew out of public concern over credit shortages in certain urban neighborhoods and provides public information that will help show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a "fair lending" aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

Finally, the Real Estate Settlement Procedures Act (RESPA) requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. Also, RESPA prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts. Penalties under the above laws may include

finances, reimbursements and other civil money penalties.

Due to heightened regulatory concern related to compliance with the CRA, TILA, FH Act, ECOA, HMDA and RESPA generally, the Bank may incur additional compliance costs or be required to expend additional funds for investments in its local community.

#### CALIFORNIA FINANCIAL INFORMATION PRIVACY ACT/FAIR CREDIT REPORTING ACT

In 1970, the Federal Fair Credit Reporting Act (the FCRA) was enacted to insure the confidentiality, accuracy, relevancy and proper utilization of consumer credit report information. Under the framework of the FCRA, the United States has developed a highly advanced and efficient credit reporting system. The information contained in that broad system is used by financial institutions, retailers and other creditors of every size in making a wide variety of decisions regarding financial transactions. Employers and law enforcement agencies have also made wide use of the information collected and maintained in databases made possible by the FCRA. The FCRA affirmatively preempts state law in a number of areas, including the ability

## Table of Contents

of entities affiliated by common ownership to share and exchange information freely, and the requirements on credit bureaus to reinvestigate the contents of reports in response to consumer complaints, among others.

The California Financial Information Privacy Act, which was enacted in 2003, requires a financial institution to provide specific information to a consumer related to the sharing of that consumer's nonpublic personal information. The Act allows a consumer to direct the financial institution not to share his or her nonpublic personal information with affiliated or nonaffiliated companies with which a financial institution has contracted to provide financial products and services, and requires that permission from each such consumer be acquired by a financial institution prior to sharing such information.

The FACT Act, (Fair and Accurate Credit Transaction Act) became law in 2003, effectively extending and amending provisions of the Fair Credit Reporting Act (FCRA). The FACT Act created many new responsibilities for consumer reporting agencies and users of consumer reports. It contains many new consumer disclosure requirements as well as provisions to address identity theft.

## CHECK 21 ACT

On December 22, 2003, the Board of Governors amended Regulation CC and its commentary to implement the Check Clearing for the 21st Century Act (Check 21 Act). The Check 21 Act became effective on October 28, 2004.

To facilitate check truncation and electronic check exchange, the Check 21 Act authorizes a new negotiable instrument called a "substitute check" and provides that a properly prepared substitute check is the legal equivalent of the original check for all purposes. A substitute check is a paper reproduction of the original check that can be processed just like the original check. The Check 21 Act does not require any bank to create substitute checks or to accept checks electronically. The amendments: 1) set forth the requirements of the Check 21 Act that applies to banks; 2) provide a model disclosure and model notices relating to substitute checks; and 3) set forth bank endorsement and identification requirements for substitute checks.

The Bank has been imaging its customers' checks since 2000. Check 21 Act has had limited impact on the Bank.

## Recent Accounting Pronouncements

### Impact of New Financial Accounting Standards

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

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This ASU represents the converged guidance of the FASB and the International Accounting Standards Board (IASB) (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term "fair value." The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The amendments to the FASB Accounting Standards Codification (Codification) in this ASU are to be applied prospectively. The additional disclosures are presented in Note 2: Fair Value Measurements. These new disclosure requirements were adopted by the Company in the first quarter of 2012, and did not have a material impact on the Company's financial position, results of operations or cash flows.

### Presentation of Comprehensive Income

In June 2011, FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This ASU amends the FASB Accounting Standards Codification (Codification) to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other

comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The Company adopted this standard on January 1, 2012. The Company elected to present comprehensive income as a separate Statement of Comprehensive Income. Adoption of the standard did not have a material impact on the Company's financial position, results of operations or cash flows. 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



## Table of Contents

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

### Other

Other legislation which has been or may be proposed to the United States Congress and the California Legislature and regulations which may be proposed by the Board of Governors, FDIC and the DFI may affect our business. It cannot be predicted whether any pending or proposed legislation or regulations will be adopted or the effect such legislation or regulations may have upon our business.

### ITEM 1A - RISK FACTORS

An investment in our common stock is subject to risks inherent to our business. The material risks and uncertainties that Management believes may affect our business are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this Annual Report. The risks and uncertainties described below are not the only ones facing our business. Additional risks and uncertainties that Management is not aware of or focused on or that Management currently deems immaterial may also impair our business operations. This Annual Report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, our financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our common stock could decline significantly, and you could lose all or part of your investment.

Worsening economic conditions could adversely affect our business.

The economic conditions in the United States in general and within California and in our operating markets may remain weak or deteriorate. Unemployment nationwide and in California has increased significantly through this economic downturn and is anticipated to remain elevated for the foreseeable future. Availability of credit and consumer spending, real estate values, and consumer confidence have all declined markedly. The volatility of the capital markets and the credit, capital and liquidity problems confronting the U.S. financial system have not been resolved despite massive government expenditures and legislative efforts to stabilize the U.S. financial system. There is no assurance that such conditions will improve or be resolved in the foreseeable future.

The Bank conducts banking operations principally in California's Central Valley. As a result, our financial condition, results of operations and cash flows are subject to changes in the economic conditions in California's Central Valley. Our business results are dependent in large part upon the business activity, population, income levels, deposits and real estate activity in the Central Valley, and continued adverse economic conditions could have a material adverse effect upon us. In addition, the Central Valley remains largely dependent on agriculture. A downturn in agriculture and agricultural related business could indirectly and adversely affect our results of operations and financial condition. We can provide no assurance that economic conditions in the United States in general and in the State of California and within our operating markets will not further deteriorate or that such deterioration will not materially and adversely affect us. A further deterioration in economic conditions locally, regionally or nationally could result in a further economic downturn in the Central Valley with the following consequences, any of which could further adversely affect our business:

• loan delinquencies and defaults may increase;

- problem assets and foreclosures may increase;
- demand for our products and services may decline;
- low cost or noninterest bearing deposits may decrease;
- collateral for loans may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral as sources of repayment of existing loans;
- foreclosed assets may not be able to be sold;
- volatile securities market conditions could adversely affect valuations of investment portfolio assets; and
- reputational risk may increase due to public sentiment regarding the banking industry.

Non-performing assets take significant time to resolve and adversely affect our results of operations and financial condition.

Table of Contents

At December 31, 2012, our non-performing loans and leases were 2.45% of total loans and leases compared to 3.38% at December 31, 2011, and 4.30% at December 31, 2010, our non-performing assets (which include foreclosed real estate) were 1.09% of total assets compared to 1.70% at December 31, 2011. The allowance for loan and lease losses as a percentage of non-performing loans and leases was 104.52% as of December 31, 2012 compared to 78.95% at December 31, 2011. Non-performing assets adversely affect our net income in various ways. Until economic and market conditions improve, we expect to be exposed to losses relating to an increase in non-performing assets. We generally do not record interest income on non-performing loans or other real estate owned, thereby adversely affecting our income and increasing our loan administration costs. When we take collateral in foreclosures and similar proceedings, we are required to mark the related asset to the then fair market value of the collateral, which may ultimately result in a loss. An increase in the level of non-performing assets increases our risk profile and may impact the capital levels our regulators believe are appropriate in light of the ensuing risk profile, which could result in a request to reduce our level of non-performing assets. When we reduce problem assets through loan sales, workouts, restructurings and otherwise, decreases in the value of the underlying collateral, or in these borrowers' performance or financial condition, whether or not due to economic and market conditions beyond our control, could adversely affect our business, results of operations and financial condition. In addition, the resolution of non-performing assets requires significant commitments of time from management and our directors, which can be detrimental to the performance of their other responsibilities. There can be no assurance that we will not experience future increases in non-performing assets or that the disposition of such non-performing assets will not adversely affect our profitability.

Tightening of credit markets and liquidity risk could adversely affect our business, financial condition and results of operations.

A tightening of the credit markets or any inability to obtain adequate funds for continued loan growth at an acceptable cost could adversely affect our asset growth and liquidity position and, therefore, our earnings capability. In addition to core deposit growth, maturity of investment securities and loan and lease payments, we also rely on alternative funding sources including unsecured borrowing lines with correspondent banks, secured borrowing lines with the Federal Home Loan Bank of San Francisco and the Federal Reserve Bank of San Francisco, and public time certificates of deposits. Our ability to access these sources could be impaired by deterioration in our financial condition as well as factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations for the financial services industry or serious dislocation in the general credit markets. In the event such a disruption should occur, our ability to access these sources could be adversely affected, both as to price and availability, which would limit, or potentially raise the cost of, the funds available to us.

We have a concentration risk in real estate related loans.

At December 31, 2012, \$281 million, or 71.00% of our total loan and lease portfolio, consisted of real estate related loans. Substantially all of our real property collateral is located in our operating markets in the Central Valley in California. The continuing trend of deteriorating economic conditions in California and in our operating markets has contributed to an overall decline in commercial and residential real estate values. A continuing substantial decline in commercial and residential real estate values in our primary market areas could occur as a result of worsening economic conditions or other events including natural disasters such as earthquakes, fires, and floods. Such a decline in values could have an adverse impact on us by limiting repayment of defaulted loans through sale of commercial and residential real estate collateral and by a likely increase in the number of defaulted loans to the extent that the financial condition of our borrowers is adversely affected by such a decline in values. The adverse effects of the foregoing matters upon our real estate portfolio could necessitate a material increase in the provision for loan and lease losses.

If our allowance for credit losses is not sufficient to cover actual loan losses, our earnings could decrease.

Our loan customers may not repay their loans according to the terms of these loans, and the collateral securing the payment of these loans may be insufficient to assure repayment. We may experience significant credit losses that could have a material adverse effect on our operating results. We make various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and

other assets serving as collateral for the repayment of many of our loans. In determining the size of the allowance, we rely on our experience and our evaluation of economic conditions. If our assumptions prove to be incorrect, our current allowance may not be sufficient to cover future loan losses and adjustments may be necessary to allow for different economic conditions or adverse developments in our loan portfolio. Significant additions to our allowance would materially decrease our net income.

In addition, federal and state regulators periodically review our allowance for credit losses and may require us to increase our provision for credit losses or recognize further loan charge-offs, based on judgments different than those we make. Any increase in our allowance or charge-offs as required by these regulatory agencies could have a negative effect on us.

Our focus on lending to small to mid-sized community-based businesses may increase our credit risk. Commercial real estate and commercial business loans generally are considered riskier than single-family residential loans because they have larger balances to a single borrower or group of related borrowers. Commercial real estate and commercial business loans involve risks because the borrowers' ability to repay the loans typically depends primarily on the

## Table of Contents

successful operation of the businesses or the properties securing the loans. Most of the Bank's commercial real estate and commercial business loans are made to small to medium sized businesses who may have a heightened vulnerability to economic conditions. Moreover, a portion of these loans have been made by us in recent years and the borrowers may not have experienced a complete business or economic cycle. Furthermore, the deterioration of our borrowers' businesses may hinder their ability to repay their loans with us, which could adversely affect our results of operations.

Fluctuations in interest rates could reduce our profitability.

We realize income primarily from the difference between interest earned on loans and securities and the interest paid on deposits and borrowings. We expect that we will periodically experience "gaps" in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this "gap" will work against us, and our earnings may be negatively affected.

We are unable to predict fluctuations of market interest rates, which are affected by the following factors:

- inflation;
- ecession;
- a rise in unemployment;
- tightening money supply;
- international disorder; and
- instability in domestic and foreign financial markets.

Our asset/liability management strategy, which is designed to address the risk from changes in market interest rates and the shape of the yield curve, may not prevent changes in interest rates from having a material adverse effect on our results of operations and financial condition. In recent years, we have shifted our mix of assets from consisting primarily of loans to a current mix that is approximately half loans and half securities. The value of these securities is subject to interest rate risk, which we must monitor and manage successfully in order to prevent declines in value of these assets if interest rates rise in the future.

Governmental monetary policies and intervention to stabilize the U.S. financial system may affect our business and are beyond our control.

The business of banking is affected significantly by the fiscal and monetary policies of the Federal government and its agencies. Such policies are beyond our control. We are particularly affected by the policies established by the Federal Reserve Board in relation to the supply of money and credit in the United States. The instruments of monetary policy available to the Federal Reserve Board can be used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits, and this can and does have a material effect on our business.

Legislation including the Emergency Economic Stabilization Act of 2008 (the EESA), signed into law by President Bush on October 3, 2008, and the American Recovery and Reinvestment Act of 2009 (the ARRA), signed into law by President Obama on February 17, 2009, each include programs that are intended to help stabilize the U.S. financial system. However, it is uncertain whether such legislation will sufficiently resolve the volatility of capital and credit markets or improve capital and liquidity problems confronting the financial system. The failure of the EESA or ARRA to mitigate or eliminate such volatility and problems affecting the financial markets and a continuation or worsening of current financial market conditions could limit our access to capital or sources of liquidity in amounts and at times necessary to conduct operations in compliance with applicable regulatory requirements.

Competition with other financial institutions could adversely affect our profitability.

We face vigorous competition from banks and other financial institutions, including savings institutions, finance companies and credit unions. A number of these banks and other financial institutions have substantially greater resources and lending limits, larger branch systems and a wider array of banking services. To a limited extent, we also compete with other providers of financial services, such as money market mutual funds, brokerage firms,

consumer finance companies and insurance companies. This competition may reduce or limit our margins on banking services, reduce our market share and adversely affect our results of operations and financial condition. Additionally, we face competition primarily from other banks in attracting, developing and retaining qualified banking professionals.

Technology implementation problems or computer system failures could adversely affect us.

Our future growth prospects will be highly dependent on our ability to implement changes in technology that affect the delivery of banking services such as the increased demand for computer access to bank accounts and the availability to perform banking transactions electronically. Our ability to compete will depend upon our ability to continue to adapt technology on a timely and cost-effective basis to meet such demands. In addition, our business and operations could be susceptible to adverse effects from computer failures, communication and energy disruption, and activities such as fraud of unethical individuals with the technological ability to cause disruptions or failures of our data processing system.

Table of Contents

Information security breaches or other technological difficulties could adversely affect us.

We cannot be certain that the continued implementation of safeguards will eliminate the risk of vulnerability to technological difficulties or failures or ensure the absence of a breach of information security. We will continue to rely on the services of various vendors who provide data processing and communication services to the banking industry. Nonetheless, if information security is compromised or other technology difficulties or failures occur at the Bank or with one of our vendors, information may be lost or misappropriated, services and operations may be interrupted and the Bank could be exposed to claims from its customers as a result.

Our controls over financial reporting and related governance procedures may fail or be circumvented.

Management regularly reviews and updates our internal control over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. We maintain controls and procedures to mitigate risks such as processing system failures or errors and customer or employee fraud, and we maintain insurance coverage for certain of these risks. Any system of controls and procedures, however well designed and operated, is based in part on certain assumptions and provides only reasonable, not absolute, assurances that the objectives of the system are met. Events could occur which are not prevented or detected by our internal controls, are not insured against, or are in excess of our insurance limits. Any failure or circumvention of our controls and procedures, or failure to comply with regulations related to controls and procedures, could have an adverse effect on our business.

We may not be successful in raising additional capital needed in the future.

If additional capital is needed in the future as a result of losses, our business strategy or regulatory requirements, there is no assurance that our efforts to raise such additional capital will be successful or that shares sold in the future will be sold at prices or on terms equal to or better than the current market price. The inability to raise additional capital when needed or at prices and terms acceptable to us could adversely affect our ability to implement our business strategies.

The effects of legislation in response to current credit conditions may adversely affect us.

Legislation that has or may be passed at the Federal level and/or by the State of California in response to current conditions affecting credit markets could cause us to experience higher credit losses if such legislation reduces the amount that the Bank's borrowers are otherwise contractually required to pay under existing loan contracts. Such legislation could also result in the imposition of limitations upon the Bank's ability to foreclose on property or other collateral or make foreclosure less economically feasible. Such events could result in increased loan and lease losses and require a material increase in the allowance for loan and lease losses.

The effects of changes to FDIC insurance coverage limits are uncertain and increased premiums may adversely affect us.

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. This coverage replaced the unlimited coverage under the Transaction Account Guarantee Program ("TAG") and was confined to non-interest bearing accounts. Although the temporary coverage excluded interest-bearing NOW accounts, it did include interest on Lawyers Trust Accounts (IOLTAs). Beginning January 1, 2013, all of a depositor's 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.

It is not clear how depositors will respond regarding the decrease in insurance coverage. Some depositors may reduce the amount of deposits held at the Bank if concerns regarding bank failures persist, which could affect the level and composition of the Bank's deposit portfolio and thereby directly impact the Bank's funding costs and net interest margin. The Bank's funding costs may also be adversely affected in the event that the activities of the Federal Reserve Board and the U.S. Treasury, intended to provide liquidity for the banking system and improvement in capital

markets, are curtailed or unsuccessful. Such events could reduce liquidity in the markets, thereby increasing funding costs to the Bank or reducing the availability of funds to the Bank to finance its existing operations and thereby adversely affecting our results of operations.

Increases in FDIC insurance premiums will add to our cost of operations and could have a significant impact on the Bank. Depending on any future losses that the FDIC insurance fund may suffer due to failed institutions, there can be no assurance that there will not be additional significant premium increases in order to replenish the fund. On November 12, 2009, the FDIC announced a final rule to require most banks to prepay their estimated quarterly risk-based assessments for 2010, 2011 and 2012. This prepaid amount for the Company was \$1,542,000 on December 31, 2012. The prepayments result in a nominal decrease in earnings and liquidity.

On February 7, 2011, the FDIC Board of Directors adopted the final rule, which redefined the deposit insurance assessment base as required by the Consumer Protection Act (Dodd-Frank), and makes changes to assessment rates, implements Dodd-Frank's Deposit Insurance Fund (DIF) dividend provisions, and revises the risk based assessment system for



Table of Contents

all large institutions. The final rule redefined the deposit insurance assessment base as average consolidated total assets minus average tangible equity, defined as Tier 1 capital. The final rule adopted a new assessment rate schedule effective April 1, 2011, and in lieu of dividends, other rate schedules when the reserve ratio reaches certain levels and was paid at the end of September 2011. The rule lowers overall assessment rates in order to generate the same approximate amount of revenue under the new larger base as was raised under the old base. The assessment rate in total is between 2.5 and 9 basis points on the broader base for banks in the lowest risk category, and 30 to 45 basis points for banks in the highest risk category.

In the future we may be required to recognize impairment with respect to investment securities, including the FHLB stock we hold.

Our securities portfolio contains whole loan private mortgage-backed securities and currently includes securities with unrecognized losses and securities that have been downgraded to below investment grade by national rating agencies. We may continue to observe declines in the fair market value of these securities. We evaluate the securities portfolio for any other-than-temporary impairment each reporting period, as required by generally accepted accounting principles, and for the year ended December 31, 2012, we recorded no other-than-temporary impairment. There can be no assurance, however, that future evaluations of the securities portfolio will not require us to recognize further impairment charges with respect to these and other holdings.

In addition, as a condition to membership in the Federal Home Loan Bank of San Francisco (the FHLB), we are required to purchase and hold a certain amount of FHLB stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB. At December 31, 2012, we held stock in the FHLB totaling \$3,850,000. The FHLB stock held by us is carried at cost and is subject to recoverability testing under applicable accounting standards. To date, the FHLB has not discontinued the distribution of dividends on its shares. However, there can be no assurance the FHLB's dividend paying practices will continue. As of December 31, 2012, we did not recognize an impairment charge related to our FHLB stock holdings. There can be no assurance, however, that future negative changes to the financial condition of the FHLB may not require us to recognize an impairment charge with respect to such holdings.

If the goodwill we have recorded in connection with our acquisitions becomes impaired, it could have an adverse impact on our earnings and capital.

At December 31, 2012, we had approximately \$23,577,000 of goodwill on our balance sheet attributable to our acquisitions of the Bank of Madera County in January 2005 and Service 1st Bancorp in November 2008. In accordance with generally accepted accounting principles, our goodwill is not amortized but rather evaluated for impairment on an annual basis or more frequently if events or circumstances indicate that a potential impairment exists. Such evaluation is based on a variety of factors, including the quoted price of our common stock, market prices of the common stock of other banking organizations, common stock trading multiples, discounted cash flows, and data from comparable acquisitions. There can be no assurance that future evaluations of goodwill will not result in findings of impairment and write-downs, which could be material.

We may raise additional capital, which could have a dilutive effect on the existing holders of our common stock and adversely affect the market price of our common stock.

We are not restricted from issuing additional shares of common stock or securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. We frequently evaluate opportunities to access the capital markets taking into account our regulatory capital ratios, financial condition and other relevant considerations, and subject to market conditions, we may take further capital actions. Such actions could include, among other things, the issuance of additional shares of common stock in public or private transactions in order to further increase our capital levels above the requirements for a well-capitalized institution established by the Federal bank regulatory agencies as well as other regulatory targets.

The issuance of any additional shares of common stock or securities convertible into or exchangeable for common stock or that represent the right to receive common stock, or the exercise of such securities including, without

limitation, securities issued upon exercise of outstanding stock options under our stock option plans, could be substantially dilutive to shareholders of our common stock. With the exception of one major shareholder, holders of our shares of common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in increased dilution to our shareholders. The market price of our common stock could decline as a result of sales of shares of our common stock or the perception that such sales could occur.

The price of our common stock may fluctuate significantly, and this may make it difficult for you to resell shares of common stock owned by you at times or at prices you find attractive.

The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility, which, in recent quarters, has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices for certain issuers without regard to those issuers' underlying financial strength. As a result, the trading volume in our common stock may fluctuate more than usual and cause significant price variations to occur. This may make it difficult for you to resell shares of common stock owned by you at times or at prices you find attractive. The low trading volume in our

Table of Contents

common shares on the NASDAQ Capital Market means that our shares may have less liquidity than other publicly traded companies. We cannot ensure that the volume of trading in our common shares will be maintained or will increase in the future.

The trading price of the shares of our common stock will depend on many factors, which may change from time to time and which may be beyond our control, including, without limitation, our financial condition, performance, creditworthiness and prospects, future sales or offerings of our equity or equity related securities, and other factors identified above in the forward-looking statement discussion under the section titled “Cautionary Statements Regarding Forward-Looking Statements” and below. These broad market fluctuations have adversely affected and may continue to adversely affect the market price of our common stock. Among the factors that could affect our stock price are:

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in financial estimates or publication of research reports and recommendations by financial analysts or actions taken by rating agencies with respect to our common stock or those of other financial institutions;
- failure to meet analysts’ revenue or earnings estimates;
- speculation in the press or investment community generally or relating to our reputation, our market area, our competitors or the financial services industry in general;
- strategic actions by us or our competitors, such as acquisitions, restructurings, dispositions or financings;
- actions by our current shareholders, including sales of common stock by existing shareholders and/or directors and executive officers;
- fluctuations in the stock price and operating results of our competitors;
- future sales of our equity, equity-related or debt securities;
- changes in the frequency or amount of dividends or share repurchases;
- proposed or adopted regulatory changes or developments;
- anticipated or pending investigations, proceedings, or litigation that involves or affects us;
- trading activities in our common stock, including short-selling;
- domestic and international economic factors unrelated to our performance; and
- general market conditions and, in particular, developments related to market conditions for the financial services industry.

A significant decline in our stock price could result in substantial losses for individual shareholders.

We may not be able to maintain our historical growth rate which may adversely impact our results of operations and financial condition.

We have initiated internal asset growth programs, completed various acquisitions and opened additional offices in the past few years. We may not be able to sustain our historical rate of asset growth or may not even be able to grow at all. We may not be able to obtain the financing necessary to fund additional asset growth and may not be able to find suitable candidates for acquisition. Various factors, such as economic conditions and competition, may impede or prohibit the opening of new branch offices. Further, our inability to attract and retain experienced bankers may adversely affect our internal asset growth. A significant decrease in our historical rate of asset growth may adversely impact our results of operations and financial condition.

We may be unable to complete future acquisitions, and once complete, may not be able to integrate our acquisitions successfully.

Our growth strategy includes our desire to acquire other financial institutions. We may not be able to complete any future acquisitions and, for completed acquisitions, we may not be able to successfully integrate the operations, management, products and services of the entities we acquire. We may not realize expected cost savings or make revenue enhancements. Following each acquisition, we must expend substantial managerial, operating, financial and other resources to integrate these entities. In particular, we may be required to install and standardize adequate operational and control systems, deploy or modify equipment, implement marketing efforts in new as well as existing locations and employ and maintain qualified personnel. Our failure to successfully integrate the entities we acquire

into our existing operations may adversely affect our financial condition and results of operations. On December 19, 2012, we entered into a Merger Agreement under which the Bank will merge with Visalia Community Bank. The Merger is expected to be completed during the second quarter of 2013; however, the transaction is subject to customary closing conditions, including regulatory approvals. The transaction is initially valued at approximately \$22.1 million or \$52.00 per share to Visalia Community Bank shareholders. The purchase price is to be paid half in cash and half in Company common stock, consisting of approximately 1.263 million shares of Company common stock. In addition to the risks identified in the paragraph above, the issuance of additional shares of Company common stock will cause the percentage holdings of our existing shareholders to decline.

## Table of Contents

We operate in a highly regulated environment and may be adversely affected by changes in federal and local laws and regulations.

We are subject to extensive regulation, supervision and examination by federal and state banking authorities. Any change in applicable regulations or federal or state legislation could have a substantial impact on us and our operations. Additional legislation and regulations may be enacted or adopted in the future that could significantly affect our powers, authority and operations, which could have a material adverse effect on our financial condition and results of operations. Further, regulators have significant discretion and power to prevent or remedy unsafe or unsound practices or violations of laws by banks and bank holding companies in the performance of their supervisory and enforcement duties. The exercise of this regulatory discretion and power may have a negative impact on us.

We are experiencing an influx of locally based competition that could affect near term results.

Recently, several new banks have opened in our service areas. We are seeing price competition from these new banks, as they work to establish their markets. The existence of competitors, large and small, is a normal and expected part of our operations, but in responding to the particular short-term impact on business of new entrants to the marketplace, we could see a negative impact on revenue and income. Moreover, these near term impacts could be accentuated by the seasonal impact on revenue and income generated by the borrowing and deposit habits of the agricultural community that comprises a significant component of our customer base.

Our outstanding preferred stock impacts net income available to our common shareholders and earnings per common share.

The dividends declared on our outstanding preferred stock will reduce the net income available to common shareholders and our earnings per common share. The preferred stock will also receive preferential treatment in the event of our liquidation, dissolution or winding-up.

## ITEM 2 - DESCRIPTION OF PROPERTY.

The Company owns the property on which the Main Office, a full-service branch office, is located in Clovis, California. In addition, the Company owns the property on which the Foothill Office, a full-service branch office, is located in Prather, California, the property on which the Modesto office, a full-service branch office, is located in Modesto, California, and the property on which the Kerman Office, a full-service branch office, is located in Kerman, California.

All other property is leased by the Company, including the principal executive offices in Fresno. This facility houses the Company's corporate offices, comprised of various departments, including accounting, information services, human resources, real estate department, loan servicing, credit administration, branch support operations, and compliance.

The Company continually evaluates the suitability and adequacy of the Company's offices and has a program of relocating or remodeling them as necessary to be efficient and attractive facilities. Management believes that its existing facilities are adequate for its present purposes.

Properties owned by the Bank are held without loans or encumbrances. All of the property leased is leased directly from independent parties. Management considers the terms and conditions of each of the existing leases to be in the aggregate favorable to the Company. See Note 12 of the Company's audited Consolidated Financial Statements in Item 8 of this Annual Report.

## ITEM 3 - LEGAL PROCEEDINGS.

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.

None of our directors, officers, affiliates, more than 5% shareholder or any associates of these persons is a party adverse to the Company or the Bank or has a material interest adverse to the Company or the Bank in any material legal proceeding.

ITEM 4 - MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5 MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER  
- PURCHASES OF EQUITY SECURITIES.

29

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Table of Contents

Our common stock is listed for trading on the Nasdaq Capital Market under the ticker symbol CVCY. As of March 18, 2013, we had approximately 799 shareholders of record.

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

## Common Stock Prices

	Qtr 1 2011	Qtr 2 2011	Qtr 3 2011	Qtr 4 2011	Qtr 1 2012	Qtr 2 2012	Qtr 3 2012	Qtr 4 2012
High	\$6.19	\$6.95	\$6.90	\$6.25	7.25	7.75	8.50	9.25
Low	\$5.61	\$6.19	\$5.20	\$5.25	5.25	6.77	6.90	7.74

We paid \$0.05 per common share cash dividends in 2012. We did not pay a cash dividend in 2011. The Company's primary source of income with which to pay cash dividends are dividends from the Bank. The Bank would not pay any dividend that would cause it to be deemed not "well capitalized" under applicable banking laws and regulations. See Note 13 in the audited Consolidated Financial Statements in Item 8 of this Annual Report.

## ISSUER PURCHASES OF EQUITY SECURITIES

A summary of the repurchase activity of the Company's common stock for the fourth quarter of the year ended December 31, 2012 follows.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (1) (2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under Current Plan (in thousands)
10/1/2012 - 10/31/2012	9,100	\$8.19	9,100	\$3,463
11/1/2012 - 11/30/2012	21,400	\$8.70	21,400	\$3,277
12/1/2012 - 12/31/2012	20,100	\$8.27	20,100	\$3,111
Total	50,600	\$8.41	50,600	

(1) The Company approved a stock repurchase program effective August 15, 2012 with the intent to purchase up to five percent of the Company's outstanding shares of common stock, or approximately 479,850. During the year ended December 31, 2012, the Company repurchased and retired a total of 58,100 shares at an approximate cost of \$488,000. As adopted, the stock repurchase program was to end on February 15, 2013. The program was suspended following the December 19, 2012, entry by the company into the Merger Agreement with Visalia Community Bank. Information in the December 2012 period reflects repurchases effected prior to the suspension.

(2) All share repurchases were effected in accordance with the safe harbor provisions of Rule 10b-18 of the Securities Exchange Act.

## EQUITY COMPENSATION PLAN INFORMATION

The following chart sets forth information for the year ended December 31, 2012, regarding equity based compensation plans of the Company.

30

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Table of Contents

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	499,289	\$8.78	292,960
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	499,289	\$8.78	292,960

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

Table of Contents

## ITEM 6 - SELECTED CONSOLIDATED FINANCIAL DATA

(In Thousands, except per share amounts)	Years Ended December 31,				
	2012	2011	2010	2009	2008
<b>Statements of Income</b>					
Total interest income	\$31,820	\$34,299	\$36,013	\$40,734	\$31,845
Total interest expense	1,883	2,942	4,283	6,627	7,278
Net interest income before provision for credit losses	29,937	31,357	31,730	34,107	24,567
Provision for credit losses	700	1,050	3,800	10,514	1,290
Net interest income after provision for credit losses	29,237	30,307	27,930	23,593	23,277
Non-interest income	7,242	6,271	3,711	5,850	5,190
Non-interest expenses	27,274	28,240	28,731	27,531	20,976
Income before provision for (benefit from) income taxes	9,205	8,338	2,910	1,912	7,491
Provision for (benefit from) income taxes	1,685	1,861	(369)	(676)	2,352
Net income	7,520	6,477	3,279	2,588	5,139
Preferred stock dividends and accretion of discount	350	486	395	365	—
Net income available to common shareholders	\$7,170	\$5,991	\$2,884	\$2,223	\$5,139
Basic earnings per share	\$0.75	\$0.63	\$0.31	\$0.29	\$0.83
Diluted earnings per share	\$0.75	\$0.63	\$0.31	\$0.28	\$0.79
Cash dividends declared per common share	\$0.05	\$—	\$—	\$—	\$0.10
<b>December 31,</b>					
(In Thousands)	2012	2011	2010	2009	2008
<b>Balances at end of year:</b>					
Investment securities, Federal funds sold and deposits in other banks	\$424,516	\$353,808	\$280,967	\$232,142	\$194,215
Net loans	385,185	415,999	420,583	449,007	477,015
Total deposits	751,432	712,986	650,495	640,167	635,058
Total assets	890,228	849,023	777,594	765,488	752,713
Shareholders' equity	117,665	107,482	97,391	91,223	75,375
Earning assets	801,098	762,654	695,410	677,955	665,530
<b>Average balances:</b>					
Investment securities, Federal funds sold and deposits in other banks	\$368,818	\$299,935	\$231,761	\$199,425	\$125,932
Net loans	394,675	417,273	444,418	473,850	362,333
Total deposits	719,601	677,789	636,166	632,263	445,285
Total assets	853,078	800,178	758,852	752,509	541,789
Shareholders' equity	114,561	103,386	96,174	83,400	58,251
Earning assets	766,937	715,862	672,804	671,906	492,414

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

Table of Contents

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

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

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

When the Company uses in this Annual Report the words "anticipate," "estimate," "expect," "project," "intend," "commit," "b" 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. The Company's market area includes the central valley area from Sacramento, California to Bakersfield, California.

During 2012, we focused on asset quality and capital adequacy due to the uncertainty created by the economy. We also focused on assuring that competitive products and services were made available to our clients while adjusting to the many new laws and regulations that affect the banking industry. In December 2012, the Company and Visalia

Community Bank, headquartered in Visalia, California, entered into a Reorganization Agreement and Plan of Merger (the Merger Agreement). Under the terms of the agreement, Visalia Community Bank, with four branches in Visalia and one branch in Exeter, will merge with Central Valley Community Bancorp's subsidiary, Central Valley Community Bank (the Merger). The transaction is subject to customary closing conditions, including regulatory approvals and approval by Visalia Community Bank's shareholders. The Central Valley Community Bancorp and Visalia Community Bank boards of directors have unanimously approved the transaction, which is expected to close in the second quarter of 2013.

In 2011, the Company relocated the existing Modesto branch, a full service office, to a more desirable location. In 2009, we opened a new full service office in Merced, California and relocated our Oakhurst office to a new smaller facility in a more desirable location. During 2008 the Company acquired Service 1st Bancorp and its banking subsidiary adding three strategically located branches and we relocated our Herndon and Fowler branch from an in-store location to a new larger facility. The Bank now operates 17 full-service offices. The Bank has a Real Estate Division, an Agribusiness Center and an

## Table of Contents

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.

## OVERVIEW

Diluted earnings per share (EPS) for the year ended December 31, 2012 was \$0.75 compared to \$0.63 and \$0.31 for the years ended December 31, 2011 and 2010, respectively. Net income for 2012 was \$7,520,000 compared to \$6,477,000 and \$3,279,000 for the years ended December 31, 2012, 2011, and 2010, respectively. The increase in net income and EPS was primarily driven by lower provision for credit losses, decrease in non-interest expense and increase in non-interest income, partially offset by decreases in net interest income in 2012 compared to 2011. Total assets at December 31, 2012 were \$890,228,000 compared to \$849,023,000 at December 31, 2011.

Return on average equity for 2012 was 6.56% compared to 6.26% and 3.41% for 2011 and 2010, respectively. Return on average assets for 2012 was 0.88% compared to 0.81% and 0.43% for 2011 and 2010, respectively. Total equity was \$117,665,000 at December 31, 2012 compared to \$107,482,000 at December 31, 2011. The increase in assets and equity in 2012 compared to 2011 is due to an increase in deposits and increases in other comprehensive income and retained earnings.

Average total loans decreased \$23,251,000 or 5.43% to \$405,040,000 in 2012 compared to \$428,291,000 in 2011. In 2012, we recorded a provision for credit losses of \$700,000 compared to \$1,050,000 in 2011 and \$3,800,000 in 2010. The Company had nonperforming assets totaling \$9,695,000 at December 31, 2012. Nonperforming assets included nonaccrual loans totaling \$9,695,000. At December 31, 2011, nonperforming assets totaled \$14,434,000 consisting of \$14,434,000 in nonaccrual loans. Net charge-offs for 2012 were \$1,963,000 compared to \$668,000 for 2011 and \$2,986,000 for 2010. 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.

## Return to Our Shareholders

Our return to our shareholders is measured in a ratio that measures the return on average equity (ROE). Our ROE was 6.56% for the year ended 2012 compared to 6.26% and 3.41% for the years ended 2011 and 2010, respectively. In 2012, compared to 2011 we experienced an increase in net income and an increase in capital due to increases in retained earnings and other comprehensive income.

Our net income for the year ended December 31, 2012 increased \$1,043,000 compared to 2011 and increased \$3,198,000 for 2011 compared to 2010. During 2012, net income increased due to decreases in non-interest expenses, increases in non-interest income, a decrease in the provision for credit losses and a decrease in tax expense, partially offset by decreases in net interest income in 2012 compared to 2011. Net interest income decreased because of decreases in loan and investment income, partially offset by decreases in interest expense on deposits. Non-interest income increased due to a net

## Table of Contents

realized gain on sale of investment securities of \$1,639,000 in 2012, compared to \$298,000 in 2011 and an increase in loan placement fees of \$357,000, partially offset by a decrease of \$603,000 in gains on the sale of other real estate owned, and a \$129,000 decrease in service charge income.

Non-interest expenses decreased in 2012 compared to 2011 primarily due to decreases in amortization of core deposit intangibles of \$214,000, salary and employee benefit expenses of \$165,000, legal fees of \$150,000, occupancy and equipment expenses of \$217,000, regulatory assessments of \$193,000, and advertising fees of \$177,000, partially offset by increase in merger-related expenses of \$284,000 and other real estate owned expenses of \$63,000. During 2012, our net interest margin (NIM) decreased 42 basis points compared to 2011. Basic EPS was \$0.75 for 2012 compared to \$0.63 and \$0.31 for 2011 and 2010, respectively. Diluted EPS was \$0.75 for 2012 compared to \$0.63 and \$0.31 for 2011 and 2010, respectively. The increase in EPS in 2012 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 2012 was 0.88% compared to 0.81% and 0.43% for the years ended December 31, 2011 and 2010, respectively. The 2012 increase in ROA is due to the increase in net income, notwithstanding an increase in average assets. Annualized ROA for our peer group was 0.87% at September 30, 2012. Peer group information from SNL Financial data includes bank holding companies in central California with assets from \$300M to \$950M that are not subchapter S corporations.

### Development of 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. Specifically, we have focused on net interest income through a variety of processes, including increases in average interest-earning assets through loan generation and retention. We minimized the effects of the recent interest rate decline on our net interest margin by focusing on core deposits and managing the cost of funds. Our net interest margin (fully tax equivalent basis) was 4.21% for the year ended December 31, 2012, compared to 4.63% and 4.95% for the years ended December 31, 2011 and 2010, respectively. The decrease in net interest margin compared to 2011 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 58 basis points, while the cost of total interest-bearing liabilities decreased 21 basis points and the cost of total deposits decreased 16 basis points. Our cost of total deposits in 2012 was 0.23% compared to 0.39% for the same period in 2011 and 0.58% for the year ended December 31, 2010. Our net interest income before provision for credit losses decreased \$1,420,000 or 4.53% to \$29,937,000 for the year ended 2012 compared to \$31,357,000 and \$31,730,000 for the years ended 2011 and 2010, 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 2012 increased \$971,000 or 15.48% to \$7,242,000 compared to \$6,271,000 in 2011 and \$3,711,000 in 2010. The increase resulted primarily from an increase in net realized gains on sales and calls of investment securities and an increase in loan placement fees compared to the comparable 2011 period, partially offset by a decrease in gain on sale of other real estate owned and a decrease in service charge income. The net gain realized on sales and calls of investment securities was the result of a partial restructuring of the investment portfolio designed to improve the future performance of the portfolio. Customer service charges decreased \$129,000 or 4.44% to \$2,774,000 in 2012 compared to \$2,903,000 and \$3,225,000 in 2011 and 2010, 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 \$9,695,000 and \$14,434,000 at December 31, 2012 and 2011, respectively. Nonperforming assets totaled 2.45% of gross loans as of December 31, 2012 and 3.38% of gross loans as of December 31, 2011. The Company had no other real estate owned at December 31, 2012 and 2011. Management maintains certain loans that have been brought current by the borrower (less than 30 days delinquent) on nonaccrual status until such time as management has determined that the loans are likely to remain current in future periods.



Table of Contents

## 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 4.85% during 2012 to \$890,228,000 as of December 31, 2012 from \$849,023,000 as of December 31, 2011. Total gross loans decreased 7.51% to \$395,318,000 as of December 31, 2012, compared to \$427,395,000 at December 31, 2011. Total investment securities and Federal funds sold increased 19.75% to \$394,393,000 as of December 31, 2012 compared to \$329,341,000 as of December 31, 2011. Total deposits increased 5.39% to \$751,432,000 as of December 31, 2012 compared to \$712,986,000 as of December 31, 2011. Our loan to deposit ratio at December 31, 2012 was 52.61% compared to 59.94% at December 31, 2011. The loan to deposit ratio of our peers was 70.66% at September 30, 2012.

## Capital Adequacy

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, 2011, we had a total capital to risk-weighted assets ratio of 17.49%, a Tier 1 risk-based capital ratio of 16.20% and a leverage ratio of 10.13%. At December 31, 2012, on a stand-alone basis, the Bank had a total risk-based capital ratio of 18.96%, a Tier 1 risk based capital ratio of 17.67% and a leverage ratio of 10.22%. At December 31, 2011, the Bank had a total risk-based capital ratio of 17.31%, Tier 1 risk-based capital of 16.02% and a leverage ratio of 10.01%. The improvement in 2012 is due to an increase in risk adjusted capital while risk weighted assets decreased. Note 13 of the audited Consolidated Financial Statements provides more detailed information concerning the Company's capital amounts and ratios.

## Operating Efficiency

Operating efficiency is the measure of how efficiently earnings before taxes are generated as a percentage of revenue. A lower ratio represents greater efficiency. The Company's efficiency ratio (operating expenses, excluding amortization of intangibles and foreclosed property expense, divided by net interest income plus non-interest income, excluding net gains and losses from sale of securities) was 75.99% for 2012 compared to 75.67% for 2011 and 73.55% for 2010. The decline in the efficiency ratio in 2012 is due to a decrease in net interest income that is greater than the decrease in operating expenses. The decline in the efficiency ratio in 2011 compared to 2010 is due to an increase in operating expenses and a decrease in net interest income. The efficiency ratio in 2010 declined as compared to 2009 due to a decrease in net interest income and non-interest income. The Company's net interest income before provision for credit losses plus non-interest income decreased 1.19% to \$37,179,000 in 2012 compared to \$37,628,000 in 2011 and \$35,441,000 in 2010, while operating expenses decreased 3.42% in 2012 and 1.71% in 2011. Operating expenses increased 4.36% in 2010.

## Liquidity

Liquidity management involves our ability to meet cash flow requirements arising from fluctuations in deposit levels and demands of daily operations, which include providing for customers' credit needs, funding of securities purchases, and ongoing repayment of borrowings. Our liquidity is actively managed on a daily basis and reviewed periodically by our management and Directors' Asset/Liability Committee. This process is intended to ensure the maintenance of sufficient funds to meet our needs, including adequate cash flow for off-balance sheet commitments. Our primary sources of liquidity are derived from financing activities which include the acceptance of customer and, to a lesser extent, broker deposits, Federal funds facilities and advances from the Federal Home Loan Bank of San Francisco. We have available unsecured lines of credit with correspondent banks totaling approximately \$40,000,000 and

secured borrowing lines of approximately \$133,034,000 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 \$446,921,000 or 50.20% of total assets at December 31, 2012 and \$373,217,000 or 43.96% of total assets as of December 31, 2011.

Table of Contents

RESULTS OF OPERATIONS

Net Income

Net income was \$7,520,000 in 2012 compared to \$6,477,000 and \$3,279,000 in 2011 and 2010, respectively. Basic earnings per share was \$0.75, \$0.63, and \$0.31 for 2012, 2011, and 2010, respectively. Diluted earnings per share was \$0.75, \$0.63, and \$0.31 for 2012, 2011, and 2010, respectively. ROE was 6.56% for 2012 compared to 6.26% for 2011 and 3.41% for 2010. ROA for 2012 was 0.88% compared to 0.81% for 2011 and 0.43% for 2010.

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. The decrease in net interest income for 2012 compared to 2011 was due primarily to the 42 basis point reduction in the net interest margin. The increase in net income for 2011 compared to 2010 can be attributed to the decrease in the provision for credit losses and an increase in non-interest income, partially offset by decrease in interest income and an increase in provision from income taxes.

Interest Income and Expense

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

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.

Table of Contents

## SCHEDULE OF AVERAGE BALANCES, AVERAGE YIELDS AND RATES

(Dollars in thousands)	Year Ended December 31, 2012			Year Ended December 31, 2011			Year Ended December 31, 2010			
	Average Balance	Interest Income/Expense	Average Interest Rate	Average Balance	Interest Income/Expense	Average Interest Rate	Average Balance	Interest Income/Expense	Average Interest Rate	
<b>ASSETS</b>										
Interest-earning deposits in other banks	\$36,836	\$108	0.29 %	\$73,016	\$187	0.26 %	\$42,047	\$110	0.26 %	
<b>Securities</b>										
Taxable securities	218,325	3,289	1.51 %	150,559	4,548	3.02 %	124,163	5,472	4.41 %	
Non-taxable securities (1)	113,039	6,830	6.04 %	75,665	5,248	6.94 %	64,838	4,605	7.10 %	
Total investment securities	331,364	10,119	3.05 %	226,224	9,796	4.33 %	189,001	10,077	5.33 %	
Federal funds sold	618	2	0.30 %	695	2	0.29 %	713	2	0.28 %	
Total securities and interest-earning deposits	368,818	10,229	2.77 %	299,935	9,985	3.33 %	231,761	10,189	4.40 %	
Loans (2) (3)	394,575	23,913	6.06 %	412,969	26,098	6.32 %	437,959	27,390	6.25 %	
Federal Home Loan Bank stock	3,544	36	1.02 %	2,958	9	0.30 %	3,084	11	0.36 %	
Total interest-earning assets	766,937	\$34,178	4.46 %	715,862	\$36,092	5.04 %	672,804	\$37,590	5.59 %	
Allowance for credit losses	(10,365 )			(11,018 )			(10,922 )			
Nonaccrual loans	10,465			15,322			17,381			
Other real estate owned	919			217			2,972			
Cash and due from banks	19,525			17,977			16,479			
Bank premises and equipment	6,217			5,788			6,089			
Other non-earning assets	59,380			56,030			54,049			
Total average assets	\$853,078			\$800,178			\$758,852			
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>										
<b>Interest-bearing liabilities:</b>										
Savings and NOW accounts	\$177,205	\$302	0.17 %	\$154,765	\$368	0.24 %	\$142,350	\$498	0.35 %	
Money market accounts	178,734	392	0.22 %	174,049	692	0.40 %	157,761	1,036	0.66 %	
Time certificates of deposit, under \$100,000	59,838	466	0.78 %	70,111	688	0.98 %	69,066	866	1.25 %	

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Time certificates of deposit, \$100,000 and over	86,295	470	0.54 %	96,620	914	0.95 %	114,043	1,313	1.15 %
Total interest-bearing deposits	502,072	1,630	0.32 %	495,545	2,662	0.54 %	483,220	3,713	0.77 %
Other borrowed funds	9,156	253	2.76 %	10,265	280	2.73 %	19,634	570	2.90 %
Total interest-bearing liabilities	511,228	\$1,883	0.37 %	505,810	\$2,942	0.58 %	502,854	\$4,283	0.85 %
Non-interest bearing demand deposits	217,529			182,244			152,946		
Other liabilities	9,760			8,738			6,878		
Shareholders' equity	114,561			103,386			96,174		
Total average liabilities and shareholders' equity	\$853,078			\$800,178			\$758,852		
Interest income and rate earned on average earning assets		\$34,178	4.46 %		\$36,092	5.04 %		\$37,590	5.59 %
Interest expense and interest cost related to average interest-bearing liabilities		1,883	0.37 %		2,942	0.58 %		4,283	0.85 %
Net interest income and net interest margin (4)		\$32,295	4.21 %		\$33,150	4.63 %		\$33,307	4.95 %

Table of Contents

- (1) Calculated on a fully tax equivalent basis, which includes Federal tax benefits relating to income earned on municipal bonds totaling \$2,322, \$1,784, and \$1,566 in 2012, 2011, and 2010, respectively.
- (2) Loan interest income includes loan fees of \$646 in 2012, \$399 in 2011, and \$460 in 2010.
- (3) Average loans do not include nonaccrual loans.
- (4) Net interest margin is computed by dividing net interest income by total average interest-earning assets.

Interest and fee income from loans decreased \$2,185,000 or 8.37% in 2012 compared to 2011. Interest and fee income decreased \$1,292,000 or 4.72% in 2011 compared to 2010. The decrease in 2012 is attributable to a decrease in average total loans outstanding combined with a 26 basis point decrease in the yield on loans. The decrease in 2011 is attributable to a decrease in average total loans outstanding and a 7 basis point decrease in yield on loans compared to 2010. Average total loans for 2012 decreased \$23,251,000 to \$405,040,000 compared to \$428,291,000 for 2011 and \$455,340,000 for 2010. The yield on loans for 2012 was 6.06% compared to 6.32% and 6.25% for 2011 and 2010, 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), decreased \$294,000 or 3.58% in 2012 compared to 2011. The yield on average investments decreased 56 basis points to 2.77% for the year ended December 31, 2012 from 3.33% for the year ended December 31, 2011. 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 \$68,883,000 to \$368,818,000 in 2012 compared to \$299,935,000 in 2011. In 2011, total investment income decreased \$422,000 or 4.89% compared to 2010 primarily due to a \$68,174,000 increase in the average balance to \$299,935,000 in 2011 compared to \$231,761,000, for 2010, coupled with a decrease in yield on investments of 107 basis points.

A significant portion of the investment portfolio is mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs). At December 31, 2012, we held \$214,885,000 or 54.54% of the total market value of the investment portfolio in MBS and CMOs with an average yield of 1.41%. We invest in Collateralized Mortgage Obligations (CMO) and Mortgage Backed Securities, (MBS) as part of the overall strategy to increase our net interest margin. CMOs and MBS by their nature react to changes in interest rates. In a normal declining rate environment, prepayments from MBS and CMOs would be expected to increase and the expected life of the investment would be expected to shorten. Conversely, if interest rates increase, prepayments normally would be expected to decline and the average life of the MBS and CMOs would be expected to extend. However, in the current economic environment, prepayments may not behave according to historical norms. Premium amortization and discount accretion of these investments affects our net interest income. Our management monitors the prepayment speed of these investments and adjusts premium amortization and discount accretion based on several factors. These factors include the type of investment, the investment structure, interest rates, interest rates on new mortgage loans, expectation of interest rate changes, current economic conditions, the level of principal remaining on the bond, the bond coupon rate, the bond origination date, and volume of available bonds in market. The calculation of premium amortization and discount accretion is by nature inexact, and represents management's best estimate of principal pay downs inherent in the total investment portfolio.

The net of tax effect value of the change in market value of the available-for-sale investment portfolio was a gain of \$7,586,000 and is reflected in the Company's equity. At December 31, 2012, the average life of the investment portfolio was 5.48 years and the market value reflected a pre-tax gain of \$12,891,000. Management reviews market value declines on individual investment securities to determine whether they represent other-than-temporary impairment (OTTI) and for the year ended December 31, 2012, no OTTI was recorded, compared to a \$31,000 OTTI loss for the year ended December 31, 2011. Future deterioration in the market values of our investment securities may require the Company to recognize additional OTTI losses.

A component of the Company's strategic plan has been to use its investment portfolio to offset, in part, its interest rate risk relating to variable rate loans. Measured at December 31, 2012, an immediate rate increase of 200 basis points would result in an estimated decrease in the market value of the investment portfolio by approximately \$20,730,000. Conversely, with an immediate rate decrease of 200 basis points, the estimated increase in the market value of the

investment portfolio would be \$19,082,000. The modeling environment assumes management would take no action during an immediate shock of 200 basis points. The likelihood of immediate changes of 200 basis points is contrary to expectation, as evidenced by the historical changes in interest rates that occurred in 2007 and 2008, which were in 25, 50 and 75 basis point increments. However, the Company uses those increments to measure its interest rate risk in accordance with regulatory requirements and to measure the possible future risk in the investment portfolio. For further discussion of the Company's market risk, refer to Quantitative and Qualitative Disclosures about Market Risk. Management's review of all investments before purchase includes an analysis of how the security will perform under several interest rate scenarios to monitor whether investments are consistent with our investment policy. The policy addresses issues of average life, duration, and concentration guidelines, prohibited investments, impairment, and prohibited practices.

Total interest income in 2012 decreased \$2,479,000 to \$31,820,000 compared to \$34,299,000 in 2011 and \$36,013,000 in 2010. The decrease was due to the 58 basis point decrease in the tax equivalent yield on average interest earning assets and a change in the mix of interest earning assets. The yield on interest earning assets decreased to 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

Table of Contents

\$766,937,000 for the year ended December 31, 2012 compared to \$715,862,000 for the year ended December 31, 2011. Average interest-earning deposits in other banks decreased \$36,180,000 comparing 2012 to 2011. Average yield on these deposits was 0.29%. Average investments increased \$68,883,000 but the tax equivalent yield on average investment securities decreased 56 basis points. Average total loans decreased \$23,251,000 and the yield on average loans decreased 26 basis points.

The decrease in total interest income in 2011 was due to the 55 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 5.04% for the year ended December 31, 2011 from 5.59% for the year ended December 31, 2010. Average interest-earning assets increased to 715,862,000 for the year ended December 31, 2011 compared to \$672,804,000 for the year ended December 31, 2010.

Interest expense on deposits in 2012 decreased \$1,032,000 or 38.77% to \$1,630,000 compared to \$2,662,000 in 2011 and \$3,713,000 in 2010. The decrease in interest expense in 2012 compared to 2011 was primarily due to the repricing of interest-bearing deposits which decreased 22 basis points to 0.32% in 2012 from 0.54% in 2011. The decrease in interest expense in 2011 compared to 2010 was due to repricing of interest-bearing deposits, which decreased 23 basis points to 0.54% in 2011 from 0.77% in 2010. Average interest-bearing deposits were \$502,072,000 for 2012 compared to \$495,545,000 and \$483,220,000 for 2011 and 2010, respectively. The increases in average interest-bearing deposits in 2011 and 2010 were the result of our own organic growth.

Average other borrowings decreased to \$9,156,000 with an effective rate of 2.76% for 2012 compared to \$10,265,000 with an effective rate of 2.73% for 2011. In 2010, the average other borrowings were \$19,634,000 with an effective rate of 2.90%. Included in other borrowings are the junior subordinated deferrable interest debentures acquired from Service 1st, advances on lines of credit and advances from the Federal Home Loan Bank (FHLB). The FHLB advances are fixed rate short-term and long-term borrowings. Advances were utilized as part of a leveraged strategy in the first quarter of 2008 to purchase investment securities. The effective rate of the FHLB advances was 3.59% for 2012 and 2011 and 3.20% for 2010.

The cost of all of our interest-bearing liabilities decreased 21 basis points to 0.37% for 2012 compared to 0.58% for 2011 and 0.85% for 2010. The cost of total deposits decreased to 0.23% for the year ended December 31, 2012 compared to 0.39% and 0.58% for the years ended December 31, 2011 and 2010, respectively. Average demand deposits increased 19.36% to \$217,529,000 in 2012 compared to \$182,244,000 for 2011 and \$152,946,000 for 2010. The ratio of non-interest demand deposits to total deposits increased to 30.23% for 2012 compared to 26.89% and 24.04% for 2011 and 2010, respectively.

Net Interest Income before Provision for Credit Losses

Net interest income before provision for credit losses for 2012 decreased \$1,420,000 or 4.53% to \$29,937,000 compared to \$31,357,000 for 2011 and \$31,730,000 for 2010. The decrease in 2012 was due to the 42 basis point decrease in our net interest margin (NIM). Yield on interest earning assets decreased 58 basis points while the effective rate on interest bearing liabilities only decreased 21 basis points. The change in the mix of average interest earning assets also affected NIM. Interest-earning deposits in other banks and investment securities, which tend to have lower effective yields, increased while higher yielding loans decreased as previously discussed. Net interest income before provision for credit losses decreased \$373,000 in 2011 compared to 2010 mainly due to the 32 basis point decrease in our net interest margin (NIM). Average interest-earning assets were \$766,937,000 for the year ended December 31, 2012 with a net interest margin (NIM) of 4.21% compared to \$715,862,000 with a NIM of 4.63% in 2011, and \$672,804,000 with a NIM of 4.95% in 2010. 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. 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

Table of Contents

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, 2012	% of Total Loans	December 31, 2011	% of Total Loans	
Commercial:					
Commercial and industrial	\$2,071	19.7	% \$1,924	18.3	%
Agricultural land and production	605	6.7	% 342	7.0	%
Real estate:					
Owner occupied	2,153	28.9	% 1,578	26.4	%
Real estate construction and other land loans	1,035	8.4	% 2,954	7.7	%
Commercial real estate	1,886	13.6	% 2,043	14.6	%
Agricultural real estate	646	7.2	% 489	9.9	%
Other real estate	157	2.0	% 91	1.8	%
Total real estate	5,877	60.1	% 7,155	60.4	%
Consumer:					
Equity loans and lines of credit	1,158	10.9	% 1,419	12.0	%
Consumer and installment	383	2.6	% 417	2.3	%
Unallocated reserves	39		139		
Total allowance for credit losses	\$10,133		\$11,396		

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 quantitative 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.

The provisions for credit losses in 2012, 2011, and 2010 were \$700,000, \$1,050,000, and \$3,800,000, respectively.

These provisions are primarily the result of our assessment of the overall adequacy of the allowance for credit losses considering a number of factors as discussed in the "Allowance for Credit Losses" section below. During the year ended December 31, 2012, the Company had net charge offs totaling \$1,963,000 compared to \$668,000 and \$2,986,000 for the same periods in 2011 and 2010, respectively. The decrease in provision for credit losses in 2012 compared to 2011 resulted from a decrease in the level of outstanding loans and nonperforming loans. The net charge off ratio, which reflects net charge-offs to average loans, was 0.48%, 0.16% and 0.66% for 2012, 2011, and 2010, respectively. The 2012 charge offs consisted primarily of one real estate loan. The charged off loans were previously identified and adequately reserved for as of December 31, 2011.

Nonperforming loans were \$9,695,000 and \$14,434,000 at December 31, 2012 and 2011, respectively.

Nonperforming loans as a percentage of total loans were 2.45% at December 31, 2012 compared to 3.38% at December 31, 2011. There was no other real estate owned at December 31, 2012 and December 31, 2011 compared to \$1,325,000 net of a valuation allowance of \$309,000 at December 31, 2010.

Losses in the real estate segments of the loan portfolio in 2012 increased compared to 2011. With real estate appraised values reflecting lower levels, additions to the reserves were required. We had loans past due, not including non accrual loans, totaling \$27,000 at December 31, 2012 compared to \$1,741,000 at December 31, 2011. Losses in the loan portfolio and non-accruing balances remain elevated relative to historical periods and an increase in the level of charge-offs and the number and dollar volume of past due and nonperforming loans may result in further provisions to the allowance for credit losses.

We believe the significant economic downturn that has continued throughout 2012 has had a considerable impact on the ability of certain borrowers to satisfy their obligations, resulting in loan downgrades and corresponding increases in credit loss provisions. Additionally, we estimate the impact certain economic factors will have on various credits within the

## Table of Contents

portfolio. Negative economic trends contributed substantially to increases in the required allowance to cover probable losses in the loan portfolio resulting in additional provisions.

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

As of December 31, 2012, 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 \$700,000 in 2012, \$1,050,000 in 2011, and \$3,800,000 in 2010, was \$29,237,000 for 2012 compared to \$30,307,000 and \$27,930,000 for 2011 and 2010, 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 \$7,242,000 in 2012 compared to \$6,271,000 and \$3,711,000 in 2011 and 2010, respectively. The \$971,000 or 15.48% increase in non-interest income 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 sales of other real estate owned and a decrease in service charges. The \$2,560,000 or 68.98% increase in non-interest income comparing 2011 to 2010 was due to increases in gains on sales and calls of investment securities, a gain on disposal of other real estate owned, and a decrease in other-than-temporary impairment write down on certain investment securities.

Customer service charges decreased \$129,000 to \$2,774,000 in 2012 compared to \$2,903,000 in 2011 and \$3,225,000 in 2010. The decrease in 2012 from 2011, and in 2011 from 2010 is mainly due to decreases in overdraft fee income. During the year ended December 31, 2012, we realized net gain on sales and calls of investment securities of \$1,639,000 resulting primarily from the partial restructuring of the investment portfolio designed to improve the future performance of the portfolio. In 2011, we realized a net gain of \$298,000 compared to a net loss of \$191,000 in 2010 from sales and calls of securities. For the year ended December 31, 2011, we realized a \$31,000 other-than-temporary impairment write down on certain investment securities. See [Footnote 3](#) to the audited Consolidated Financial Statements for more detail.

Income from the appreciation in cash surrender value of bank owned life insurance (BOLI) totaled \$391,000 in 2012 compared to \$382,000 and \$392,000 in 2011 and 2010, respectively. The Bank's salary continuation and deferred compensation plans and the related BOLI are used as a retention tool for directors and key executives of the Bank. We earn loan placement fees from the brokerage of single-family residential mortgage loans provided for the convenience of our customers. Loan placement fees increased \$357,000 in 2012 to \$631,000 compared to \$274,000 in 2011 and \$300,000 in 2010. Fees were higher in 2012 compared to 2011 and 2010, as refinancing and new mortgage activity increased due to the historically low mortgage rates, a decline in housing values and first time home buyer tax incentives.

The Bank holds stock from the Federal Home Loan Bank in relationship with its borrowing capacity and generally receives quarterly dividends. As of December 31, 2012, we held \$3,850,000 in FHLB stock compared to \$2,893,000 at December 31, 2011. Dividends in 2012 increased to \$36,000 compared to \$9,000 in 2011 and \$11,000 in 2010.

Other income decreased to \$1,755,000 in 2012 compared to \$1,826,000 and \$1,395,000 in 2011 and 2010, respectively. The period-to-period decrease in 2012 compared to 2011 was primarily due to a \$142,000 gain related to the final distribution of the Service 1st escrow account, and an \$85,000 gain related to the collection of life insurance

proceeds realized in 2011 offset by 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, data processing expenses, and professional services (consisting of audit, accounting and legal fees) are the major categories of non-interest expenses. Non-interest expenses decreased \$966,000 or 3.42% to \$27,274,000 in 2012 compared to \$28,240,000 in 2011, compared to \$28,731,000 in 2010, which was a decrease of \$491,000 in 2011.

Our efficiency ratio, measured as the percentage of non-interest expenses (exclusive of amortization of core deposit intangibles and other real estate owned expenses) to net interest income before provision for credit losses plus non-interest income (exclusive of realized gains or losses on sale and calls of investments) was 75.99% for 2012 compared to 75.67% for 2011 and 73.55% for 2010. The decline in the efficiency ratio in 2012 is due to a decrease in net interest income that is greater

Table of Contents

than the decrease in operating expenses. The decline in the efficiency ratio in 2011 compared to 2010 is due to an increase in operating expenses and a decrease in net interest income.

Salaries and employee benefits decreased \$165,000 or 1.05% to \$15,597,000 in 2012 compared to \$15,762,000 in 2011 and \$14,871,000 in 2010. Full time equivalents were 208 at December 31, 2012 compared to 211 at December 31, 2011.

At December 31, 2012, 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 317,799 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 181,490 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, 2012, 2011, and 2010, the compensation cost recognized for share based compensation was \$108,000, \$196,000 and \$239,000, respectively.

As of December 31, 2012, there was \$374,000 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 1.98 years. See Notes 1 and 14 to the audited Consolidated Financial Statements for more detail.

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. No options to purchase shares of the Company's common stock were issued during the year ending December 31, 2011. In 2010, options to purchase 15,200 shares of the Company's common stock were granted from the 2000 Plan at an exercise price of \$5.76 and options to purchase 67,800 shares of common stock were granted from the 2005 Plan at exercise prices between \$5.30 and \$5.76. All options were granted with an exercise price equal to the market value on the grant date.

Occupancy and equipment expense decreased \$217,000 or 5.72% to \$3,578,000 in 2012 compared to \$3,795,000 in 2011 and \$3,867,000 in 2010. Relocation of one branch resulted in lower rent expenses in 2012, as compared to same period in 2011. Fully depreciated assets resulted in lower depreciation expenses in 2012, as compared to 2011. The company made no changes in depreciation expense methodology.

Regulatory assessments decreased \$193,000 or 22.84% to \$652,000 in 2012 compared to \$845,000 and \$1,191,000 in 2011 and 2010, 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.

Data processing expenses were \$1,125,000 in 2012 compared to \$1,178,000 in 2011 and \$1,197,000 in 2010. The \$53,000 or 4.50% decrease in 2012, and the \$19,000 decrease in 2011 compared to 2010 are a result of a reduction in terms of our core processing contract.

Legal fees decreased \$150,000 or 44.78% to \$185,000 for the year ended December 31, 2012 compared to \$335,000 and \$495,000 in 2011 and 2010, respectively. The higher legal fees in 2011 and 2010 are primarily due to issues related to nonperforming assets and other loan related legal expenses.

Total other real estate owned (OREO) expenses increased \$63,000 or 420.00% to \$78,000 for the year ended December 31, 2012 compared to \$15,000 and \$1,071,000 in 2011 and 2010. The increase in OREO expenses was primarily due to new OREO properties added and subsequently sold in 2012. OREO expenses in 2010 were primarily the result of the write downs of several OREO properties to their estimated fair value resulting in a valuation expense

totaling \$591,000. Carrying costs and property taxes totaled \$371,000 related to the OREO portfolio and we realized a \$109,000 loss on disposition of OREO property for the year ended December 31, 2010.

Amortization of core deposit intangibles was \$200,000 for 2012 and \$414,000 for 2011 and 2010. Other non-interest expenses increased \$167,000 or 3.58% to \$4,503,000 in 2012 compared to \$4,670,000 in 2011 and \$4,460,000 in 2010.

Table of Contents

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

For the years ended December 31, (Dollars in thousands)	Other Expense 2012	% Average Assets	Other Expense 2011	% Average Assets	Other Expense 2010	% Average Assets		
ATM/debit card expenses	\$369	0.04	% \$369	0.05	% \$354	0.05	%	
License and maintenance contracts	362	0.04	% 324	0.04	% 275	0.04	%	
Internet banking expense	270	0.03	% 247	0.03	% 119	0.02	%	
Stationery/supplies	221	0.03	% 245	0.03	% 271	0.04	%	
Director fees and related expenses	215	0.03	% 219	0.03	% 209	0.03	%	
Amortization of software	196	0.02	% 232	0.03	% 195	0.03	%	
Postage	183	0.02	% 198	0.02	% 218	0.03	%	
Telephone	169	0.02	% 236	0.03	% 305	0.04	%	
Consulting	162	0.02	% 340	0.04	% 212	0.03	%	
Education/training	155	0.02	% 160	0.02	% 139	0.02	%	
Donations	148	0.02	% 154	0.02	% 148	0.02	%	
General insurance	120	0.01	% 125	0.02	% 130	0.02	%	
Operating losses	85	0.01	% 125	0.02	% 44	0.01	%	
Appraisal fees	77	0.01	% 112	0.01	% 165	0.02	%	
Other	1,771	0.21	% 1,584	0.20	% 1,676	0.22	%	
Total other non-interest expense	\$4,503	0.53	% \$4,670	0.58	% \$4,460	0.59	%	

For the year ended December 31, 2012, the \$178,000 decrease in consulting was related to various financial and tax planning projects assistance in 2011. License and maintenance contract expense increased in 2012 as a result of annual increases on various contracts in addition to new contracts for new products, services and software put in place during 2011. In 2012, the \$35,000 decrease in appraisal fees resulted due to fewer appraisals paid for by the bank.

#### Provision for Income Taxes

Our effective income tax rate was 18.31% for 2012 compared to 22.32% for 2011 and (12.68)% for 2010. The Company reported an income tax provision of \$1,685,000 and \$1,861,000 for the years ended December 31, 2012 and 2011, compared to a benefit totaling \$369,000 for the year ended December 31, 2010. The decrease in the effective tax rate in 2012 compared to 2011 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 with the Small Business Lending Fund of the United States Department of the Treasury (the Treasury), under which the Company issued 7,000 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series C (the Preferred Shares) to the Treasury for an aggregate purchase price of \$7,000,000. Simultaneously, the Company agreed with Treasury under a Letter Agreement to redeem, for an aggregate price of \$7,000,000, the 7,000 shares of the Company's Series A Fixed Rate Cumulative Preferred Stock (Series A Stock) originally issued pursuant to the Treasury's Capital Purchase Program (CPP) in 2009. The redemption of the Series A Stock resulted in an acceleration of the remaining discount booked at the time of the CPP transaction.

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



We accrued preferred stock dividends to the Treasury and accretion of the issuance discount in the amount of \$350,000 and \$486,000 during the years ended December 31, 2012 and 2011, respectively.

## FINANCIAL CONDITION

### Summary of Changes in Consolidated Balance Sheets

44

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## Table of Contents

December 31, 2012 compared to December 31, 2011.

Total assets were \$890,228,000 as of December 31, 2012, compared to \$849,023,000 as of December 31, 2011, an increase of 4.85% or \$41,205,000. Total gross loans were \$395,318,000 as of December 31, 2012, compared to \$427,395,000 as of December 31, 2011, a decrease of \$32,077,000 or 7.51%. The total investment portfolio (including Federal funds sold and interest-earning deposits in other banks) increased 19.98% or \$70,708,000 to \$424,516,000. Total deposits increased 5.39% or \$38,446,000 to \$751,432,000 as of December 31, 2012, compared to \$712,986,000 as of December 31, 2011. Shareholders' equity increased \$10,183,000 or 9.47% to \$117,665,000 as of December 31, 2012, compared to \$107,482,000 as of December 31, 2011, due to net income included in retained earnings and an increase in other comprehensive income. Accrued interest payable and other liabilities were \$11,976,000 as of December 31, 2012, compared to \$19,400,000 as of December 31, 2011, a decrease of \$7,424,000. 2011 other liabilities included an accrual of \$7,749,000 for investment securities with a trade date before and a settlement date after December 31, 2011.

## 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 2 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, 2012, investment securities with a fair value of \$89,343,000, or 22.68% 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, 2012 was 52.61% compared to 59.94% at December 31, 2011. The loan to deposit ratio of our peers was 70.66% at September 30, 2012. The total investment portfolio, including Federal funds sold and interest-earning deposits in other banks, increased 19.98% or \$70,708,000 to \$424,516,000 at December 31, 2012, from \$353,808,000 at December 31, 2011. The market value of the portfolio reflected an unrealized gain of \$12,891,000 at December 31, 2012, compared to \$7,008,000 at December 31, 2011. 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. 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, 2012, 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, 2012, and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at December 31, 2012 greater than 10% of the recorded book value on that date, or which had an unrealized loss of more than \$10,000.

Management also analyzed any securities that may have been down graded by credit rating agencies. Management retained the services of a third party in December 2012 to provide independent valuation and OTTI analysis of the private label residential mortgage backed securities (PLRMBS).

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

## Table of Contents

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

To assess whether it expects to recover the entire amortized cost basis of its PLRMBS, the Company performed a cash flow analysis for all of its PLRMBS as of December 31, 2012. In performing the cash flow analysis for each security, the Company uses a third-party model. The model considers borrower characteristics and the particular attributes of the loans underlying the Company's securities, in conjunction with assumptions about future changes in home prices and other assumptions, to project prepayments, default rates, and loss severities.

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

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

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

At December 31, 2012, the Company had a total of 23 PLRMBS with a remaining principal balance of \$6,258,000 and a net unrealized loss of approximately \$117,000. Six of these securities account for \$206,000 of the unrealized loss at December 31, 2012 offset by 17 of these securities with gains totaling \$323,000. Seven of these PLRMBS with a remaining principal balance of \$4,806,000 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, 2012.

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

## Loans

Total gross loans decreased \$32,077,000 or 7.51% to \$395,318,000 as of December 31, 2012, compared to \$427,395,000 as of December 31, 2011.

Table of Contents

The following table sets forth information concerning the composition of our loan portfolio as of and for the years ended December 31, 2012, 2011, 2010, 2009, and 2008.

Loan Type (Dollars in thousands)	2012		2011		2010		2009		2008	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
<b>Commercial:</b>										
Commercial and industrial	\$77,956	19.7 %	\$78,089	18.3 %	\$81,318	18.8 %	\$93,282	20.3 %	\$109,664	22.6 %
Agricultural land and production	26,599	6.7 %	29,958	7.0 %	20,604	4.8 %	13,903	3.0 %	20,406	4.2 %
Total commercial	104,555	26.4 %	108,047	25.3 %	101,922	23.6 %	107,185	23.3 %	130,070	26.8 %
<b>Real estate:</b>										
Owner occupied Real estate-construction and other land loans	114,444	28.9 %	113,183	26.4 %	111,888	25.9 %	106,606	23.2 %	113,414	23.4 %
Agricultural real estate	53,797	13.6 %	62,523	14.6 %	63,627	14.7 %	71,420	15.6 %	64,358	13.3 %
Commercial real estate	28,400	7.2 %	42,596	9.9 %	44,397	10.3 %	38,759	8.4 %	32,136	6.6 %
Other real estate	8,098	2.0 %	7,892	1.8 %	8,103	1.9 %	4,610	1.0 %	2,926	0.6 %
Total real estate	237,938	60.1 %	259,241	60.4 %	260,053	60.2 %	273,028	59.4 %	270,757	55.9 %
<b>Consumer:</b>										
Equity loans and lines of credit	42,932	10.9 %	51,106	12.0 %	58,860	13.6 %	65,353	14.2 %	63,828	13.2 %
Consumer and installment	10,346	2.6 %	9,765	2.3 %	11,261	2.6 %	14,033	3.1 %	19,801	4.1 %
Total consumer	53,278	13.5 %	60,871	14.3 %	70,121	16.2 %	79,386	17.3 %	83,629	17.3 %
Deferred loan fees, net	(453 )		(764 )		(499 )		(392 )		(218 )	
Total gross loans	395,318	100.0%	427,395	100.0%	431,597	100.0%	459,207	100.0%	484,238	100.0%
Allowance for credit losses	(10,133 )		(11,396 )		(11,014 )		(10,200 )		(7,223 )	
Total loans	\$385,185		\$415,999		\$420,583		\$449,007		\$477,015	

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 71.0% were real-estate-related. This level of concentration is consistent with 97.7% at December 31, 2011. 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, 2012 and 2011.

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, 2012, total nonperforming assets totaled \$9,695,000, or 1.09% of total assets, compared to \$14,434,000, or 1.70% of total assets at December 31, 2011. Total nonperforming assets at December 31, 2012, included nonaccrual loans totaling \$9,695,000 and no OREO or repossessed assets. Nonperforming assets at December 31, 2011 consisted of \$14,434,000 in nonaccrual loans and no OREO or repossessed assets. At December 31, 2012, we had seven loans considered troubled debt restructurings (“TDRs”) totaling \$9,245,000 which are included in nonaccrual loans compared to six TDRs totaling \$10,601,000 at December 31, 2011. 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, 2012 and 2011 is set forth below. The Company had no loans past due more than 90 days and still accruing interest at December 31, 2012 and 2011. Management is not aware of any potential problem loans, which were current and accruing at December 31, 2012, 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.

Table of Contents

## Composition of Nonaccrual, Past Due and Restructured Loans

(Dollars in thousands)	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009	December 31, 2008	
<b>Nonaccrual Loans</b>						
Commercial and industrial	\$ —	\$ 267	\$ 377	\$ 2,868	\$ 907	
Owner occupied	213	353	1,407	2,218	1,644	
Real estate construction and other land loans	—	—	5,634	7,691	4,839	
Commercial real estate	—	2,434	—	965	6,296	
Equity loans and line of credit	237	705	488	301	280	
Consumer and installment	—	74	—	348	81	
<b>Restructured loans (non-accruing)</b>						
Commercial and industrial	—	—	1,978	28	—	
Owner occupied	1,362	1,019	2,370	2,282	1,108	
Real estate construction and other land loans	6,288	6,823	2,193	2,214	595	
Commercial real estate	—	1,110	1,828	—	—	
Other real estate	—	—	2,286	—	—	
Equity loans and line of credit	1,595	1,649	—	44	—	
<b>Total nonaccrual</b>	<b>9,695</b>	<b>14,434</b>	<b>18,561</b>	<b>18,959</b>	<b>15,750</b>	
Accruing loans past due 90 days or more	—	—	—	—	—	
<b>Total nonperforming loans</b>	<b>\$ 9,695</b>	<b>\$ 14,434</b>	<b>\$ 18,561</b>	<b>\$ 18,959</b>	<b>\$ 15,750</b>	
Nonperforming loans to total loans	2.45	% 3.38	% 4.30	% 4.13	% 3.25	%
Ratio of nonperforming loans to allowance for credit losses	95.68	% 126.66	% 168.52	% 185.87	% 218.05	%
Loans considered to be impaired	\$ 17,105	\$ 23,644	\$ 18,561	\$ 18,959	\$ 15,750	
Related allowance for credit losses on impaired loans	\$ 510	\$ 4,368	\$ 2,124	\$ 752	\$ 125	

We measure our impaired loans by using the fair value of the collateral if the loan is collateral dependent and the present value of the expected future cash flows discounted at the loan's effective interest rate if the loan is not collateral dependent. As of December 31, 2012 and 2011, we had impaired loans totaling \$17,105,000 and \$23,644,000, 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 \$693,000 for the year ended December 31, 2012 of which \$669,000 was attributable to troubled debt restructurings. Foregone interest on nonaccrual loans totaled \$954,000 and \$1,228,000 for the years ended December 31, 2011 and 2010, respectively of which \$769,000 and \$376,000 was attributable to troubled debt restructurings, respectively.

Table of Contents

The following table provides a reconciliation of the change in non-accrual loans for the year ended December 31, 2012.

(Dollars in thousands)	Balances December 31, 2011	Additions to Nonaccrual Loans	Net Pay Downs	Transfer to Foreclosed Collateral - OREO	Returns to Accrual Status	Charge Offs	Balances December 31, 2012
Non-accrual loans:							
Commercial and industrial	\$ 267	\$ 4	\$ (32 )	\$ (155 )	\$ —	\$ (84 )	\$ —
Real estate	2,787	294	(312 )	(2,175 )	—	(381 )	213
Equity loans and lines of credit	705	79	(472 )	—	—	(75 )	237
Consumer	74	73	(4 )	—	—	(143 )	—
Restructured loans (non-accruing):							
Real estate	2,129	425	(82 )	(7 )	—	(1,103 )	1,362
Real estate construction and land development	6,823	—	(535 )	—	—	—	6,288
Equity loans and lines of credit	1,649	75	(129 )	—	—	—	1,595
Consumer	—	—	—	—	—	—	—
Total non-accrual	\$ 14,434	\$ 950	\$ (1,566 )	\$ (2,337 )	\$ —	\$ (1,786 )	\$ 9,695

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

(Dollars in thousands)	Years Ended December 31,	
	2012	2011
Balance, Beginning of year	\$ —	\$ 1,325
Additions	2,337	532
Dispositions	(2,349 )	(2,472 )
Write-downs	—	—
Net gain on disposition	12	615
Balance, End of year	\$ —	\$ —

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, 2012 and 2011, 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.

The determination of the general reserve for loans that are not impaired is based on estimates made by management, including but not limited to, consideration of historical losses by portfolio segment, internal asset classifications, and qualitative factors including economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan portfolio, and probable losses inherent in the portfolio taken as a whole. Each quarter management assesses which period of time is most appropriate when factoring in historical loan losses into the general reserve calculation. From time to time, this look back period changes in order to be reflective of management's expectations which are driven by a number of factors including economic data, the relevance of past periods' losses to the current period and the estimated point in the credit cycle that we are in. During the quarter ended September 30, 2012, management



determined that the most recent 16 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 12 quarter rolling average to a

Table of Contents

16 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 that began in 2009 would continue to be factored into the general reserve analysis. We utilize actual loss history as a starting point for the general reserve beginning with January 1, 2009. We believe this period is an appropriate look back period given the significant charge-offs incurred during this credit cycle. Our methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula allowance (general reserve) and a specific allowance for identified impaired loans.

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

Recoveries are generally recorded only when cash payments are received.

The allowance for credit losses is maintained to cover probable 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.

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,	
	2012	2011
Balance, beginning of year	\$ 11,396	\$ 11,014
Provision charged to operations	700	1,050
Losses charged to allowance	(2,850	) (1,532
Recoveries	887	864
Balance, end of year	\$ 10,133	\$ 11,396
Allowance for credit losses to total loans	2.56	% 2.67

As of December 31, 2012, the balance in the allowance for credit losses was \$10,133,000 compared to \$11,396,000 as of December 31, 2011. The decrease was due to net charge offs during the year ended December 31, 2012 being greater than the amount of the provision for credit losses. Net charge offs totaled \$1,963,000 while the provision for credit losses was \$700,000. Loans charged off in 2012 were fully reserved at December 31, 2011. The balance of commitments to extend credit on undisbursed construction and other loans and letters of credit was \$162,851,000 as of December 31, 2012, compared to \$129,005,000 as of December 31, 2011. At December 31, 2012, the balance of a contingent allocation for probable loan loss experience on unfunded obligations was \$110,000. 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 Audit Committee have established reserve levels based on economic uncertainties and other risks that exist as of each reporting period.

As of December 31, 2012, the allowance for credit losses was 2.56% of total gross loans compared to 2.67% as of December 31, 2011. During the year ended December 31, 2012, there were no major changes in loan concentrations that significantly affected the allowance for credit losses. 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 net

## Table of Contents

present value 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. In 2011, enhanced methodology enabled us to 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. 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 \$9,695,000 as of December 31, 2012, and \$14,434,000 as of December 31, 2011. The allowance for credit losses as a percentage of nonperforming loans was 104.52% and 78.95% as of December 31, 2012 and December 31, 2011, respectively. Management believes the allowance at December 31, 2012 is adequate based upon its ongoing analysis of the loan portfolio, historical loss trends and other factors. However, no assurance can be given that the Company may not sustain charge-offs which are in excess of the allowance in any given period.

## Goodwill and Intangible Assets

Business combinations involving the Company's acquisition of the equity interests or net assets of another enterprise give rise to goodwill. Total goodwill at December 31, 2012, was \$23,577,000 consisting of \$14,643,000 and \$8,934,000 representing the excess of the cost of Service 1st and Bank of Madera County, respectively, over the net of the amounts assigned to assets acquired and liabilities assumed in the transactions accounted for under the purchase method of accounting. The value of goodwill is ultimately derived from the Bank's ability to generate net earnings after the acquisitions and is not deductible for tax purposes. A significant decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed at least annually for impairment.

In 2011, ASU 2011-08 was issued that provided additional guidance on the determination of whether an impairment of goodwill has occurred, including the introduction of a qualitative review of factors that might indicate that a goodwill impairment has occurred. Management performed our annual impairment test in the third quarter of 2012 utilizing the qualitative factors cited in the ASU. Management believes that factors cited in the ASU are sufficient and comprehensive and as such, no further factors need to be assessed at this time. Based on management's analysis performed, no impairment was required.

The intangible assets represent the estimated fair value of the core deposit relationships acquired in the acquisition of Service 1st in 2008 of \$1,400,000 and the 2005 acquisition of Bank of Madera County of \$1,500,000. Core deposit intangibles are being amortized using the straight-line method (which approximates the effective interest method) over an estimated life of seven years from the date of acquisition. The carrying value of intangible assets at December 31, 2012 was \$583,000, net of \$2,317,000 in accumulated amortization expense. The carrying value at December 31, 2011 was \$783,000, net of \$2,117,000 accumulated amortization expense. We evaluate the remaining useful lives quarterly to determine whether events or circumstances warrant a revision to the remaining periods of amortization. Based on the evaluation, no changes to the remaining useful lives was required in 2012. Amortization expense recognized was \$200,000 and \$414,000 for the years ended December 31, 2012 and 2011. The core deposit intangible for the 2005 acquisition of Bank of Madera County was fully amortized as of December 31, 2011.

## 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. This coverage replaced the unlimited coverage under the Transaction Account Guarantee Program ("TAG") and was confined to non-interest bearing accounts. Although the temporary coverage excluded interest-bearing NOW accounts, it did include interest on Lawyers Trust Accounts (IOLTAs).

Beginning January 1, 2013, all of a depositor's 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 \$38,446,000 or 5.39% to \$751,432,000 as of December 31, 2012, compared to \$712,986,000 as of December 31, 2011. Interest-bearing deposits increased \$6,302,000 or 1.25% to \$511,263,000 as of December 31, 2012, compared to \$504,961,000 as of December 31, 2011. Non-interest bearing deposits increased \$32,144,000 or 15.45% to \$240,169,000 as of December 31, 2012, compared to \$208,025,000 as of December 31, 2011. Average non-interest bearing deposits to average total deposits was 30.23% for the year ended December 31, 2012 compared to 26.89% for the same period in 2011. Our total market share of deposits in Fresno, Madera, and San Joaquin counties was 3.58% in 2012 compared to 3.39% in 2011 based on FDIC deposit market share information published as of June 2012.

Table of Contents

The composition of the deposits and average interest rates paid at December 31, 2012 and December 31, 2011 is summarized in the table below.

(Dollars in thousands)	December 31, 2012			December 31, 2011			
	Amount	% of Total Deposits	Effective Rate	Amount	% of Total Deposits	Effective Rate	
NOW accounts	\$ 161,328	21.4	% 0.19	% \$ 140,268	19.6	% 0.26	%
MMA accounts	173,486	23.1	% 0.22	% 181,731	25.5	% 0.40	%
Time deposits	136,876	18.2	% 0.64	% 151,695	21.3	% 0.96	%
Savings deposits	39,573	5.3	% 0.09	% 31,267	4.4	% 0.16	%
Total interest-bearing	511,263	68.0	% 0.32	% 504,961	70.8	% 0.54	%
Non-interest bearing	240,169	32.0	%	208,025	29.2	%	
Total deposits	\$ 751,432	100.0	%	\$ 712,986	100.0	%	

There were \$4,000,000 short term borrowings as of December 31, 2012, compared to none as of December 31, 2011. Short-term borrowings of \$4,000,000 at December 31, 2012 represent FHLB advances with a weighted average interest of 3.59% and weighted average maturity of 0.1 years.

Long-term FHLB borrowings at December 31, 2011 were \$4,000,000. There were no long-term FHLB borrowings outstanding at 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, 2012, 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, 2012, the rate was 1.94%. Interest expense recognized by the Company for the years ended December 31, 2012, 2011, and 2010 was \$107,000, \$100,000 and \$102,000, 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 \$117,665,000 as of December 31, 2012, compared to \$107,482,000 as of December 31, 2011. The increase in shareholders' equity is the result of increase in retained earnings from net income of \$7,520,000, an increase in unrealized gain on the available-for-sale investment securities of \$3,462,000, exercise of stock

Table of Contents

options, including the related tax benefit of \$411,000, and the effect of share based compensation expense of \$108,000 offset by the repurchases of the Company's common stock of \$488,000, preferred stock dividends of \$350,000, and common stock cash dividends of \$480,000.

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

In connection with the repurchase of the Series A Stock, the Company also notified the Treasury of the Company's intent to repurchase the warrant (the Warrant) to purchase 79,037 shares of the Company's common stock that was originally issued to Treasury in connection with the CPP transaction. On September 28, 2011, the Company completed the repurchase of the Warrant for total consideration of \$185,000. See Note 13 to the audited Consolidated Financial Statements in this report for a more detailed discussion.

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

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

In May 2010, the shareholders of the Company approved an amendment to the Company's governing instruments to create a series of non-voting common stock. In June 2010, the Company exercised its option to require the Purchasers to exchange 1,359 shares of Series B Preferred Stock for 258,862 shares of non-voting common stock. In August 2011, the Company agreed to exchange of 258,862 shares of the Company's non-voting common stock to 258,862 shares of the Company's voting common stock. The issuance of voting common stock was conducted in a privately negotiated transaction exempt from registration pursuant to Sections 3(a)(9) and 4(2) of the Securities Act of 1933, as amended. See Note 13 to the audited Consolidated Financial Statements in this report for a more detailed discussion.

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 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. During 2011 and 2010, the Bank did not pay any dividends to the Company. The Bank would not pay any dividend that would cause it to be deemed not "well capitalized" under applicable banking laws and regulations. On October 17, 2012, the Board of Directors 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 or 2010.



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.

Table of Contents

The following table presents the Company's and the Bank's Regulatory capital ratios as of December 31, 2012 and December 31, 2011.

(Dollars in thousands)	December 31, 2012		December 31, 2011		
	Amount	Ratio	Amount	Ratio	
<b>Tier 1 Leverage Ratio</b>					
Central Valley Community Bancorp and Subsidiary	\$90,866	10.56	% \$82,571	10.13	%
Minimum regulatory requirement	\$34,418	4.00	% \$32,612	4.00	%
Central Valley Community Bank	\$87,911	10.22	% \$81,599	10.01	%
Minimum requirement for "Well-Capitalized" institution	\$42,994	5.00	% \$40,743	5.00	%
Minimum regulatory requirement	\$34,395	4.00	% \$32,594	4.00	%
<b>Tier 1 Risk-Based Capital Ratio</b>					
Central Valley Community Bancorp and Subsidiary	\$90,866	18.24	% \$82,571	16.20	%
Minimum regulatory requirement	\$19,926	4.00	% \$20,383	4.00	%
Central Valley Community Bank	\$87,911	17.67	% \$81,599	16.02	%
Minimum requirement for "Well-Capitalized" institution	\$29,848	6.00	% \$30,554	6.00	%
Minimum regulatory requirement	\$19,899	4.00	% \$20,369	4.00	%
<b>Total Risk-Based Capital Ratio</b>					
Central Valley Community Bancorp and Subsidiary	\$97,299	19.53	% \$89,136	17.49	%
Minimum regulatory requirement	\$39,853	8.00	% \$40,767	8.00	%
Central Valley Community Bank	\$94,336	18.96	% \$88,159	17.31	%
Minimum requirement for "Well-Capitalized" institution	\$49,747	10.00	% \$50,923	10.00	%
Minimum regulatory requirement	\$39,798	8.00	% \$40,738	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 \$53,000 and \$1,427,000 at December 31, 2012 and 2011, 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, 2012, the Company had unpledged securities totaling \$304,622,000 available as a secondary source of liquidity and total cash and cash equivalents of \$52,956,000. Cash and cash equivalents at December 31, 2012 increased 18.19% compared to December 31, 2011. 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, 2012, our available borrowing capacity includes approximately \$40,000,000 in Federal funds lines with our correspondent banks and \$129,034,000 in unused FHLB advances. At December 31, 2012, 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, 2012 and 2011:

54

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Table of Contents

Credit Lines (In thousands)	December 31, 2012	December 31, 2011
Unsecured Credit Lines (interest rate varies with market):		
Credit limit	\$40,000	\$44,000
Balance outstanding	\$—	\$—
Federal Home Loan Bank (interest rate at prevailing interest rate):		
Credit limit	\$133,034	\$125,122
Balance outstanding	\$4,000	\$4,000
Collateral pledged	\$94,368	\$112,926
Fair value of collateral	\$94,809	\$114,214
Federal Reserve Bank (interest rate at prevailing discount interest rate):		
Credit limit	\$127	\$551
Balance outstanding	\$—	\$—
Collateral pledged	\$115	\$542
Fair value of collateral	\$129	\$562

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 \$162,851,000 as of December 31, 2012 compared to \$129,005,000 as of December 31, 2011. For a more detailed discussion of these financial instruments, see Note 12 to the audited Consolidated Financial Statements in this Annual Report.

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

## CRITICAL ACCOUNTING POLICIES

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

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

## Use of Estimates

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

These estimates result in judgments regarding the carrying values of assets and liabilities when these values are not readily available from other sources, as well as assessing and identifying the accounting treatments of contingencies

and commitments. 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

## Table of Contents

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

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

### Allowance for Credit Losses

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

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

### Impairment of Investment Securities

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

### 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

## Table of Contents

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 14 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 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 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, 2012, 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.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We realize income principally from the differential or spread between the interest earned on loans, investments, other interest-earning assets and the interest incurred on deposits and borrowings. The volumes and yields on loans, deposits and

Table of Contents

borrowings are affected by market interest rates. As of December 31, 2012, 77.05% of our loan portfolio was tied to adjustable-rate indices. The majority of our adjustable rate loans are tied to prime and reprice within 90 days. However, in the current low rate environment, several of our loans, tied to prime, are at their floors and will not reprice until prime plus the factor is greater than the floor. The majority of our time deposits have a fixed rate of interest. As of December 31, 2012, 79.64% of our time deposits matures within one year or less. As of December 31, 2012, \$4,000,000 of our short-term debt was fixed rate. The short-term debt matures in February 2013.

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

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

The ALCO seeks to stabilize our NII by matching rate-sensitive assets and liabilities through maintaining the maturity and repricing of these assets and liabilities at appropriate levels given the interest rate environment. When the amount of rate-sensitive liabilities exceeds rate-sensitive assets within specified time periods, NII generally will be negatively impacted by an increasing interest rate environment and positively impacted by a decreasing interest rate environment. Conversely, when the amount of rate-sensitive assets exceeds the amount of rate-sensitive liabilities within specified time periods, net interest income will generally be positively impacted by an increasing interest rate environment and negatively impacted by a decreasing interest rate environment. In recent years, we have shifted our mix of assets from consisting primarily of loans to a current mix that is approximately half loans and half securities. The value of these securities is subject to interest rate risk, which we must monitor and manage successfully in order to prevent declines in value of these assets if interest rates rise in the future. The speed and velocity of the repricing of assets and liabilities will also contribute to the effects on our NII, as will the presence or absence of periodic and lifetime interest rate caps and floors.

Simulation of earnings is the primary tool used to measure the sensitivity of earnings to interest rate changes.

Earnings simulations are produced using a software model that is based on actual cash flows and repricing characteristics for all of our financial instruments and incorporates market-based assumptions regarding the impact of changing interest rates on current volumes of applicable financial instruments.

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

Approximately 77.05% of our loan portfolio is tied to adjustable rate indices and 40.48% of our loan portfolio reprices within 90 days. As of December 31, 2012, we had 985 commercial and real estate loans totaling \$183,929,000 with floors ranging from 3.25% to 8.25% and ceilings ranging from 7.50% to 25.00%.

The following table shows the effects of changes in projected net interest income for the twelve months ending December 31, 2013 under the interest rate shock scenarios stated. The table was prepared as of December 31, 2012, using a prime interest rate of 3.25%.

## Sensitivity Analysis of Impact of Rate Changes on Interest Income

Hypothetical Change in Rates	Projected Net Interest Income	\$ Change from Rates at December 31, 2013	% Change from Rates at December 31, 2013	
(Dollars in thousands)				
Up 300 bps	\$39,902	\$ 2,473	6.61	%
Up 200 bps	38,969	1,540	4.11	%
Up 100 bps	38,061	632	1.69	%

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Unchanged	37,429	—	—	
Down 25 bps	36,898	(531	) (1.42	)%

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

Table of Contents

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Crowe Horwath LLP

Sacramento, California  
March 20, 2013

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows of Central Valley Community Bancorp and subsidiary (the "Company") for the year ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

/s/ Perry-Smith LLP

Sacramento, California  
March 16, 2011

Table of ContentsCENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS

December 31, 2012 and 2011

(In thousands, except share amounts)

	2012	2011
<b>ASSETS</b>		
Cash and due from banks	\$22,405	\$19,409
Interest-earning deposits in other banks	30,123	24,467
Federal funds sold	428	928
Total cash and cash equivalents	52,956	44,804
Available-for-sale investment securities (Amortized cost of \$381,074 at December 31, 2012 and \$321,405 at December 31, 2011)	393,965	328,413
Loans, less allowance for credit losses of \$10,133 at December 31, 2012 and \$11,396 at December 31, 2011	385,185	415,999
Bank premises and equipment, net	6,252	5,872
Bank owned life insurance	12,163	11,655
Federal Home Loan Bank stock	3,850	2,893
Goodwill	23,577	23,577
Core deposit intangibles	583	783
Accrued interest receivable and other assets	11,697	15,027
Total assets	\$890,228	\$849,023
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Non-interest bearing	\$240,169	\$208,025
Interest bearing	511,263	504,961
Total deposits	751,432	712,986
Short-term borrowings	4,000	—
Long-term debt	—	4,000
Junior subordinated deferrable interest debentures	5,155	5,155
Accrued interest payable and other liabilities	11,976	19,400
Total liabilities	772,563	741,541
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Preferred stock, no par value, \$1,000 per share liquidation preference; 10,000,000 shares authorized, Series C, issued and outstanding: 7,000 shares at December 31, 2012 and December 31, 2011	7,000	7,000
Common stock, no par value; 80,000,000 shares authorized; issued and outstanding: 9,558,746 at December 31, 2012 and 9,547,816 at December 31, 2011	40,583	40,552
Retained earnings	62,496	55,806
Accumulated other comprehensive income, net of tax	7,586	4,124
Total shareholders' equity	117,665	107,482
Total liabilities and shareholders' equity	\$890,228	\$849,023

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

Table of ContentsCENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2012, 2011, and 2010

(In thousands, except per share amounts)

	2012	2011	2010	
Interest income:				
Interest and fees on loans	\$23,913	\$26,098	\$27,390	
Interest on deposits in other banks	108	187	110	
Interest on Federal funds sold	2	2	2	
Interest and dividends on investment securities:				
Taxable	3,289	4,548	5,472	
Exempt from Federal income taxes	4,508	3,464	3,039	
Total interest income	31,820	34,299	36,013	
Interest expense:				
Interest on deposits	1,630	2,662	3,713	
Interest on junior subordinated deferrable interest debentures	107	100	102	
Other	146	180	468	
Total interest expense	1,883	2,942	4,283	
Net interest income before provision for credit losses	29,937	31,357	31,730	
Provision for credit losses	700	1,050	3,800	
Net interest income after provision for credit losses	29,237	30,307	27,930	
Non-interest income:				
Service charges	2,774	2,903	3,225	
Appreciation in cash surrender value of bank owned life insurance	391	382	392	
Loan placement fees	631	274	300	
Gain on disposal of other real estate owned	12	615	176	
Net realized gain (loss) on sale of assets	4	(5	) (10	)
Net realized gains (losses) on sales and calls of investment securities	1,639	298	(191	)
Other-than-temporary impairment loss:				
Total impairment loss	—	(31	) (1,587	)
Loss recognized in other comprehensive income	—	—	—	
Net impairment loss recognized in earnings	—	(31	) (1,587	)
Federal Home Loan Bank dividends	36	9	11	
Other income	1,755	1,826	1,395	
Total non-interest income	7,242	6,271	3,711	
Non-interest expenses:				
Salaries and employee benefits	15,597	15,762	14,871	
Occupancy and equipment	3,578	3,795	3,867	
Regulatory assessments	652	845	1,191	
Data processing expense	1,125	1,178	1,197	
Advertising	558	735	669	
Audit and accounting fees	514	491	496	
Legal fees	185	335	495	
Merger expenses	284	—	—	
Other real estate owned	78	15	1,071	
Amortization of core deposit intangibles	200	414	414	
Other expense	4,503	4,670	4,460	
Total non-interest expenses	27,274	28,240	28,731	
Income before provision for (benefit from) income taxes	9,205	8,338	2,910	

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Provision for (benefit from) income taxes	1,685	1,861	(369	)
Net income	\$7,520	\$6,477	\$3,279	
Net income	\$7,520	\$6,477	\$3,279	
Preferred stock dividends and accretion	350	486	395	
Net income available to common shareholders	\$7,170	\$5,991	\$2,884	
Basic earnings per common share	\$0.75	\$0.63	\$0.31	
Diluted earnings per common share	\$0.75	\$0.63	\$0.31	
Cash dividends per common share	\$0.05	\$—	\$—	

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



Table of ContentsCENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOMEFor the Years Ended December 31, 2012, 2011, and 2010  
(In thousands)

	2012	2011	2010
Net income	\$7,520	\$6,477	\$3,279
Other Comprehensive Income:			
Unrealized gains on securities:			
Unrealized holding gains	7,522	5,632	2,290
Less: reclassification for net gains (losses) included in net income	1,639	267	(1,778 )
Other comprehensive income, before tax	5,883	5,365	4,068
Tax expense related to items of other comprehensive income	(2,421 )	(2,208 )	(1,646 )
Total other comprehensive income	3,462	3,157	2,422
Comprehensive income	\$10,982	\$9,634	\$5,701

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

Table of ContentsCENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2012, 2011, and 2010

(In thousands, except share amounts)

	Preferred Stock		Common Stock				Retained Earnings	Accumulated Other Comprehensive Income (Loss) (Net of Taxes)	Total Share-holders' Equity		
	Series A	Series B	Series C	Series C	Common Stock	Common Stock					
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, January 1, 2010	7,000	\$6,819	1,359	\$1,317	—	\$—	8,949,754	\$37,611	\$46,931	\$(1,455)	\$91,223
Net income	—	—	—	—	—	—	—	—	3,279	—	3,279
Net change in unrealized gain on available-for-sale investment securities	—	—	—	—	—	—	—	—	—	2,422	2,422
Conversion of preferred stock Series B, non-voting	—	—	(1,359)	(1,317)	—	—	258,862	1,317	—	—	—
Stock-based compensation expense	—	—	—	—	—	—	—	239	—	—	239
Stock options exercised and related tax benefit	—	—	—	—	—	—	159,400	578	—	—	578
Preferred stock dividends and accretion	—	45	—	—	—	—	—	—	(395)	—	(350)
Balance, December 31, 2010	7,000	6,864	—	—	—	—	9,368,016	39,745	49,815	967	97,391
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

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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

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

Table of ContentsCENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2012, 2011, and 2010

(In thousands)

	2012	2011	2010	
Cash flows from operating activities:				
Net income	\$7,520	\$6,477	\$3,279	
Adjustments to reconcile net income to net cash provided by operating activities:				
Net (decrease) increase in deferred loan fees	(311	) 266	107	
Depreciation	972	1,212	1,262	
Accretion	(713	) (715	) (983	)
Amortization	7,549	3,590	2,014	
Stock-based compensation	108	196	239	
Excess tax benefit from exercise of stock options	(26	) (116	) (28	)
Provision for credit losses	700	1,050	3,800	
Net other than temporary impairment losses on investment securities	—	31	1,587	
Net realized (gains) losses on sales and calls of available-for-sale investment securities	(1,639	) (298	) 191	
Net (gain) loss on sale and disposal of equipment	(4	) 5	10	
Net gain on sale of other real estate owned	(12	) (615	) (66	)
Write down of other real estate owned and other property	—	—	638	
Increase in bank owned life insurance, net of expenses	(391	) (204	) (392	)
Net gain on bank owned life insurance	—	(85	) —	
Net (increase) decrease in accrued interest receivable and other assets	(19	) (700	) 3,281	
Net decrease in prepaid FDIC Assessments	513	705	981	
Net (decrease) increase in accrued interest payable and other liabilities	(7,425	) 8,515	594	
Provision (benefit) for deferred income taxes	440	1,270	(2,337	)
Net cash provided by operating activities	7,262	20,584	14,177	
Cash Flows From Investing Activities:				
Purchases of available-for-sale investment securities	(194,583	) (214,569	) (39,985	)
Proceeds from sales or calls of available-for-sale investment securities	39,119	44,700	19,594	
Proceeds from maturity and principal repayment of available-for-sale investment securities	90,798	35,951	28,058	
Net decrease in loans	28,089	2,815	21,214	
Proceeds from sale of other real estate owned	2,349	2,472	4,203	
Purchases of premises and equipment	(1,353	) (1,246	) (595	)
Purchases of bank owned life insurance	(116	) —	—	
FHLB stock (purchased) redeemed	(957	) 157	90	
Proceeds from bank owned life insurance	—	146	—	
Proceeds from sale of premises and equipment	5	—	5	
Net cash (used in) provided by investing activities	(36,649	) (129,574	) 32,584	
Cash Flows From Financing Activities:				
Net increase in demand, interest-bearing and savings deposits	53,265	87,928	33,877	
Net decrease in time deposits	(14,819	) (25,437	) (23,548	)
Repayments of short-term borrowings to Federal Home Loan Bank	—	(10,000	) (5,000	)
Purchase and retirement of common stock	(488	) —	—	
Proceeds from exercise of stock options	385	680	550	
Repurchase of common stock warrant	—	(185	) —	

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Excess tax benefit from exercise of stock options	26	116	28
Cash dividend payments on common stock	(480	) —	—
Cash dividend payments on preferred stock	(350	) (307	) (349 )
Net cash provided by financing activities	37,539	52,795	5,558
Increase (decrease) in cash and cash equivalents	8,152	(56,195	) 52,319
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	44,804	100,999	48,680
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$52,956	\$44,804	\$100,999

Table of ContentsCENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(continued)

For the Years Ended December 31, 2012, 2011, and 2010

(In thousands)

	2012	2011	2010
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	\$1,939	\$3,186	\$4,485
Income taxes	\$1,193	\$826	\$301
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	\$2,337	\$244	\$3,467
Assumption of other real estate owned liabilities	\$—	\$288	\$—
Transfer of loans to other assets	\$—	\$209	\$—
Accrued preferred stock dividends	\$88	\$88	\$45

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

Table of Contents

Central Valley Community Bancorp and Subsidiary  
Notes to 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 17 full service offices in Clovis, Fresno, Kerman, Lodi, Madera, Merced, Modesto, Oakhurst, Prather, Sacramento, Stockton, and Tracy, California. The Bank’s primary source of revenue is providing loans to customers who are predominately small and middle-market businesses and individuals.

The deposits of the Bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to applicable legal limits. The FDIC’s unlimited deposit insurance coverage on non-interest bearing transaction accounts mandated by the Dodd-Frank Act ended December 31, 2012. This coverage replaced the unlimited coverage under the Transaction Account Guarantee Program (“TAG”) and was confined to non-interest bearing accounts. Although the temporary coverage excluded interest-bearing NOW accounts, it did include interest on Lawyers Trust Accounts (IOLTAs).

Beginning January 1, 2013, 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 financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The allowance for credit losses, deferred taxes assets and fair values of financial instruments are estimates which are particularly subject to change.

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

Investment Securities - Investments are classified into the following categories:

• Available-for-sale securities, reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.

• Held-to-maturity securities, which management has the positive intent and ability to hold to maturity, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.



Table of Contents

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, 2012 and December 31, 2011, there were no transfers between categories. At December 31, 2012 and 2011, the Company had no held-to-maturity securities.

Gains or losses on the sale of investment securities are computed on the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums. Premiums and discounts on securities are amortized or accreted on the level yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. An investment security is impaired when its carrying value is greater than its fair value. Investment securities that are impaired are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether such a decline in their fair value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Company to retain its investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary, and management does not intend to sell the security or it is more likely than not that the Company will not be required to sell the security before recovery, 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. 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 is an estimate of probable credit losses inherent in the Company's loan portfolio that have been incurred as of the balance-sheet date. The allowance is established through a provision for credit losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance. The overall allowance consists of two primary components, specific reserves related to impaired loans and general reserves for inherent losses related to loans that are not impaired.

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

## Table of Contents

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.

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 16 quarters, internal asset classifications, and qualitative factors including economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan portfolio, and probable losses inherent in the portfolio taken as a whole.

The Company maintains a separate allowance for each portfolio segment. These portfolio segments include commercial, real estate, and consumer loans. The relative significance of risk considerations vary by portfolio segment. For commercial and real estate loans, the primary risk consideration is a borrower's ability to generate sufficient cash flows to repay their loan. Secondary considerations include the creditworthiness of guarantors and the valuation of collateral. In addition to the creditworthiness of a borrower, the type and location of real estate collateral is an important risk factor for real estate loans. The primary risk considerations for consumer loans are a borrower's personal cash flow and liquidity, as well as collateral value. The allowance for credit losses attributable to each portfolio segment, which includes both impaired loans and loans that are not impaired, is combined to determine the Company's overall allowance, which is included on the consolidated balance sheet.

The Company assigns a risk rating to all loans, 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 2012. 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 risk and qualitative reserve factors are inherently subjective and are driven by the repayment risk associated with each class of loans described below.

Table of Contents

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 production 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 Financial Institutions, as an integral part of their examination process, review the adequacy of the allowance. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

Bank Premises and Equipment - Land is carried at cost. Bank premises and equipment are carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of Bank premises are estimated to be between twenty and forty years. The useful lives of improvements to Bank premises, furniture, fixtures and equipment are estimated to be three to ten years. Leasehold improvements are amortized over the life of the asset or the term of the related lease, whichever is shorter. When assets are sold or otherwise disposed of,

## Table of Contents

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, 2012 and 2011 was \$23,577,000 consisting of \$14,643,000 and \$8,934,000 representing the excess of the cost of 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 2012, so goodwill was not required to be retested.

**Intangible Assets** - The intangible assets at December 31, 2012 represent the estimated fair value of the core deposit relationships acquired in the acquisition of Service 1st Bank in 2008 of \$1,400,000 and the 2005 acquisition of Bank of Madera County of \$1,500,000. Core deposit intangibles are being amortized using the straight-line method over an estimated life of seven years from the date of acquisition. The carrying value of intangible assets at December 31, 2012 was \$583,000, net of \$2,317,000 in accumulated amortization expense. The carrying value at December 31, 2011 was \$783,000, net of \$2,117,000 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, 2012 and determined no impairment was necessary. Amortization expense recognized was \$200,000 for 2012 and \$414,000 for 2011 and 2010. The estimated aggregate amortization expense for each of the three succeeding fiscal years is estimated to be \$200,000 for 2013 and 2014, and \$183,000 for 2015.

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

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.



Table of Contents

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, 2012, 2011, and 2010 were \$26,000, \$116,000, and \$28,000, 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 2. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Reclassifications - Some items in the prior 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

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

72

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## Table of Contents

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This ASU represents the converged guidance of the FASB and the International Accounting Standards Board (IASB) (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term “fair value.” The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The amendments to the FASB Accounting Standards Codification (Codification) in this ASU are to be applied prospectively. The additional disclosures are presented in Note 2: Fair Value Measurements. These new disclosure requirements were adopted by the Company in the first quarter of 2012, and did not have a material impact on the Company’s financial position, results of operations or cash flows.

### Presentation of Comprehensive Income

In June 2011, FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This ASU amends the FASB Accounting Standards Codification (Codification) to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders’ equity. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The Company adopted this standard on January 1, 2012. The Company elected to present comprehensive income as a separate Statement of Comprehensive Income. Adoption of the standard did not have a material impact on the Company’s financial position, results of operations or cash flows. 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 additional detail about those amounts. ASU 13-02 is effective prospectively for annual and interim periods beginning after December 15, 2012. The adoption of this ASU did not have a material impact on the Company’s financial position, results of operations, or cash flows.

## 2. 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.

Table of Contents

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

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

(In thousands)	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

  

(In thousands)	December 31, 2011	
	Carrying Amount	Fair Value
Financial assets:		
Cash and due from banks	\$19,409	\$19,409
Interest-earning deposits in other banks	24,467	24,467
Federal funds sold	928	928
Available-for-sale investment securities	328,413	328,413
Loans, net	415,999	418,084
Federal Home Loan Bank stock	2,893	N/A
Accrued interest receivable	3,953	3,953
Financial liabilities:		
Deposits	712,986	719,673
Long-term borrowings	4,000	4,146
Junior subordinated deferrable interest debentures	5,155	2,706
Accrued interest payable	230	230

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:

74

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Table of Contents

(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. 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) 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 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.

(f) 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.

(g) 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.

(h) 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.

(i) 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, 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).

75

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Table of Contents

Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale investment 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. 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, 2012, no transfers between levels occurred.

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 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.

Description	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

Table of Contents

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 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 provision for loan losses of \$19,000 for the year ended December 31, 2012.

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

## Recurring Basis

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

Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities				
Debt Securities:				
U.S. Government agencies	\$ 149	\$—	\$ 149	\$—
Obligations of states and political subdivisions	108,431	—	108,431	—
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	204,544	—	204,544	—
Private label residential mortgage backed securities	7,398	—	7,398	—
Other equity securities	7,891	7,891	—	—
Total assets measured at fair value on a recurring basis	\$ 328,413	\$ 7,891	\$ 320,522	\$—

Securities in Level 1 are mutual funds and fair values are based on quoted market prices for identical instruments traded in active markets. Fair values for available-for-sale investment securities in Level 2 are based on quoted market prices for similar securities 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, 2011. Also there were no liabilities measured at fair value on a recurring basis at December 31, 2011.

## Non-recurring Basis

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a non-recurring basis. These include 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, 2011 (in thousands).

Table of Contents

Description	Fair Value	Level 1	Level 2	Level 3
Impaired loans:				
Commercial:				
Commercial and industrial	\$2,312	\$—	\$—	\$2,312
Total commercial	2,312	—	—	2,312
Real estate:				
Owner occupied	873	—	—	873
Real estate-construction and other land loans	8,782	—	—	8,782
Commercial real estate	1,487	—	—	1,487
Total real estate	11,142	—	—	11,142
Consumer:				
Equity loans and lines of credit	2,003	—	—	2,003
Consumer and installment	51	—	—	51
Total consumer	2,054	—	—	2,054
Total impaired loans	15,508	—	—	15,508
Total assets measured at fair value on a non-recurring basis	\$15,508	\$—	\$—	\$15,508

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. There were no changes in valuation techniques used during the year ended December 31, 2011. Collateral dependent impaired loans with a carrying value of \$19,876,000 were written down to their fair value of \$15,508,000 resulting in an impairment charge of \$4,368,000. 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, 2011.

### 3. INVESTMENT SECURITIES

The fair value of the available-for-sale investment portfolio reflected an unrealized gain of \$12,891,000 at December 31, 2012 compared to an unrealized gain of \$7,008,000 at December 31, 2011. The unrealized gain recorded is net of \$5,305,000 and \$2,884,000 in tax liabilities as accumulated other comprehensive income within shareholders' equity at December 31, 2012 and 2011, respectively.

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

Table of Contents

	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

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

Investment securities with unrealized losses at December 31, 2012 and 2011 are summarized and classified according to the duration of the loss period as follows (in thousands):

	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

Table of Contents

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

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. 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, 2012, 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, 2012, and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at December 31, 2012 greater than 10% of the recorded book value on that date, or which had an unrealized loss of more than \$10,000.

Management also analyzed any securities that may have been down graded by credit rating agencies. Management retained the services of a third party in December 2012 to provide independent valuation and OTTI analysis of the private label residential mortgage backed securities (PLRMBS).

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

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

To assess whether it expects to recover the entire amortized cost basis of its PLRMBS, the Company performed a cash flow analysis for all of its PLRMBS as of December 31, 2012. In performing the cash flow analysis for each security, the Company uses a third-party model. The model considers borrower characteristics and the particular attributes of the loans underlying the Company's securities, in conjunction with assumptions about future changes in home prices and other assumptions, to project prepayments, default rates, and loss severities.

The month-by-month projections of future loan performance are allocated to the various security classes in each securitization structure in accordance with the structure's prescribed cash flow and loss allocation rules. When the credit enhancement for the senior securities in a securitization is derived from the presence of subordinated securities,

losses are allocated first to the subordinated securities until their principal balance is reduced to zero. The projected cash flows are based on a number of assumptions and expectations, and the results of these models can vary significantly with changes in assumptions and expectations. The scenario of cash flows determined based on the model approach described above reflects a best-estimate scenario.

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

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

Table of Contents

protection provided by subordinated tranches), the Company expects to recover the entire amortized cost basis of these securities, with the exception of certain securities for which OTTI was previously recorded.

**U.S. Government Agencies** - At December 31, 2012, the Company held four U.S. Government agency securities of which two were in a loss position for less than 12 months and none 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 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, 2012.

**Obligations of States and Political Subdivisions** - At December 31, 2012, the Company held 196 obligations of states and political subdivision securities of which 21 were in a loss position for less than 12 months and none 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, 2012.

**U.S. Government Sponsored Entities and Agencies Collateralized by Residential Mortgage Obligations** - At December 31, 2012, the Company held 200 U.S. Government sponsored entity and agency securities collateralized by residential mortgage obligation securities of which 50 were in a loss position for less than 12 months and 21 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, 2012.

**Private Label Residential Mortgage Backed Securities** - At December 31, 2012, the Company had a total of 23 PLRMBS with a remaining principal balance of \$6,258,000 and a net unrealized gain of approximately \$117,000. 17 of these securities account for \$323,000 of the unrealized gains at December 31, 2012, offset by six of these securities with losses totaling \$206,000. Seven of these PLRMBS with a remaining principal balance of \$4,806,000 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, 2012.

PLRMBS as of December 31, 2012 with credit ratings below investment grade are summarized in the table below (dollars in thousands):

Description	Book Value	Market Value	Unrealized Gain (Loss)	Rating	Agency	12 Month Historical Prepayment Rates %	Projected CDR Rates %	Projected Severity Rates %	Original Purchase Price %	Current Credit Enhancement %
PHHAM	\$1,866	\$1,798	\$(68 )	D	Fitch	11.58	22.40	51.00	97.25	—
CWALT 1	638	625	(13 )	D	Fitch	15.38	11.21	65.59	100.73	—
CWALT 2	285	252	(33 )	D	Fitch	16.96	12.54	62.99	101.38	(0.72 )
FHAMS	1,673	1,826	153	D	Fitch	13.48	17.30	48.50	95.00	(0.66 )



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BAALT	65	50	(15	)	C	Fitch	12.55	12.40	65.50	97.24	2.70
ABFS	235	159	(76	)	D	S&P	8.28	8.85	50.64	97.46	—
CONHE	44	68	24		Caa2	Moody's	13.00	6.12	67.33	86.39	—
	\$4,806	\$4,778	\$(28	)							

Proceeds and gross realized gains (losses) on investment securities for the years ended December 31, 2012, 2011, and 2010 are shown below.

81

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Table of Contents

(In thousands)	Years Ended December 31,		
	2012	2011	2010
Available-for-Sale Securities			
Proceeds from sales or calls	\$39,119	\$44,700	\$19,594
Gross realized gains from sales or calls	\$2,121	\$1,119	\$296
Gross realized losses from sales or calls	\$(482	) \$(821	) \$(487

The Company did not have any held-to-maturity securities during the years ended December 31, 2012 or 2011. The following tables provide a roll forward for the years ended December 31, 2012 and 2011 of investment securities credit losses recorded in earnings. The beginning balance represents the credit loss component for which OTTI occurred on debt securities in prior periods. Additions represent the first time a debt security was credit impaired or when subsequent credit impairments have occurred on securities for which OTTI credit losses have been previously recognized.

(In thousands)	Years ended December 31,	
	2012	2011
Beginning balance	\$783	\$1,387
Amounts related to credit loss for which an OTTI charge was not previously recognized	—	31
Increases to the amount related to credit loss for which OTTI was previously recognized	—	—
Realized losses for securities sold	—	(635
Ending balance	\$783	\$783

The amortized cost and estimated fair value of investment securities at December 31, 2012 and 2011 by contractual maturity are shown below (in thousands). Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

December 31, 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
	\$381,074	\$393,965

Table of Contents

December 31, 2011	Amortized Cost	Estimated Fair Value
Within one year	\$569	\$574
After one year through five years	8,705	9,480
After five years through ten years	20,553	22,179
After ten years	71,352	76,347
	101,179	108,580
Investment securities not due at a single maturity date:		
U.S. Government agencies	—	—
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	204,222	204,544
Private label residential mortgage backed securities	8,408	7,398
Other equity securities	7,596	7,891
Total	\$321,405	\$328,413

Investment securities with amortized costs totaling \$81,245,000 and \$102,527,000 and fair values totaling \$89,343,000 and \$109,119,000 were pledged as collateral for borrowing arrangements, public funds and for other purposes at December 31, 2012 and 2011, respectively.

Table of Contents

## 4. LOANS

Outstanding loans are summarized as follows (in thousands):

Loan Type	December 31, 2012	% of Total loans	December 31, 2011	% of Total loans	
Commercial:					
Commercial and industrial	\$77,956	19.7	% \$78,089	18.3	%
Agricultural land and production	26,599	6.7	% 29,958	7.0	%
Total commercial	104,555	26.4	% 108,047	25.3	%
Real estate:					
Owner occupied	114,444	28.9	% 113,183	26.4	%
Real estate construction and other land loans	33,199	8.4	% 33,047	7.7	%
Commercial real estate	53,797	13.6	% 62,523	14.6	%
Agricultural real estate	28,400	7.2	% 42,596	9.9	%
Other real estate	8,098	2.0	% 7,892	1.8	%
Total real estate	237,938	60.1	% 259,241	60.4	%
Consumer:					
Equity loans and lines of credit	42,932	10.9	% 51,106	12.0	%
Consumer and installment	10,346	2.6	% 9,765	2.3	%
Total consumer	53,278	13.5	% 60,871	14.3	%
Deferred loan fees, net	(453 )		(764 )		
Total gross loans	395,318	100.0	% 427,395	100.0	%
Allowance for credit losses	(10,133 )		(11,396 )		
Total loans	\$385,185		\$415,999		

At December 31, 2012 and 2011, loans originated under Small Business Administration (SBA) programs totaling \$5,586,000 and \$6,421,000, respectively, were included in the real estate and commercial categories. Approximately \$90,601,000 in loans were pledged under a blanket lien as collateral to the FHLB for the Bank's remaining borrowing capacity of \$129,034,000 as of December 31, 2012. 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 \$754,000, \$229,000, and \$305,000 have been deferred as loan origination costs for the years ended December 31, 2012, 2011, and 2010, respectively.

## 5. ALLOWANCE FOR CREDIT LOSSES

Changes in the allowance for credit losses were as follows:

(In thousands)	Years Ended December 31,		
	2012	2011	2010
Balance, beginning of year	\$11,396	\$11,014	\$10,200
Provision charged to operations	700	1,050	3,800
Losses charged to allowance	(2,850 )	(1,532 )	(4,122 )
Recoveries	887	864	1,136
Balance, end of year	\$10,133	\$11,396	\$11,014

Table of Contents

The following table shows the summary of activities for the allowance for credit losses as of and for the years ended December 31, 2012 and 2011 by portfolio segment (in thousands):

	Commercial	Real Estate	Consumer	Unallocated	Total
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
Allowance for credit losses:					
Beginning balance, January 1, 2011	\$ 2,437	\$ 5,836	\$ 2,503	\$ 238	\$ 11,014
Provision charged to operations	(177)	1,403	(77)	(99)	1,050
Losses charged to allowance	(280)	(312)	(940)	—	(1,532)
Recoveries	286	228	350	—	864
Ending balance, December 31, 2011	\$ 2,266	\$ 7,155	\$ 1,836	\$ 139	\$ 11,396

The following is a summary of the allowance for credit losses by impairment methodology and portfolio segment as of December 31, 2012 and December 31, 2011 (in thousands):

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
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
Ending balance, December 31, 2011					
Ending balance: individually evaluated for impairment	\$ 231	\$ 3,764	\$ 373	\$ —	\$ 4,368
Ending balance: collectively evaluated for impairment	\$ 2,035	\$ 3,391	\$ 1,463	\$ 139	\$ 7,028

The following table shows the ending balances of loans as of December 31, 2012 and December 31, 2011 by portfolio segment and by impairment methodology (in thousands):

	Commercial	Real Estate	Consumer	Total
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
Loans:				
Ending balance, December 31, 2011	\$ 108,047	\$ 259,241	\$ 60,871	\$ 428,159
Ending balance: individually evaluated for impairment	\$ 3,857	\$ 17,359	\$ 2,428	\$ 23,644
Ending balance: collectively evaluated for impairment	\$ 104,190	\$ 241,882	\$ 58,443	\$ 404,515

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



Table of Contents

	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

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

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

Table of Contents

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

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



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Total	\$ 1,741	\$74	\$3,999	\$ 5,814	\$422,345	\$428,159	\$—	\$14,434
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87

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Table of Contents

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.

Table of Contents

The following table shows information related to impaired loans by class at December 31, 2011 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial:			
Commercial and industrial	\$2,140	\$2,160	\$—
Agricultural land and production	—	—	—
Total commercial	2,140	2,160	—
Real estate:			
Owner occupied	231	243	—
Real estate construction and other land loans	1,532	1,906	—
Commercial real estate	1,801	1,801	—
Agricultural real estate	—	—	—
Other real estate	—	—	—
Total real estate	3,564	3,950	—
Consumer:			
Equity loans and lines of credit	—	—	—
Consumer and installment	—	—	—
Total consumer	—	—	—
Total with no related allowance recorded	5,704	6,110	—
With an allowance recorded:			
Commercial:			
Commercial and industrial	1,717	1,718	231
Agricultural land and production	—	—	—
Total commercial	1,717	1,718	231
Real estate:			
Owner occupied	1,141	1,216	268
Real estate construction and other land loans	10,911	11,490	2,130
Commercial real estate	1,743	1,743	1,366
Agricultural real estate	—	—	—
Other real estate	—	—	—
Total real estate	13,795	14,449	3,764
Consumer:			
Equity loans and lines of credit	2,354	2,581	350
Consumer and installment	74	74	23
Total consumer	2,428	2,655	373
Total with an allowance recorded	17,940	18,822	4,368
Total	\$23,644	\$24,932	\$4,368

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

Table of Contents

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, 2012 and 2011 (in thousands):

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial:				
Commercial and industrial	\$ 952	\$ —	\$ 544	\$ —
Agricultural land and production	—	—	—	—
Total commercial	952	—	544	—
Real estate:				
Owner occupied	1,053	—	1,100	—
Real estate construction and other land loans	4,933	—	1,690	—
Commercial real estate	301	—	1,591	—
Agricultural real estate	—	—	—	—
Other real estate	—	—	—	—
Total real estate	6,287	—	4,381	—
Consumer:				
Equity loans and lines of credit	1,561	—	357	—
Consumer and installment	6	—	—	—
Total consumer	1,567	—	357	—
Total with no related allowance recorded	9,486	—	5,282	—
With an allowance recorded:				
Commercial:				
Commercial and industrial	1,624,000	178,000	721,000	—
Agricultural land and production	1,581	226	505	181
Total commercial	1,581	226	505	181
Real estate:				
Owner occupied	633	—	1,193	—
Real estate construction and other land loans	6,490	375	6,544	230
Commercial real estate	145	—	849	—
Agricultural real estate	—	—	—	—
Other real estate	—	—	—	—
Total real estate	7,268	375	8,586	230
Consumer:				
Equity loans and lines of credit	600	—	1,640	—
Consumer and installment	37	—	101	—
Total consumer	637	—	1,741	—
Total with an allowance recorded	9,486	601	10,832	411
Total	\$ 18,972	\$ 601	\$ 16,114	\$ 411

Foregone interest on nonaccrual loans totaled \$693,000, \$954,000, and \$1,228,000 for the years ended December 31, 2012, 2011, and 2010, respectively.



Table of Contents

## Troubled Debt Restructurings:

As of December 31, 2012 and 2011, the Company has a recorded investment in troubled debt restructurings of \$16,655,000 and \$19,811,000, respectively. The Company has allocated \$487,000 and \$3,217,000 of specific reserves for those loans at December 31, 2012 and 2011, respectively. The Company has committed to lend additional amounts totaling up to \$700,000 as of December 31, 2012 to customers with outstanding loans that are classified as troubled debt restructurings.

For the years ending December 31, 2012 and 2011 the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan or an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk. During the same periods, there were no troubled debt restructurings in which the amount of principal or accrued interest owed from the borrower were forgiven.

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

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

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

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

- (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 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 is zero at December 31, 2012. The troubled debt restructurings described above resulted in an increase to the specific reserves added to the allowance for credit losses of \$152,000 during the year ending December 31, 2012 compared to \$1,471,000 in specific reserves added to

Table of Contents

the allowance for credit losses during the year ending December 31, 2011. The commercial real estate restructured debt outstanding at December 31, 2011 was charged off and transferred to other real estate owned the first quarter of 2012. The property has subsequently been sold. Only one other restructured debt outstanding at December 31, 2011 reported above under real estate owner occupied was charged off during 2012.

**6. BANK PREMISES AND EQUIPMENT**

Bank premises and equipment consisted of the following:

(In thousands)	December 31,	
	2012	2011
Land	\$838	\$838
Buildings and improvements	3,362	3,354
Furniture, fixtures and equipment	8,351	7,813
Leasehold improvements	3,804	3,599
	16,355	15,604
Less accumulated depreciation and amortization	(10,103 )	(9,732 )
	\$6,252	\$5,872

Depreciation and amortization included in occupancy and equipment expense totaled \$972,000, \$1,212,000 and \$1,262,000 for the years ended December 31, 2012, 2011, and 2010, respectively.

**7. OTHER REAL ESTATE OWNED**

The Company had no other real estate owned (OREO) at December 31, 2012 and 2011. The table below provides a summary of the change in other real estate owned (OREO) balances for the years ended December 31, 2012 and 2011.

(In thousands)	December 31,	
	2012	2011
Balance, Beginning of year	\$—	\$1,325
Additions	2,337	532
Dispositions	(2,349 )	(2,472 )
Write-downs	—	—
Net gain on disposition	12	615
Balance, End of year	\$—	\$—

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. Two of the properties the Bank foreclosed on were mini storage facilities which were collateralized by real estate with net realizable values totaling \$2,098,000. The Company realized losses of \$6,000 on the sale of the properties. The Bank received income of \$90,000 during 2012 from operations of the storage facilities.

As of December 31, 2011 the Bank had no OREO properties. In 2011, the Bank foreclosed on three properties collateralized by real estate. During the year ended December 31, 2011, the remaining 12 units of the medical office condominium projects held at the end of 2010 along with the three other properties were sold. Proceeds from OREO sales totaled \$2,472,000 during 2011. The Company realized a \$615,000 net recovery from the sale of all units.



Table of Contents

## 8. DEPOSITS

Interest-bearing deposits consisted of the following:

(In thousands)	December 31,	
	2012	2011
Savings	\$39,573	\$31,267
Money market	173,486	181,731
NOW accounts	161,328	140,268
Time, \$100,000 or more	91,880	102,577
Time, under \$100,000	44,996	49,118
	\$511,263	\$504,961

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

Years Ending December 31,	
2013	\$109,004
2014	8,572
2015	6,887
2016	1,505
2017	10,908
Thereafter	—
	\$136,876

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

(In thousands)	Years Ended December 31,		
	2012	2011	2010
Savings	\$32	\$47	\$52
Money market	392	692	1,035
NOW accounts	270	321	447
Time certificates of deposit	936	1,602	2,179
	\$1,630	\$2,662	\$3,713

## 9. 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, 2012	December 31, 2011	Rate	Maturity Date
Amount	Amount		
\$4,000	\$4,000	3.59	% February 12, 2013
4,000	4,000		
(4,000	) —	Less short-term portion	
\$—	\$4,000	Long-term debt	

FHLB advances are secured by investment securities with amortized costs totaling \$4,016,000 and \$15,272,000 and market values totaling \$4,225,000 and \$15,683,000 at December 31, 2012 and 2011, 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, 2012 and 2011, the Company had no Federal funds purchased.



Table of Contents

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, 2012 and \$44,000,000 at December 31, 2011, at interest rates which vary with market conditions. The Bank also had a line of credit in the amount of \$127,000 and \$551,000 with the Federal Reserve Bank of San Francisco at December 31, 2012 and 2011, respectively which bears interest at the prevailing discount rate collateralized by investment securities with amortized costs totaling \$115,000 and \$542,000 and market values totaling \$129,000 and \$562,000, respectively. At December 31, 2012 and 2011, the Bank had no outstanding short-term borrowings under these lines of credit.

**10. JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES**

Service 1st Capital Trust I is a Delaware business trust formed by Service 1st. The Company succeeded to all of the rights and obligations of Service 1st in connection with the merger with Service 1st as of November 12, 2008. The Trust was formed on August 17, 2006 for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by Service 1st. Under applicable regulatory guidance, the amount of trust preferred securities that is eligible as Tier 1 capital is limited to 25% of the Company's Tier 1 capital on a pro forma basis. At December 31, 2012, 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, 2012, the rate was 1.94%. Interest expense recognized by the Company for the years ended December 31, 2012, 2011, and 2010 was \$107,000, \$100,000 and \$102,000, respectively.

**11. INCOME TAXES**

The provision for (benefit from) income taxes for the years ended December 31, 2012, 2011, and 2010 consisted of the following:

(In thousands)	Federal	State	Total
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
Provision for income taxes	\$ 1,579	\$ 282	\$ 1,861
2010			

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Current	\$1,472	\$496	\$1,968
Deferred	(1,677	) (660	) (2,337
Benefit from income taxes	\$(205	) \$(164	) \$(369

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,

Table of Contents

based on the weight of the evidence, a valuation allowance is needed. Based on management's analysis as of December 31, 2011, the Company established a deferred tax valuation allowance in the amount of \$114,000 for California capital loss carryforwards. The balance of the allowance as of December 31, 2012, was \$110,000.

Deferred tax assets (liabilities) consisted of the following:

(In thousands)	December 31,	
	2012	2011
Deferred tax assets:		
Allowance for credit losses	\$4,170	\$4,690
Deferred compensation	3,832	3,660
Net operating loss carryover from acquisition	521	1,188
Bank premises and equipment	862	909
Mark to market adjustment	184	416
Other deferred taxes	253	231
Other than temporary impairment	282	282
Loan and investment impairment	352	352
State Enterprise Zone credit carry-forward	783	522
State capital loss carry-forward	110	114
Alternative minimum tax credit	1,025	530
State taxes	20	58
Other	7	—
Partnership income	77	74
Total deferred tax assets	12,478	13,026
Valuation allowance	(110)	(114)
Net deferred tax asset after valuation allowance	12,368	12,912
Deferred tax liabilities:		
Finance leases	(2,548)	(2,650)
Unrealized gain on available-for-sale investment securities	(5,305)	(2,884)
Core deposit intangible	(240)	(322)
FHLB stock	(241)	(241)
Loan origination costs	(256)	(176)
Total deferred tax liabilities	(8,590)	(6,273)
Net deferred tax assets	\$3,778	\$6,639

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, 2012, 2011, and 2010 consisted of the following:

	2012		2011		2010	
Federal income tax, at statutory rate	34.0		% 34.0		% 34.0	%
State taxes, net of Federal tax benefit	2.8		% 3.6		% (3.7)	)%
Tax exempt investment security income, net	(16.7)	)%	(14.0)	)%	(34.7)	)%
Bank owned life insurance, net	(1.4)	)%	(1.6)	)%	(4.6)	)%
Solar credits	(1.4)	)%	(1.6)	)%	(5.4)	)%
Change in uncertain tax positions	0.5		% 0.5		% (1.3)	)%
Other	0.5		% 1.4		% 3.0	%
Effective tax rate	18.3		% 22.3		% (12.7)	)%

At December 31, 2012, the Company had Federal and California net operating loss (“NOL”) carry-forwards of approximately \$1,110,000 and \$2,003,000, respectively. from the Service 1st acquisition, subject to an Internal Revenue Code (IRC) Sec. 382 annual limitation of \$1,133,000. Management expects to fully utilize the Service

1st Federal and California

95

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Table of Contents

NOL carry-forward. The Federal NOL will begin to expire in 2028. California suspended utilization of NOLs for 2009, 2010 and 2011 tax years for taxpayers with business income in excess of \$500,000. The California NOL will begin to expire in 2019.

The Company and its Subsidiary file income tax returns in the U.S. federal and California jurisdictions. The Company conducts all of its business activities in the State of California. As of December 31, 2012, the Company had one state income tax examination in process. The outcome of the examination is not settled. There are currently no pending U.S. federal or local income tax examinations by those taxing authorities. The Company is no longer subject to the examination by U.S. federal taxing authorities for the years ended before December 31, 2009 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, 2012	\$255
Additions based on tax positions related to the current year	61
Reductions for tax positions of prior years	—
Balance at December 31, 2012	\$316

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, 2012, 2011, and 2010, the Company did not recognize any interest and penalties related to uncertain tax positions.

## 12. COMMITMENTS AND CONTINGENCIES

Leases - The Bank leases certain of its branch facilities and administrative offices under noncancelable operating leases. Rental expense included in occupancy and equipment and other expenses totaled \$1,947,000, \$1,982,000 and \$1,922,000 for the years ended December 31, 2012, 2011, and 2010, respectively.

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

Years Ending December 31,	
2013	\$1,941
2014	1,897
2015	1,719
2016	1,272
2017	883
Thereafter	3,870
	\$11,582

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, 2012.

Correspondent Banking Agreements - The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. The Bank had no uninsured deposits at December 31, 2012.

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.

96

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Table of Contents

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

(In thousands)	December 31,	
	2012	2011
Commitments to extend credit	\$ 162,261	\$ 128,585
Standby letters of credit	\$ 590	\$ 420

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, 2012 and 2011. The Company recognizes these fees as revenue over the term of the commitment or when the commitment is used.

At December 31, 2012, commercial loan commitments represent 59% of total commitments and are generally secured by collateral other than real estate or unsecured. Real estate loan commitments represent 31% 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 10% of total commitments and are generally unsecured. In addition, the majority of the Bank's loan commitments have variable interest rates.

At December 31, 2012, the balance of a contingent allocation for probable loan loss experience on unfunded obligations was \$110,000. 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, 2011.

**Concentrations of Credit Risk** - 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 71.0% were real-estate-related.

At December 31, 2011, in management's judgment, a concentration of loans existed in commercial loans and real-estate-related loans, representing approximately 97.7% of total loans of which 25.3% were commercial and 72.4% were real-estate-related.

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

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

### 13. SHAREHOLDERS' EQUITY

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

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

Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Bank is also subject to additional capital guidelines under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage

Table of Contents

ratios as set forth in the following table. The most recent notification from the FDIC categorized the Bank as well capitalized under these guidelines. There are no conditions or events since that notification that management believes have changed the Bank's category.

Management 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 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 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.

Management believes that the Company and the Bank met all their capital adequacy requirements as of December 31, 2012 and 2011. There are no conditions or events since those notifications that management believes have changed those categories.

(Dollars in thousands)	December 31, 2012		December 31, 2011		
	Amount	Ratio	Amount	Ratio	
<b>Tier 1 Leverage Ratio</b>					
Central Valley Community Bancorp and Subsidiary	\$90,866	10.56	% \$82,571	10.13	%
Minimum regulatory requirement	\$34,418	4.00	% \$32,612	4.00	%
Central Valley Community Bank	\$87,911	10.22	% \$81,599	10.01	%
Minimum requirement for "Well-Capitalized" institution	\$42,994	5.00	% \$40,743	5.00	%
Minimum regulatory requirement	\$34,395	4.00	% \$32,594	4.00	%
<b>Tier 1 Risk-Based Capital Ratio</b>					
Central Valley Community Bancorp and Subsidiary	\$90,866	18.24	% \$82,571	16.20	%
Minimum regulatory requirement	\$19,926	4.00	% \$20,383	4.00	%
Central Valley Community Bank	\$87,911	17.67	% \$81,599	16.02	%
Minimum requirement for "Well-Capitalized" institution	\$29,848	6.00	% \$30,554	6.00	%
Minimum regulatory requirement	\$19,899	4.00	% \$20,369	4.00	%
<b>Total Risk-Based Capital Ratio</b>					
Central Valley Community Bancorp and Subsidiary	\$97,299	19.53	% \$89,136	17.49	%
Minimum regulatory requirement	\$39,853	8.00	% \$40,767	8.00	%
Central Valley Community Bank	\$94,336	18.96	% \$88,159	17.31	%
Minimum requirement for "Well-Capitalized" institution	\$49,747	10.00	% \$50,923	10.00	%
Minimum regulatory requirement	\$39,798	8.00	% \$40,738	8.00	%

Dividends - 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. The Bank would not pay any dividend that would cause it to be deemed not "well capitalized" under applicable banking laws and regulations. On October 17, 2012, the Board of Directors 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 or 2010.

The Company's primary source of income with which to pay cash dividends are dividends from the Bank. The California Financial Code restricts the total amount of dividends payable by a bank at any time without obtaining the prior approval of the California Department of Financial Institutions to the lesser of (1) the bank's retained earnings or (2) the bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. At December 31, 2012, retained earnings of \$15,504,000 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

Table of Contents

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. The Offering closed on December 23, 2009, and the Company issued an aggregate of 1,264,952 shares of its Common Stock and an aggregate of 1,359 shares of its Preferred Stock upon its receipt of consideration in cash. The Series B Preferred Stock was eligible to receive a semi-annual non-cumulative preferred dividend with an initial annualized coupon of 10%, payable at the end of the first six months the shares are outstanding. The annual dividend rate would have increased to 15% for the second six month period and 20% for each six month period thereafter. Dividends may not be paid on any other class or series of the Company's stock unless dividends are currently paid on the Preferred Stock in any period.

In May 2010, the shareholders of the Company approved an amendment to the Company's governing instruments to create a series of non-voting common stock. In June 2010, the Company exercised its option to require the Purchasers to exchange 1,359 shares of Series B Preferred Stock for 258,862 shares of non-voting common stock. In August, 2011, the Company agreed to exchange 258,862 shares of the Company's non-voting common stock to 258,862 shares of the Company's voting common stock. The issuance of voting common stock was conducted in a privately negotiated transaction exempt from registration pursuant to Sections 3(a)(9) and 4(2) of the Securities Act of 1933, as amended.

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

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

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

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

If dividends on the Preferred Shares are not paid in full for six dividend periods, whether or not consecutive, the holders of the Preferred Shares will have the right to elect 2 directors. The right to elect directors will end when full dividends have been paid for four consecutive dividend periods. The Company has paid all scheduled dividend payments as of December 31, 2012.



Table of Contents

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,		
	2012	2011	2010
<b>Basic Earnings Per Common Share:</b>			
Net income	\$7,520	\$6,477	\$3,279
Less: Preferred stock dividends and accretion	(350)	(486)	(395)
Income available to common shareholders	\$7,170	\$5,991	\$2,884
Weighted average shares outstanding	9,587,784	9,522,066	9,209,858
Net income per common share	\$0.75	\$0.63	\$0.31
<b>Diluted Earnings Per Common Share:</b>			
Net income	\$7,520	\$6,477	\$3,279
Less: Preferred stock dividends and accretion	(350)	(486)	(395)
Income available to common shareholders	\$7,170	\$5,991	\$2,884
Weighted average shares outstanding	9,587,784	9,522,066	9,209,858
Effect of dilutive stock options and warrants	28,629	16,596	80,813
Weighted average shares of common stock and common stock equivalents	9,616,413	9,538,662	9,290,671
Net income per diluted common share	\$0.75	\$0.63	\$0.31

Outstanding options and warrants of 352,319, 436,619, and 531,996 were not factored into the calculation of dilutive stock options at December 31, 2012, 2011, and 2010, respectively, because they were anti-dilutive.

#### 14. SHARED-BASED COMPENSATION

On December 31, 2012, 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 317,799 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 181,490 shares reserved for issuance for options already granted to employees and 292,960 remain reserved for future grants as of December 31, 2012. The 2005 plan requires that the exercise price may not be less than the fair market value of the stock at the date the option is granted, and that the option price must be paid in full at the time it is exercised. The options and awards under the plan expire on dates determined by the Board of Directors, but not later than 10 years from the date of grant. The vesting period for the options and option related stock appreciation rights is determined by the Board of Directors and is generally over five years.

In 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. No options to purchase shares of the Company's common stock were granted during the year

ending December 31, 2011 from any of the Company's stock based compensation plans. In 2010, options to purchase 15,200 shares of the Company's common stock were granted from the 2000 Plan at an exercise price of \$5.76 and options to purchase 67,800 shares of common stock were granted from the 2005 Plan at exercise prices between \$5.30 and \$5.76. 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



Table of Contents

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 estimates 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, 2012, 2011, and 2010, the compensation cost recognized for share based compensation was \$108,000, \$196,000, and \$239,000, respectively. The recognized tax benefit for share based compensation expense was \$16,000, \$36,000, and \$42,000 for 2012, 2011, and 2010, respectively.

A summary of the combined activity of the Plans for the year ended December 31, 2012 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, 2012	511,019			
Options granted	92,150	\$8.03		
Options exercised	(69,030)	) \$5.59		
Options forfeited	(34,850)	) \$9.91		
Options outstanding at December 31, 2012	499,289	\$8.78	4.61	\$ 284
Options vested or expected to vest at December 31, 2012	491,705	\$8.80	4.55	\$ 186
Options exercisable at December 31, 2012	358,279	\$9.40	2.91	\$ 181

Information related to the stock option plan during each year follows:

(In thousands, except per share amounts)	2012	2011	2010
Weighted-average per share grant-date fair value of options granted	\$3.40	\$—	\$2.58
Intrinsic value of options exercised	\$93	\$417	\$349
Cash received from options exercised	\$385	\$680	\$550
Excess tax benefit realized for option exercises	\$26	\$116	\$28

As of December 31, 2012, there was \$374,000 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 1.98 years. The total fair value of options vested was \$140,000 and \$123,000 for the years ended December 31, 2012 and 2011, respectively.

## 15. EMPLOYEE BENEFITS

401(k) and Profit Sharing Plan - The Bank has established a 401(k) and profit sharing plan. The 401(k) plan covers substantially all employees who have completed a six-month period in which they are credited with at least 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 \$210,000

and \$150,000 to the profit sharing plan in 2012 and 2011, respectively. The Bank did not contribute to the profit sharing plan in 2010.

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, 2012, 2011, and 2010, the Bank made a 100% matching contribution on all deferred amounts up to 3% of eligible compensation and a

Table of Contents

50% matching contribution on all deferred amounts above 3% to a maximum of 5%. For the years ended December 31, 2012, 2011, and 2010, the Bank made matching contributions totaling \$388,000, \$352,000, and \$336,000, 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 (3.32% at December 31, 2012). At December 31, 2012 and 2011, the total net deferrals included in accrued interest payable and other liabilities were \$1,978,000 and \$2,297,000, 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 \$3,308,000 and \$3,205,000 and at December 31, 2012 and 2011, respectively. Income recognized on these policies, net of related expenses, for the years ended December 31, 2012, 2011, and 2010, was \$103,000, \$98,000, and \$100,000, respectively.

**Salary Continuation Plans** - The Board of Directors approved salary continuation plans for certain key executives during 2002 and subsequently amended the plans in 2006. Under these plans, the Bank is obligated to provide the executives with annual benefits for fifteen years after retirement. These benefits are substantially equivalent to those available under split-dollar life insurance policies purchased by the Bank on the life of the executives. The expense recognized under these plans for the years ended December 31, 2012, 2011, and 2010, totaled \$658,000, \$341,000, and \$450,000, respectively. Accrued compensation payable under the salary continuation plans totaled \$4,339,000 and \$3,764,000 at December 31, 2012 and 2011, respectively.

In connection with these plans, the Bank purchased single premium life insurance policies with cash surrender values totaling \$4,659,000 and \$4,393,000 at December 31, 2012 and 2011, respectively. Income recognized on these policies, net of related expense, for the years ended December 31, 2012, 2011, and 2010 totaled \$150,000, \$144,000, and \$152,000, 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, 2012 and 2011, the total amount of the liability was \$1,807,000 and \$1,694,000, respectively. Expense recognized by the Bank in 2012, 2011 and 2010 associated with these plans was \$184,000, \$98,000, and \$95,000, 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 \$4,196,000, and \$4,057,000 at December 31, 2012 and 2011, respectively. Income recognized on these policies, net of related expenses, for the years ended December 31, 2012, 2011, and 2010, was \$150,000, \$140,000, and \$140,000, respectively.

The current annual tax-free interest rate on all life insurance policies is 5.17%.

## 16. LOANS TO RELATED PARTIES

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

Balance, January 1, 2012	\$919	
Disbursements	380	
Amounts repaid	(583	)
Balance, December 31, 2012	\$716	
Undisbursed commitments to related parties, December 31, 2012	\$464	

17. PARENT ONLY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS

December 31, 2012 and 2011  
(In thousands)

102

---

Table of Contents

	2012	2011
<b>ASSETS</b>		
Cash and cash equivalents	\$2,807	\$969
Investment in Bank subsidiary	119,812	111,357
Other assets	576	508
Total assets	\$123,195	\$112,834
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Junior subordinated debentures due to subsidiary grantor trust	\$5,155	\$5,155
Other liabilities	375	197
Total liabilities	5,530	5,352
Shareholders' equity:		
Preferred stock, Series C	7,000	7,000
Common stock	40,583	40,552
Retained earnings	62,496	55,806
Accumulated other comprehensive income, net of tax	7,586	4,124
Total shareholders' equity	117,665	107,482
Total liabilities and shareholders' equity	\$123,195	\$112,834

Table of Contents

## CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the Years Ended December 31, 2012, 2011, and 2010  
(In thousands)

	2012	2011	2010	
Income:				
Dividends declared by Subsidiary - eliminated in consolidation	\$3,000	\$—	\$—	
Other income	3	3	3	
Total income	3,003	3	3	
Expenses:				
Interest on junior subordinated deferrable interest debentures	107	100	102	
Professional fees	140	148	147	
Other expenses	587	352	329	
Total expenses	834	600	578	
Income (loss) before equity in undistributed net income of Subsidiary	2,169	(597	) (575	)
Equity in undistributed net income of Subsidiary	4,993	6,854	3,657	
Income before income tax benefit	7,162	6,257	3,082	
Benefit from income taxes	358	220	197	
Net income	7,520	6,477	3,279	
Preferred stock dividend and accretion of discount	350	486	395	
Income available to common shareholders	\$7,170	\$5,991	\$2,884	
Comprehensive income	\$10,982	\$9,634	\$5,701	

Table of Contents

## CONDENSED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2012, 2011, and 2010

(In thousands)

	2012	2011	2010
Cash flows from operating activities:			
Net income	\$7,520	\$6,477	\$3,279
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Undistributed net income of subsidiary, net of distributions	(4,993	) (6,854	) (3,657
Stock-based compensation	108	196	239
Tax benefit from exercise of stock options	(26	) (116	) (28
Net (increase) decrease in other assets	(28	) (50	) 170
Net increase (decrease) in other liabilities	179	(23	) 23
Benefit for deferred income taxes	(15	) (36	) (43
Net cash provided by (used in) operating activities	2,745	(406	) (17
Cash flows from financing activities:			
Cash dividend payments on common stock	(480	) —	—
Cash dividend payments on preferred stock	(350	) (307	) (349
Share repurchase and retirement	(488	) —	—
Proceeds from exercise of stock options	385	680	550
Warrant purchase	—	(185	) —
Tax benefit from exercise of stock options	26	116	28
Net cash (used in) provided by financing activities	(907	) 304	229
Increase (decrease) in cash and cash equivalents	1,838	(102	) 212
Cash and cash equivalents at beginning of year	969	1,071	859
Cash and cash equivalents at end of year	\$2,807	\$969	\$1,071
Cash paid during the year for interest	\$109	\$98	\$101
Non-cash investing and financing activities:			
Redemption of preferred stock Series A and issuance of preferred stock Series C	\$—	\$7,000	\$—

## 18. PENDING ACQUISITION

On December 19, 2012, the Company and Visalia Community Bank, headquartered in Visalia, California, entered into a Reorganization Agreement and Plan of Merger (the Merger Agreement). Under the terms of the agreement, Visalia Community Bank with four branches in Visalia and one branch in Exeter, will merge with the Company's subsidiary. The transaction is subject to customary closing conditions, including regulatory approvals and approval by Visalia Community Bank's shareholders. The Company and Visalia Community Bank boards of directors have unanimously approved the transaction, which is expected to close in the second quarter of 2013.

The transaction is initially valued at approximately \$22.1 million or \$52.00 per share to Visalia Community Bank shareholders. The purchase price is to be paid half in cash and half in Company common stock. Based on a value of \$8.75 per share of Company common stock, using the 30-day volume weighted average trading price at the time when the principal terms of the agreement were being established, in the aggregate approximately 1.263 million shares of Company common stock would be issued and \$11,050,000 would be paid in cash. As a result, Visalia Community Bank shareholders would be entitled to receive approximately \$26.00 and 2.97 shares of Company common stock per

share. The total purchase price is subject to adjustments and closing conditions, including potential adjustments if the volume weighted average trading price of Company common shares rises or falls beyond certain levels prior to closing.

SUPPLEMENTARY FINANCIAL INFORMATION

105

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Table of Contents

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

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

	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Net interest income	\$7,189	\$7,572	\$7,510	\$7,666	\$8,016	\$7,949	\$7,794	\$7,598
Provision for credit losses	200	—	100	400	300	400	250	100
Net interest income after provision for credit losses	6,989	7,572	7,410	7,266	7,716	7,549	7,544	7,498
Total non-interest income	1,829	2,284	1,471	1,658	1,336	1,595	1,597	1,748
Total non-interest expense	6,983	6,655	6,718	6,918	6,803	7,222	7,067	7,153
Provision for income taxes	193	745	454	293	541	514	301	505
Net income	\$1,642	\$2,456	\$1,709	\$1,713	\$1,708	\$1,408	\$1,773	\$1,588
Net income available to common shareholders	\$1,554	\$2,369	\$1,622	\$1,625	\$1,622	\$1,206	\$1,674	\$1,489
Basic earnings per share	\$0.16	\$0.25	\$0.17	\$0.17	\$0.17	\$0.13	\$0.18	\$0.16
Diluted earnings per share	\$0.16	\$0.25	\$0.17	\$0.17	\$0.17	\$0.13	\$0.18	\$0.16

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND  
- FINANCIAL DISCLOSURE.

Not Applicable.

ITEM 9A - CONTROLS AND PROCEDURES

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K (as required by paragraph (b) of Rule 13a-15 under the Securities Exchange Act of 1934 (the Exchange Act)), the Registrant's principal executive officer and principal financial officer have concluded that the Registrant's disclosure controls and procedures (as defined in Rules 13a-15(e) under the Exchange Act) were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act was recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Central Valley Community Bancorp and its subsidiary (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's management, including the chief executive officer and chief financial officer, has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012, presented in conformity with accounting principles generally accepted in the United States of America. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework. Based on this assessment, management concluded that, as of December 31, 2012, the Company's internal control over financial reporting was effective based on those criteria.

There have not been any changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2012, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

ITEM 9B - OTHER INFORMATION

Not Applicable.

106

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Table of Contents

PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE  
- WITH SECTION 16(a) OF THE EXCHANGE ACT.

For information concerning directors and executive officers of the Company, see “ELECTION OF DIRECTORS OF THE COMPANY” in the definitive Proxy Statement for the Company’s 2013 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A (the Proxy Statement), which section of the Proxy Statement is incorporated herein by reference.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company’s officers and directors, and persons who own more than 10% of a registered class of the Company’s equity securities, to file reports of ownership and changes in ownership with the FDIC. Officers, directors and greater than 10% shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons that no Forms 4 and 5 were required for those persons, the Company believes that for the 2012 fiscal year the officers and directors of the Company complied with all applicable filing requirements.

ITEM 11 - EXECUTIVE COMPENSATION.

The information required by this Item can be found in the Company’s Definitive Proxy Statement under the captions “Executive Compensation” and is by this reference incorporated herein.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND  
- RELATED STOCKHOLDER MATTERS.

For information concerning security ownership of certain beneficial owners and management, see “PRINCIPAL SHAREHOLDERS” and “ELECTION OF DIRECTORS OF THE COMPANY” in the Company’s Definitive Proxy Statement, which sections of the Proxy Statement are incorporated herein by reference.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

For information concerning certain relationships and related transactions, see “CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS” and “INDEBTEDNESS OF MANAGEMENT” in the Company’s Definitive Proxy Statement, which sections of the Proxy Statement are incorporated herein by reference.

ITEM 14 - PRINCIPAL ACCOUNTING FEES AND SERVICES

For information concerning principal accounting fees and services, see “PRINCIPAL ACCOUNTING FEES AND SERVICES” in the Company’s Definitive Proxy Statement, which sections of the Proxy Statement are incorporated herein by reference.

ITEM 15 - EXHIBITS

(a) EXHIBITS

See Index to Exhibits of this Form 10-K.

107

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Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CENTRAL VALLEY COMMUNITY BANCORP

Date: March 20, 2013

By: /s/ Daniel J. Doyle  
Daniel J. Doyle  
President and Chief Executive Officer  
(principal executive officer)

Date: March 20, 2013

By: /s/ David A. Kinross  
David A. Kinross  
Senior Vice President and Chief Financial Officer  
(principal accounting officer and principal financial officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

108

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Table of Contents

/s/ Daniel J. Doyle Date: March 20, 2013  
Daniel J. Doyle,  
President and Chief Executive Officer and Director  
(principal executive officer)

/s/ David A. Kinross Date: March 20, 2013  
David A. Kinross,  
Senior Vice President and Chief Financial Officer  
(principal accounting officer and principal financial  
officer)

Daniel N. Cunningham \* Date: March 20, 2013  
Daniel N. Cunningham,  
Chairman of the Board and Director

Sidney B. Cox \* Date: March 20, 2013  
Sidney B. Cox, Director

Edwin S. Darden \* Date: March 20, 2013  
Edwin S. Darden, Director

Steven D. McDonald \* Date: March 20, 2013  
Steven D. McDonald, Director

Louis McMurray \* Date: March 20, 2013  
Louis McMurray, Director

William S. Smittcamp \* Date: March 20, 2013  
William S. Smittcamp, Director

Joseph B. Weirick \* Date: March 20, 2013  
Joseph B. Weirick, Director

\* By /s/ Daniel J. Doyle Date: March 20, 2013  
Daniel J. Doyle, as Attorney-in-fact

Table of Contents

INDEX TO EXHIBITS

Exhibit

Number	Exhibit
2.1	Agreement and Plan of Reorganization by and between Central Valley Community Bancorp and Bank of Madera County dated as of July 19, 2004 as amended to reflect amendments at Section 2.5 dated September 29, 2004, incorporated by reference to Appendix A to the proxy statement-prospectus contained in the Registration Statement on Form S-4, Registration Statement No. 333-118534, effective as of November 4, 2004.
2.2	Reorganization Agreement and Plan of Merger by and among Central Valley Community Bancorp, Central Valley Community Bank, Service 1st Bancorp, and Service 1st Bank dated as of May 28, 2008 as amended as of August 21, 2008, incorporated by reference to Appendix A to the proxy statement-prospectus contained in the Registration Statement on Form S-4, Registration Statement No. 333-152151, effective date September 9, 2008.
3.1	Certificate of Determination for Preferred Stock (20).
3.1.1	Articles of Incorporation of the Company. (1)
3.1.2	Certificate of Amendment of Articles of Incorporation, dated July 6, 2000. (2)
3.1.3	Certificate of Amendment of Articles of Incorporation, dated January 6, 2003 (incorporated herein by reference to Exhibit 3.1.3 to Registrant's Annual report on Form 10-KSB for the year ended December 31, 2003, filed March 26, 2004.
3.1.4	Certificate of Amendment of Articles of Incorporation, dated October 31, 2005 (incorporated herein by reference to Exhibit 3.(I) to Registrant's Quarterly report on Form 10-Q for the quarter ended September 30, 2005, filed November 14, 2005.
3.1.5	Certificate of Determination of Series A Fixed Rate Cumulative Perpetual Preferred Stock, dated January 16, 2009 (incorporated herein by reference to Exhibit 3.1 to Registrant's Report on Form 8-K dated January 30, 2009).
3.1.6	Certificate of Determination of Series B Adjustable Rate Non-cumulative Perpetual Preferred Stock dated December 22, 2009 (incorporated herein by reference to Exhibit 3.2 to Registrant's Report on Form 8-K dated December 22, 2009).
3.2	Bylaws of the Company as amended to date. (20)
4.1	Form of Stock Purchase Agreement dated as of December 22, 2009 (incorporated herein by reference to Exhibit 4.1 to Registrant's Report on Form 8-K dated December 22, 2009).
4.2	Form of Stock Purchase Agreement dated as of December 22, 2009 (incorporated herein by reference to Exhibit 4.2 to Registrant's Report on Form 8-K dated December 22, 2009).
9	N/A
10.1	Central Valley Community Bancorp 2000 Stock Option Plan. (3) *

10.2 Central Valley Community Bancorp Incentive Stock Option Agreement. (2) \*

110

---



Table of Contents

10.3	Central Valley Community Bancorp Non-Statutory Stock Option Agreement. (2) *
10.4	Clovis Community Bank 1992 Stock Option Plan. (2) *
10.5	Clovis Community Bank Incentive Stock Option Agreement. (2) *
10.6	Clovis Community Bank Non-Statutory Stock Option Agreement. (2) *
10.7	Clovis Community Bank Amended and Restated Salary Deferral Plan, effective January 1, 1997. (2) *
10.8	Amendment Number One to the Clovis Community Bank Amended and Restated Salary Deferral Plan, effective January 1, 1997. (2) *
10.9	Amendment Number Two to the Clovis Community Bank Amended and Restated Salary Deferral Plan, effective January 1, 1997. (2) *
10.10	Deferred Fee Agreement by and between Clovest Corporation and Daniel N. Cunningham. (2) *
10.11	Deferred Fee Agreement by and between Clovest Corporation and Steven McDonald. (2) *
10.12	Deferred Fee Agreement by and between Clovest Corporation and Louis McMurray. (2) *
10.13	Deferred Fee Agreement by and between Clovest Corporation and Wanda Lee Rogers. (16) *
10.14	Deferred Fee Agreement by and between Clovest Corporation and William S. Smittcamp. (2) *
10.15	Clovis Community Bank 1999 Senior Management Incentive Plan. (2) *
10.16	Employment Agreement by and between Clovis Community Bank and Daniel J. Doyle dated May 11, 1998. (2) *
10.17	[reserved]
10.18	[reserved]
10.19	Salary Continuation Agreement by and between Clovis Community Bank and Daniel J. Doyle, dated June 7, 2000. (2)*
10.20	Salary Continuation Agreement by and between Clovis Community Bank and Gayle Graham, dated June 7, 2000. (2) *
10.21	Salary Continuation Agreement by and between Clovis Community Bank and Gary Quisenberry, dated June 7, 2000. (2) *
10.22	Salary Continuation Agreement by and between Clovis Community Bank and Tom Sommer, dated June 7, 2000. (2) *
10.23	Clovis Community Bank Amended and Restated Deferred Fee Agreement for Daniel N. Cunningham. (2)*



Table of Contents

- 10.24 Clovis Community Bank Amended and Restated Deferred Fee Agreement for Steven McDonald. (2) \*
- 10.25 Clovis Community Bank Amended and Restated Deferred Fee Agreement for Louis McMurray. (2) \*
- 10.26 Clovis Community Bank Amended and Restated Deferred Fee Agreement for Wanda Lee Rogers. (2) \*
- 10.27 Clovis Community Bank Amended and Restated Deferred Fee Agreement for William S. Smittcamp. (2) \*
- 10.28 Life Insurance Endorsement Method Split Dollar Plan Agreement by and between Clovis Community Bank and Daniel J. Doyle, dated June 21, 2000. (2) \*
- 10.29 Life Insurance Endorsement Method Split Dollar Plan Agreement by and between Clovis Community Bank and Dorothy Graham, dated June 21, 2000. (3) \*
- 10.30 Life Insurance Endorsement Method Split Dollar Plan Agreement by and between Clovis Community Bank and Gary Quisenberry, dated June 21, 2000. (3) \*
- 10.31 Life Insurance Endorsement Method Split Dollar Plan Agreement by and between Clovis Community Bank and Tom Sommer, dated June 21, 2000. (3) \*
- 10.32 Salary Continuation Agreement by and between Clovis Community Bank and Shirley Wilburn, dated April 1, 2001. (5) \*
- 10.33 Life Insurance Endorsement Method Split Dollar Plan Agreement by and between Clovis Community Bank and Shirley Wilburn, dated April 1, 2001. (5) \*
- 10.34 Director Deferred Fee Agreement by and between Clovis Community Bank and Edwin S. Darden, Jr., effective August 1, 2001. (6) \*
- 10.35 Addendum A, Clovis Community Bank Split Dollar Agreement and Endorsement by and between Clovis Community Bank and Edwin S. Darden Jr., effective November 29, 2001. (6) \*
- 10.36 Form of Second Amended and Restated Director Deferred Fee Agreement by and between Clovis Community Bank and Daniel N. Cunningham, Steven McDonald, Louis McMurray, Wanda Lee Rogers and William S. Smittcamp, effective February 13, 2002. (7) \*
- 10.37 Schedule A, Participants' Normal Retirement Age and Form of Benefit Elected to Second Amended and Restated Director Deferred Fee Agreement by and between Clovis Community Bank and Daniel N. Cunningham, Steven McDonald, Louis McMurray, Wanda Lee Rogers and William S. Smittcamp, effective February 13, 2002. (7) \*
- 10.38 Addendum A, Clovis Community Bank Split Dollar Agreement and Endorsement by and between Clovis Community Bank and Daniel N. Cunningham, Steven McDonald, Louis McMurray, Wanda Lee Rogers and William S. Smittcamp, effective February 13, 2002. (7) \*
- 10.39 Schedule B, Participants and Their Executive Interest in Clovis Community Bank Split Dollar Agreement and Endorsement, by and between Clovis Community Bank and Daniel N. Cunningham, Steven McDonald, Louis McMurray, Wanda Lee Rogers and William S. Smittcamp, effective

February 13, 2002. (7) \*

10.40 Central Valley Community Bank Employee and Director Preferred Interest Bonus Plan. (7) \*

112

---

Table of Contents

- 10.41 Amendment No. 1 to Employment Agreement by and between Central Valley Community Bank and Daniel J. Doyle effective July 17, 2002. (8) \*
- 10.42 Amendment No. 1 to Salary Continuation Agreement by and between Central Valley Community Bank and Daniel J. Doyle effective October 16, 2002. (9)\*
- 10.43 Form of Amendment to the Split Dollar Agreement and Policy Endorsement with Central Valley Community Bank by and between Central Valley Community Bank f/k/a Clovis Community Bank and Daniel N. Cunningham, Steven McDonald, Louis McMurray, Wanda Lee Rogers and William S. Smittcamp, effective January 1, 2003. (10)\*
- 10.44 Schedule C, Participants and life insurance policies in Central Valley Community Bank Amended Split Dollar Agreement and Policy Endorsement by and between Central Valley Community Bank f/k/a Clovis Community Bank and Daniel N. Cunningham, Steven McDonald, Louis McMurray, Wanda Lee Rogers and William S. Smittcamp, effective January 1, 2003. (10)\*
- 10.45 Amendment No. 2 to Executive Salary Continuation Agreement by and between Central Valley Community Bank, f/k/a Clovis Community Bank, and Daniel J. Doyle. (11)\*
- 10.46 Amendment No. 1 to Endorsement Split Dollar Plan Agreement by and between Central Valley Community Bank, f/k/a Clovis Community Bank, and Daniel J. Doyle. (11)\*
- 10.47 Second Amendment to the Clovest Corporation Director Deferred Compensation Plan Agreement Dated November 14, 1996 by and between Clovest Corporation and Daniel N. Cunningham effective October 31, 2003. (12)\*
- 10.48 Second Amendment to the Clovest Corporation Director Deferred Compensation Plan Agreement Dated November 14, 1996 by and between Clovest Corporation and William S. Smittcamp effective October 31, 2003. (12)\*
- 10.49 Second Amendment to the Clovest Corporation Director Deferred Compensation Plan Agreement Dated November 14, 1996 by and between Clovest Corporation and Louis McMurray effective October 31, 2003. (12)\*
- 10.50 Second Amendment to the Clovest Corporation Director Deferred Compensation Plan Agreement Dated November 14, 1996 by and between Clovest Corporation and Wanda Lee Rogers effective October 31, 2003. (12)\*
- 10.51 Business Loan Agreement and Pledge Agreement dated as of December 17, 2004, between Central Valley Community Bancorp and Bank of the West. (13)
- 10.52 Form of Amendment No. 1 To Salary Continuation Agreement dated June 7, 2000 by and between Central Valley Community Bank and Gayle Graham, Gary Quisenberry, Tom Sommer and Shirley Wilburn effective February 1, 2005. (14)\*
- 10.53 Exhibit 1 to Amendment No. 1 to Salary Continuation Agreement by and between Central Valley Community Bank and Gayle Graham effective February 1, 2005. (14)\*
- 10.54

Exhibit 1 to Amendment No. 1 to Salary Continuation Agreement by and between Central Valley Community Bank and Gary Quisenberry effective February 1, 2005. (14)\*

10.56 Exhibit 1 to Amendment No. 1 to Salary Continuation Agreement by and between Central Valley Community Bank and Tom Sommer effective February 1, 2005. (14)\*

113

---

Table of Contents

- 10.57 Exhibit 1 to Amendment No. 1 to Salary Continuation Agreement by and between Central Valley Community Bank and Shirley Wilburn effective February 1, 2005. (14)\*
- 10.58 Form of Amendment No. 1 To Life Insurance Endorsement Method Split Dollar Plan Agreement by and between Central Valley Community Bank and Gayle Graham, Gary Quisenberry and Tom Sommer effective February 1, 2005. (14)\*
- 10.59 Exhibit B to Amendment No. 1 To Life Insurance Endorsement Method Split Dollar Plan Agreement by and between Central Valley Community Bank and Gayle Graham effective February 1, 2005. (14)\*
- 10.60 Exhibit B to Amendment No. 1 To Life Insurance Endorsement Method Split Dollar Plan Agreement by and between Central Valley Community Bank and Gary Quisenberry effective February 1, 2005. (14)\*
- 10.61 Exhibit B to Amendment No. 1 To Life Insurance Endorsement Method Split Dollar Plan Agreement by and between Central Valley Community Bank and Tom Sommer effective February 1, 2005. (14)\*
- 10.62 Amendment No. 1 To Life Insurance Endorsement Method Split Dollar Plan Agreement by and between Central Valley Community Bank and Shirley Wilburn effective February 1, 2005. (14)\*
- 10.63 Amendment No. 3 To Salary Continuation Agreement by and between Central Valley Community Bank and Daniel Doyle effective February 1, 2005. (14)\*
- 10.64 Central Valley Community Bancorp 2005 Omnibus Incentive Plan (incorporated by reference from Appendix A to the registrant's proxy statement filed April 5, 2005. (14)\*
- 10.65 Life Insurance Endorsement Method Split Dollar Plan Agreement by and between Central Valley Community Bank and David Kinross, dated July 1, 2006.(15)\*
- 10.66 Executive Salary Continuation Agreement by and between Central Valley Community Bank and David Kinross, dated July 1, 2006. (15)\*
- 10.67 Amended and Restated Life Insurance Endorsement Method Split Dollar Plan Agreement by and between Central Valley Community Bank and Daniel J. Doyle, dated December 31, 2006. (16)\*
- 10.68 Amended and Restated Executive Salary Continuation Agreement by and between Central Valley Community Bank and Daniel J. Doyle, dated December 31, 2006. (16)\*
- 10.69 Amended Life Insurance Endorsement Method Split Dollar Plan Agreement by and between Central Valley Community Bank and Shirley Wilburn, dated December 31, 2006. (16)\*
- 10.70 Amended Executive Salary Continuation Agreement by and between Central Valley Community Bank and Shirley Wilburn, dated December 31, 2006. (16)\*
- 10.71 Amendment No. 2 To Life Insurance Endorsement Method Split Dollar Plan Agreement by and between Central Valley Community Bank and Gayle Graham, dated December 20, 2006. (16)\*
- 10.72 Amendment No. 2 To Salary Continuation Agreement by and between Central Valley Community Bank and Gayle Graham, dated December 20, 2006. (16)\*

10.73

Amended Life Insurance Endorsement Method Split Dollar Agreement by and between Central Valley Community Bank and David Kinross, dated March 1, 2007. (16)\*

114

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Table of Contents

- 10.74 Amended Executive Salary Continuation Agreement by and between Central Valley Community Bank and David Kinross, dated March 1, 2007. (16)\*
- 10.75 Amended Life Insurance Endorsement Method Split Dollar Agreement by and between Central Valley Community Bank and Tom Sommer, dated March 1, 2007. (16)\*
- 10.76 Amended Executive Salary Continuation Agreement by and between Central Valley Community Bank and Tom Sommer, dated March 1, 2007. (16)\*
- 10.77 Amended Life Insurance Endorsement Method Split Dollar Agreement by and between Central Valley Community Bank and Gary Quisenberry, dated March 1, 2007. (16)\*
- 10.78 Amended Executive Salary Continuation Agreement by and between Central Valley Community Bank and Gary Quisenberry, dated March 1, 2007. (16)\*
- 10.79 Life Insurance Endorsement Method Split Dollar Plan Agreement by and between Central Valley Community Bank and Lydia E. Shaw, dated January 2, 2008.(17)\*
- 10.80 Executive Salary Continuation Agreement by and between Central Valley Community Bank and Lydia E. Shaw, dated January 2, 2008. (17)\*
- 10.81 Form of Salary Continuation Agreement Amendment dated March 1, 2008 by and between Central Valley Community Bank and David Kinross, Tom Sommer, Lydia Shaw and Gary Quisenberry. (17)\*
- 10.82 Salary Continuation Agreement Amendment dated March 1, 2008 by and between Central Valley Community Bank and Daniel J. Doyle. (17)\*
- 10.83 Form of Second Amendment to the Director Deferred Compensation Agreement effective January 1, 2009 by and between Central Valley Community Bank and Daniel N. Cunningham, Edwin S. Darden, Jr., Steven D. McDonald, Louis C. McMurray, William S. Smittcamp and Wanda L. Rogers. (Filed as Exhibits to Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 and incorporated herein by reference).
- 10.84 Second Executive Salary Continuation Agreement effective April 1, 2010 by and between Central Valley Community Bank and Thomas Sommer. (19)\*
- 10.85 Second Executive Salary Continuation Agreement effective April 1, 2010 by and between Central Valley Community Bank and Gary Quisenberry. (19)\*
- 10.86 Securities Purchase Agreement, dated August 18, 2011, between the Company and the United States Department of Treasury. (20)
- 10.87 Letter Agreement, dated August 18, 2011, between the Company and the United States Department of Treasury. (20)
- 10.88 Share Exchange Agreement, dated August 23, 2011, among the Company and Patriot Financial Partners, L.P. and Patriot Financial Partners Parallel, L.P. (20)
- 10.89

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Second Amended and Restated Executive Salary Continuation Agreement effective July 1, 2011, by and between Central Valley Community Bank and Daniel J. Doyle. (20)\*

10.90 Second Amended and Restated Life Insurance Method Split Dollar Plan Agreement effective July 1, 2011, by and between Central Valley Community Bank and Daniel J. Doyle. (20)\*

115

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Table of Contents

10.91	Amended Executive Salary Continuation Agreement effective January 1, 2012, by and between Central Valley Community Bank and Lydia Shaw. (21)*
10.92	Amended Life Insurance Endorsement Method Split Dollar Agreement effective January 1, 2012, by and between Central Valley Community Bank and Lydia Shaw. (21)*
10.93	Second Amended Executive Salary Continuation Agreement effective January 1, 2012, by and between Central Valley Community Bank and David Kinross. (21)*
10.94	Second Amended Life Insurance Endorsement Method Split Dollar Agreement effective January 1, 2012, by and between Central Valley Community Bank and David Kinross. (21)*
10.95	Amended Second Executive Salary Continuation Agreement effective January 1, 2012, by and between Central Valley Community Bank and Gary Quisenberry. (21)*
10.96	Second Amended Life Insurance Endorsement Method Split Dollar Agreement effective January 1, 2012, by and between Central Valley Community Bank and Gary Quisenberry. (21)*
10.97	Amended Second Executive Salary Continuation Agreement effective January 1, 2012, by and between Central Valley Community Bank and Tom Sommer. (21)*
10.98	Second Amended Life Insurance Endorsement Method Split Dollar Agreement effective January 1, 2012, by and between Central Valley Community Bank and Tom Sommer. (21)*
10.99	Amended Split Dollar Plan Agreement and Endorsement effective March 21, 2012, by and between Central Valley Community Bank and William S. Smittcamp. (22)*
10.100	Amended Split Dollar Plan Agreement and Endorsement effective March 21, 2012, by and between Central Valley Community Bank and Daniel N. Cunningham. (22)*
10.101	Amended Split Dollar Plan Agreement and Endorsement effective March 21, 2012, by and between Central Valley Community Bank and Louis McMurray. (22)*
10.102	Amended Split Dollar Plan Agreement and Endorsement effective March 21, 2012, by and between Central Valley Community Bank and Steven D. McDonald. (22)*
10.103	Amended Split Dollar Plan Agreement and Endorsement effective March 21, 2012, by and between Central Valley Community Bank and Edwin S. Darden. (22)*
11	N/A
12	N/A
13	N/A
16	N/A
18	N/A

21 Subsidiaries.

116

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Table of Contents

22	N/A
23.1	Consent of Crowe Horwath LLP.
23.2	Consent of Perry-Smith LLP.
24	Power of Attorney
31.1	Rule 13a-14(a) [Section 302] Certification Of Principal Executive Officer.
31.2	Rule 13a-14(a) [Section 302] Certification Of Principal Financial Officer.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350. As Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Link Document

\* Management contract and compensatory plans.

(1) Filed as Exhibit 3.1.1 to the Annual Report on Form 10-KSB for the year ended December 31, 2000 (the 2000 Form 10-KSB) and incorporated herein by reference.

(2) Filed as Exhibits to the 2000 Form 10-KSB and incorporated herein by reference.

(3) Attached as Exhibit 99.1 to Registration Statement No. 333-52384 on Form S-8 filed by the Registrant (the 2000 Plan S-8 Registration Statement) and incorporated herein by reference.

(4) Attached as Exhibit 99.1 to Registration Statement No. 333-50276 on Form S-8 filed by the Registrant (the 1992 Plan S-8 Registration Statement) and incorporated herein by reference.

(5) Filed as Exhibits to the Quarterly Report on Form 10-QSB for the quarter ended June 30, 2001 and incorporated herein by reference.

(6)

Filed as Exhibits to the Annual Report on Form 10-KSB for the year ended December 31, 2001 and incorporated herein by reference.

Table of Contents

- (7) Filed as Exhibits to the Quarterly Report on Form 10-QSB for the quarter ended June 30, 2002 and incorporated herein by reference.
- (8) Filed as Exhibit 10.41 to the Quarterly Report on Form 10-QSB for the quarter ended September 30, 2002 and incorporated herein by reference.
- (9) Filed as Exhibit 10.42 to the Annual Report on Form 10-KSB for the year ended December 31, 2002 and incorporated herein by reference.
- (10) Filed as Exhibits to the Quarterly Report on Form 10-QSB for the quarter ended March 31, 2003 and incorporated herein by reference.
- (11) Filed as Exhibits to the Quarterly Report on Form 10-QSB for the quarter ended September, 30 2003 and incorporated herein by reference.
- (12) Filed as Exhibits to the Annual Report on Form 10-KSB for the year ended December 31, 2003, filed March 26, 2004 and incorporated herein by reference.
- (13) Filed as Exhibits to the Annual Report on Form 10-KSB for the year ended December 31, 2004, filed March 24, 2005 and incorporated herein by reference.
- (14) Filed as Exhibits to the Quarterly Report on Form 10-Q for the quarter ended June, 30 2005 and incorporated herein by reference.
- (15) Filed as Exhibits to the Quarterly Report on Form 10-Q for the quarter ended June, 30 2006 and incorporated herein by reference.
- (16) Filed as Exhibits to the Annual Report on Form 10-K for the year ended December 31, 2006, filed March 28, 2007 and incorporated herein by reference
- (17) Filed as Exhibits to Annual Report on Form 10-K for the year ended December 31, 2007, filed March 5, 2008 and incorporated herein by reference
- (18) Filed as Exhibits to Annual Report on Form 10-K for the year ended December 31, 2008, filed March 19, 2009 and incorporated herein by reference
- (19) Filed as Exhibits to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 and incorporated herein by reference.
- (20) Filed as Exhibits to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 and incorporated herein by reference.
- (21) Filed as Exhibit to Annual Report on Form 10K for the year ended December 31, 2011, filed March 21, 2012 and incorporated herein by reference.
- (22) Filed as Exhibits to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 and incorporated herein by reference.