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(State or other jurisdiction of  
incorporation or organization)

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

**7100 N. Financial Dr. Fresno CA**

**93720**

Edgar Filing: CENTRAL VALLEY COMMUNITY BANCORP - Form 10-K

(Address of principal executive offices)

(Zip Code)

559-298-1775

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(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**  
[Common Stock, \$ par value per share]

**NASDAQ Capital Market**  
[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 o No x

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 o No x



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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 x No o

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. o

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

Large accelerated filer o

Accelerated filer o

Non-accelerated filer o  
(Do not check if a

Smaller reporting company x

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 o No x

As of **June 30, 2008**, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$38,787,000 based on the average bid and asked price.

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**  
[Common Stock, No par value per share]

**Outstanding at March 5, 2009**  
7,642,280 shares

### DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Proxy Statement for the Annual Meeting of Shareholders to be held May 20, 2009 (Proxy Statement)	Part III

**Table of Contents**

**TABLE OF CONTENTS**

<u>ITEM 1 -</u>	<u>DESCRIPTION OF BUSINESS</u>	1
<u>ITEM 1A -</u>	<u>RISK FACTORS</u>	26
<u>ITEM 2 -</u>	<u>DESCRIPTION OF PROPERTY</u>	27
<u>ITEM 3 -</u>	<u>LEGAL PROCEEDINGS</u>	28
<u>ITEM 4 -</u>	<u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	28
<u>ITEM 5 -</u>	<u>MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	28
<u>ITEM 6 -</u>	<u>SELECTED FINANCIAL DATA</u>	31
<u>ITEM 7-</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION</u>	32
<u>ITEM 7A-</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	50
<u>ITEM 8 -</u>	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	54
<u>ITEM 9 -</u>	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	105
<u>ITEM 9A -</u>	<u>CONTROLS AND PROCEDURES</u>	105
<u>ITEM 9B-</u>	<u>OTHER INFORMATION</u>	105
<u>ITEM 10 -</u>	<u>DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS: COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT</u>	106
<u>ITEM 11 -</u>	<u>EXECUTIVE COMPENSATION</u>	106
<u>ITEM 12 -</u>	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	106
<u>ITEM 13 -</u>	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	106
<u>ITEM 14 -</u>	<u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	106
<u>ITEM 15 -</u>	<u>EXHIBITS</u>	106
<u>SIGNATURES</u>		107

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**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
- 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, 2008 may be obtained without charge upon written request to Dave Kinross, Chief Financial Officer, at the Company's administrative offices, 7100 N. Financial Dr., 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 the 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, 2008, 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, 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, 2008, we had consolidated total assets of approximately \$752,713,000. 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.

Table of Contents

Subsequent to December 31, 2008, the Company entered into a Letter Agreement (the Purchase Agreement) with the United States Department of the Treasury (the Treasury), pursuant to which the Company issued and sold (i) 7,000 shares of the Company's Series A Fixed Rate Cumulative Perpetual Preferred Stock (the Series A Preferred Stock) and (ii) a warrant (the Warrant) to purchase 158,133 shares of the Company's common stock, no par value, (the Common Stock) for an aggregate purchase price of \$7,000,000 in cash.

During 2006, the Board of Directors approved a stock repurchase plan authorizing the purchase of shares of the Company's common stock up to a total cost of approximately \$1,000,000 or approximately 1% of its outstanding shares of common stock during the period from October 23, 2006 to June 30, 2007.

On April 18, 2007, the Board of Directors approved a stock repurchase plan authorizing the purchase of shares of the Company's common stock. The plan called for repurchases of up to approximately \$2,000,000 of the Company's outstanding shares of common stock during the period from April 18, 2007 to October 18, 2007.

On November 20, 2007, the Board of Directors approved a stock repurchase plan authorizing the purchase of shares of the Company's common stock up to a total cost of approximately \$1,000,000 during the period from November 21, 2007 to May 21, 2008.

During 2007, under all three plans, the Company repurchased 186,800 shares at an average price of \$14.49 for a total cost of \$2,707,000.

No shares were repurchased under a repurchase plan during 2008. In 2008 the Company repurchased 5,436 shares of common stock from shareholders who perfected their dissenters' rights related to the merger with Service 1st Bancorp at an average price of \$10.30 for a total cost of \$56,000.

As of March 11, 2009, we had a total of 207 employees and 190 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 15 full-service banking offices in Clovis, Fresno, Kerman, Madera, Oakhurst, Sacramento, Tracy, Stockton, Lodi, and Prather, one limited-service banking office in Fresno, and a loan production office in Modesto, California. 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 and an SBA Lending Division located at our corporate headquarters in Fresno. All real estate related transactions are conducted and processed through the Real Estate Division, including interim

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construction loans for single family residences and commercial buildings. All types of permanent single family residential loans are also offered. Our total market share of deposits in Fresno and Madera counties remained consistent at 4.15% in 2008 compared to 4.16% in 2007 based on FDIC deposit market share information published as of June 30, 2008.

The Bank of Madera County (BMC) was merged with and into the Bank on January 1, 2005. The transaction was 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.

During 2007, the Bank opened a loan production office in Modesto, California, and relocated our Kerman branch to a new larger facility. The Bank opened full service retail offices in the Fresno downtown area on February 13, 2006 and in the Sunnyside area of Fresno on November 13, 2006. During October 2006, the Company consolidated its administrative offices into a single location on North Financial Drive in Fresno and opened a limited-service branch there.

In 2008, the Bank relocated the office located in a Save Mart Supermarket to a new larger stand alone facility. 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.

Table of Contents

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 2009.

The Bank established an interest in Central Valley Community Insurance Services, LLC (Insurance Services) 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, 2008, we had total loans of \$484,238,000. Total commercial and industrial loans outstanding were \$129,563,000; total agricultural land and production loans outstanding were \$32,408,000, total real estate construction, land development and other land loans outstanding were \$57,923,000; total other real estate loans outstanding were \$215,832,000, total equity loans and lines of credit were \$32,874,000 and total consumer installment loans outstanding were \$15,856,000. 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, 2008 approximately 63.3% 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 33.4% 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, commercial and residential construction, commercial mortgage, home equity, 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.



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### Table of Contents

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

Branch	Monday	Thursday	Friday	Saturday
Clovis Main	9:00 a.m. to 4:00 p.m.  Drive Up 8:00 a.m. to 5:30 p.m.		9:00 a.m. to 6:00 p.m.  Drive Up 8:00 a.m. to 6:00 p.m.	None
Foothill	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.
Herndon & Fowler	9:00 a.m. to 5:00 p.m.  Drive Up 8:30 a.m. to 5:30 p.m.		9:00 a.m. to 6:00 p.m.  Drive Up 8:30 a.m. to 6:00 p.m.	9:00 a.m. to 2:00 p.m.  Drive Up 9:00 a.m. to 2:00 p.m.
Fig Garden Village	9:00 a.m. to 5:00 p.m.		9:00 a.m. to 6:00 p.m.	10:00 a.m. to 2:00 p.m.
Kerman	9:00 a.m. to 5:00 p.m.  Drive Up 8:30 a.m. to 5:00 p.m.		9:00 a.m. to 6:00 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
River Park	9:00 a.m. to 5:00 p.m.  Drive Up 9:00 a.m. to 5:00 p.m.		9:00 a.m. to 6:00 p.m.  Drive Up 9:00 a.m. to 6:00 p.m.	10:00 a.m. to 2:00 p.m.  Drive Up 10:00 a.m. to 2:00 p.m.
Sacramento Private Banking	9:00 a.m. to 5:00 p.m.		9:00 a.m. to 5:00 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
Oakhurst	8:30 a.m. to 5:00 p.m.		8:30 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
Sunnyside	9:00 a.m. to 5:00 p.m.		9:00 a.m. to 6:00 p.m.	10:00 a.m. to 2:00 p.m.

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	Drive Up 8:00 a.m. to 5:00 p.m.	Drive Up 8:00 a.m. to 6:00 p.m.	Drive Up 10:00 a.m. to 2:00 p.m.
Financial Drive	8:00 a.m. to 5:00 p.m.	8:00 a.m. to 5:00 p.m.	None
Fresno Downtown	9:00 a.m. to 4:00 p.m.	9:00 a.m. to 5:00 p.m.	None
	Walkup window 8:00 a.m. to 9:00 a.m.	Walkup window 8:00 a.m. to 9:00 a.m.	

Automated teller machines operate at 15 branch locations. All but one operates 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 Modesto loan-production 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.

Table of Contents

In Fresno and Madera Counties, in addition to our 11 full-service and one limited-service branch locations, serving the Bank's primary service areas, as of December 31, 2008 there were 181 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 2008 FDIC Summary of Deposits report indicated the Company had 4.05% of the total deposits held by all depositories in Fresno County and 4.98% in Madera County. In San Joaquin County, in addition to our three full service branch locations acquired from Service 1st, as of December 31, 2008 there were 121 operating banking and credit union offices. The FDIC Summary of Deposits as of June 2008 report indicated Service 1st had 2.90% of total deposits held by all depositories in San Joaquin County. In Sacramento County, in addition to our one branch, as of December 31, 2008 there were 239 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.

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 are not offered directly but which usually can be offered 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, 2008, the Bank's legal loan limits to individual customers were \$8,778,000 for unsecured loans and \$14,630,000 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**



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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, 2008, 2007 and 2006 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 2008 and 2007 resulting from changes in volume and changes in rates.

Table of Contents

**Investment Portfolio**

The book value (amortized cost) of investment securities at December 31, 2008, 2007 and 2006 and the book value, maturities and weighted average yield of investment securities at December 31, 2008 are set forth in Table C.

**Loan Portfolio**

The composition of the loan portfolio at December 31, 2008, 2007, 2006, 2005, and 2004, is summarized in Table D.

Maturities and sensitivity to changes in interest rates in the loan portfolio at December 31, 2008 are summarized in Table E.

Table F shows the composition of nonaccrual, past due and restructured loans at December 31, 2008, 2007, 2006, 2005, and 2004. 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**

Table G sets forth an analysis of loan loss experience as of and for the years ended December 31, 2008, 2007, 2006, 2005, and 2004.

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, 2008, 2007, and 2006.

Table I sets forth the maturity of time certificates of deposit of \$100,000 or more at December 31, 2008.

**Return on Equity and Assets**

Table J sets forth certain financial ratios for the years ended December 31, 2008, 2007, and 2006.

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, 2008, 2007, and 2006. The average balances reflect daily averages except nonaccrual loans, which were computed using quarterly averages.

(Dollars in thousands)	Average Balance	2008 Interest Income/ Expense	Average Interest Rate	Average Balance	2007 Interest Income/ Expense	Average Interest Rate	Average Balance	2006 Interest Income/ Expense	Average Interest Rate
<b>ASSETS:</b>									
Interest-earning deposits in other banks	\$ 1,318	\$ 39	2.96%	\$ 168	\$ 5	2.98%	\$ 634	\$ 22	3.47%
Securities:									
Taxable securities	81,925	4,806	5.87%	67,516	3,350	4.96%	74,915	3,191	4.26%
Non-taxable securities (1)	28,709	1,694	5.90%	23,848	1,333	5.59%	26,749	1,556	5.82%
Total investment securities	110,634	6,500	5.88%	91,364	4,683	5.13%	101,664	4,747	4.67%
Federal funds sold	13,980	251	1.80%	11,721	583	4.97%	23,404	1,165	4.98%
Total	125,932	6,790	5.39%	103,253	5,271	5.11%	125,702	5,934	4.72%
Loans (2)(3)	364,285	25,631	7.06%	331,347	27,748	8.37%	303,867	25,527	8.40%
Federal Home Loan Bank stock	2,197	118	5.37%	1,964	102	5.19%	1,799	89	4.95%
Total interest-earning assets (1)	492,414	\$ 32,539	6.61%	436,564	\$ 33,121	7.59%	431,368	\$ 31,550	7.31%
Allowance for credit losses	(4,676)			(3,794)			(3,483)		
Nonaccrual loans	2,724			112			207		
Cash and due from banks	17,888			16,675			17,404		
Bank premises and equipment	6,043			5,747			3,369		
Other non-earning assets	27,396			22,017			21,356		
Total average assets	\$ 541,789			\$ 477,321			\$ 470,221		

Table of Contents

(Dollars in thousands)	Average Balance	2008 Interest Income/Expense	Average Interest Rate	Average Balance	2007 Interest Income/Expense	Average Interest Rate	Average Balance	2006 Interest Income/Expense	Average Interest Rate
<b>LIABILITIES AND SHAREHOLDERS EQUITY:</b>									
Interest-bearing liabilities									
Interest-bearing deposits:									
Savings and NOW accounts	\$ 76,900	\$ 279	0.36%	\$ 73,072	\$ 445	0.61%	\$ 78,410	\$ 162	0.21%
Money market accounts (MMA)	108,216	2,098	1.94%	99,448	2,621	2.64%	105,632	2,467	2.34%
Time certificates of deposit, under \$100,000	69,691	2,085	3.00%	49,552	2,112	4.26%	53,208	1,499	2.82%
Time certificates of deposit, \$100,000 and over	58,734	1,878	3.21%	60,467	2,716	4.49%	44,910	2,082	4.64%
Total interest-bearing deposits	313,541	6,340	2.03%	282,539	7,894	2.79%	282,160	6,210	2.20%
Other borrowed funds	32,526	938	2.89%	2,759	164	5.94%	6,774	349	5.15%
Total interest-bearing liabilities	346,067	\$ 7,278	2.11%	285,298	\$ 8,058	2.82%	288,934	\$ 6,559	2.27%
Non-interest bearing demand deposits	131,744			135,152			132,150		
Other liabilities	5,727			5,117			3,573		
Shareholders equity	58,251			51,754			45,564		
Total average liabilities and shareholders equity	\$ 541,789			\$ 477,321			\$ 470,221		
Interest income and rate earned on average earning assets (1)									
		\$ 32,539	6.61%		\$ 33,121	7.59%		\$ 31,550	7.31%
Interest expense and interest cost related to average interest-bearing liabilities									
		7,278	2.11%		8,058	2.82%		6,559	2.27%
Net interest income and net interest margin (4)									
		\$ 25,261	5.13%		\$ 25,063	5.74%		\$ 24,991	5.79%

(1) Computed on a tax equivalent basis, which includes Federal tax benefits relating to income earned on municipal bonds totaling \$576, \$453, and \$529 in 2008, 2007, and 2006, respectively.

(2) Loan interest income includes loan fees of \$720 in 2008, \$873 in 2007; and \$798 in 2006

(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,					
	2008 Compared to 2007			2007 Compared to 2006		
	Volume	Rate	Net	Volume	Rate	Net
Increase (decrease) due to changes in:						
Interest income:						
Interest-earning deposits in other banks	\$ 34	\$	\$ 34	\$ (15)	\$ (2)	\$ (17)
Investment securities:						
Taxable	786	670	1,456	(238)	397	159
Non-taxable (1)	284	77	361	(164)	(59)	(223)
Total investment securities	1,070	747	1,817	(402)	338	(64)
Federal funds sold	143	(475)	(332)	(580)	(2)	(582)
Loans	3,880	(5,997)	(2,117)	2,292	(71)	2,221
FHLB Stock	12	4	16	9	4	13
Total earning assets (1)	5,139	(5,721)	(582)	1,304	267	1,571
Interest expense:						
Deposits:						
Savings, NOW and MMA	246	(935)	(689)	(152)	589	437
Certificates of deposit under \$100,000	(101)	74	(27)	(95)	708	613
Certificates of deposit \$100,000 and over	(76)	(762)	(838)	697	(63)	634
Total interest-bearing deposits	69	(1,623)	(1,554)	450	1,234	1,684
Other borrowed funds	813	(39)	(774)	(248)	63	(185)
Total interest bearing liabilities	882	(1,662)	780	202	1,297	1,499
Net interest income (1)	\$ 4,257	\$ (4,059)	\$ 198	\$ 1,102	\$ (1,030)	\$ 72

(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, 2008, 2007, and 2006 is set forth in the following table. At December 31, 2008, we held no investment securities from any issuer which totaled over 10% of our shareholders' equity.

<b>Available for Sale (In thousands)</b>	<b>Book Value at December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
U.S. Treasury securities and obligations of other U.S. government agencies and corporations	\$ 12,745	\$ 8,496	\$ 28,643
U.S. Government agencies collateralized by mortgage obligations	44,967	46,088	45,561
Obligations of states and political subdivisions	56,961	25,736	26,210
Other securities	70,732	3,819	3,703
<b>Total Available-for-Sale Securities</b>	<b>\$ 185,405</b>	<b>\$ 84,139</b>	<b>\$ 104,117</b>

<b>Held-to-Maturity (In thousands)</b>	<b>Book Value at December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Other debt securities	\$ 7,040	\$	\$

Table of Contents**Table C (Continued)****INVESTMENT PORTFOLIO**

The book value, maturities and weighted average yield of investment securities at December 31, 2008 are summarized in the following table.

(Dollars in thousands) Available-for-Sale Securities	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)
Obligations of other U.S. Government agencies and corporations	\$		\$ 324	4.84%	\$ 1,661	5.58%	\$ 10,760	5.55%	\$ 12,745	5.54%
U.S. Government agencies collateralized by mortgage obligations	147	5.09%	1,614	4.70%	6,815	5.51%	36,391	5.28%	44,967	5.30%
Obligations of states & political subdivisions	1,380	4.30%	1,282	4.71%	14,268	4.31%	40,031	4.03%	56,961	4.12%
Other securities	1,494	3.75%	1,135	5.78%	5,663	4.95%	62,440	5.41%	70,732	5.35%
	\$ 3,021	4.07%	\$ 4,355	5.00%	\$ 28,407	4.80%	\$ 149,622	5.02%	\$ 185,405	4.97%

(Dollars in thousands) Held-to-Maturity Securities	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)
Other debt securities	\$		\$		\$		\$ 7,040	6.00%	\$ 7,040	6.00%

(1) Not computed on a tax equivalent basis.

(2) 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.



Table of Contents**Table D****LOAN PORTFOLIO**

The composition of the loan portfolio at December 31, 2008, 2007, 2006, 2005, and 2004 is summarized in the table below.

<b>(In thousands)</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Commercial and industrial	\$ 109,051	\$ 71,416	\$ 78,441	\$ 82,978	\$ 57,669
Real estate					
Construction, land development & other land loans	57,923	48,593	48,424	46,523	35,364
Other	249,624	173,640	149,586	124,043	75,424
Equity loans and lines of credit	27,038	21,645	21,858	23,604	18,714
Loans to finance agricultural production or other loans to farmers	20,406	17,584	17,102	17,547	15,946
Installment loans to individuals for household, family and other personal expenditures	18,938	8,380	7,549	7,539	6,420
Other	1,476	458	454	160	240
Subtotal	484,456	341,716	323,414	302,394	209,777
Deferred loan fees, net	(218)	(588)	(752)	(592)	(498)
Subtotal	484,238	341,128	322,662	301,802	209,279
Allowance for credit losses	(7,223)	(3,887)	(3,809)	(3,339)	(2,697)
Total (1)	\$ 477,015	\$ 337,241	\$ 318,853	\$ 298,463	\$ 206,582

(1)Includes nonaccrual loans of:

<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
\$ 15,750	\$ 179	\$ 616	\$	\$

**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, 2008.

(In thousands)	One Year or Less	After One Through Five Years	After Five Years	Total
Real estate construction	\$ 50,684	\$ 7,240	\$	\$ 57,924
Other real estate	82,802	138,950	54,909	276,661
Commercial, agricultural and other	89,553	32,253	8,264	130,070
Installment	10,165	2,063	7,573	19,801
	\$ 233,204	\$ 180,506	\$ 70,746	\$ 484,456
<b>Sensitivity to Changes in Interest Rates:</b>				
Loans with fixed interest rates	\$ 58,786	\$ 62,429	\$ 63,377	\$ 184,592
Loans with floating interest rates	174,418	118,077	7,369	299,864
	\$ 233,204	\$ 180,506	\$ 70,746	\$ 484,456

**Table F****COMPOSITION OF NONACCRUAL, PAST DUE AND RESTRUCTURED LOANS**

A summary of nonaccrual, restructured and past due loans at December 31, 2008, 2007, 2006, 2005, and 2004 is set forth below:

(Dollars in thousands)	2008	2007	December 31, 2006	2005	2004
Nonaccrual	\$ 14,047	\$ 179	\$	\$ 616	\$
Restructured non accrual loans	1,703				
	\$ 15,750	\$ 179	\$	\$ 616	\$
Accruing loans past due 90 days or more					
Nonaccrual loans to total loans	3.25%	0.05%	0.0%	0.20%	0.0%

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.

Table of Contents

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 and future collectibility of amounts due is reasonably assured. 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. We had nonaccrual loans totaling \$179,000 at December 31, 2007 and interest foregone on nonaccrual loans totaled \$8,000 for the year then ended. See Note 3 of the Company's audited Consolidated Financial Statements in Item 8 of this Annual Report.

There were no loans on nonaccrual at December 31, 2006 or interest foregone on nonaccrual loans for the year then ended. There was \$616,000 in loans on nonaccrual at December 31, 2005. At December 31, 2005 interest foregone on nonaccrual loans totaled \$76,000 for the year then ended. There were no loans on nonaccrual at December 31, 2004 or interest foregone on nonaccrual loans for the year then ended.

The Company had two loans at December 31, 2008 totaling \$1,703,000 that were considered to be troubled debt restructurings. Both loans are included in the nonaccrual loans above. There are no outstanding commitments to lend additional funds on either of these loans. At December 31, 2007, 2006, 2005, and 2004 the Company had no restructured loans. 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.

When a loan is classified as impaired, the net fair value (i.e., the measure of the impaired loan) is computed based on the present value of expected future cash flows discounted at the loan's effective interest rate. Alternatively, if the loan is collateral dependent, impairment is measured based on the fair value or market price of the collateral less costs to sell. If the net fair value of the impaired loan is less than the recorded investment in the loan, then the resulting impairment amount is recognized through the allowance for credit losses with a corresponding charge to the provision for credit losses. 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 both principal and interest) in accordance with the contractual terms of the loan agreement.

**Other than as discussed above, as of December 31, 2008, 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, 2008, 2007, 2006, 2005, and 2004.

(Dollars in thousands)	2008	2007	2006	2005	2004
Loans outstanding at December 31,	\$ 484,456	\$ 341,716	\$ 323,414	\$ 302,394	\$ 209,777
Average loans outstanding during year	\$ 367,009	\$ 331,459	\$ 304,074	\$ 277,855	\$ 195,223
Allowance for credit losses:					
Balance at beginning of year	\$ 3,887	\$ 3,809	\$ 3,339	\$ 2,697	\$ 2,425
Deduct loans charged-off:					
Commercial and industrial	(175)	(264)	(539)	(702)	
Real estate construction					
Real estate other	(393)	(12)			
Loans to finance agricultural and other loans to farmers					
Loans to individuals for household, family and other personal expenditures	(283)	(205)	(182)	(85)	(24)
Other					
Total loans charged-off	(851)	(481)	(721)	(787)	(24)
Add recoveries of loans charged off:					
Commercial and industrial	22	15	293	10	273
Real estate construction					
Real estate other	22	1		25	
Loans to finance agricultural and other loans to farmers					
Loans to individuals for household, family and other personal expenditures	67	63	98	48	23
Other				85	
Total recoveries	111	79	391	168	296
Net (charge-offs) recoveries	(740)	(402)	(330)	(619)	272
Allowance acquired in mergers	2,786			751	
Add provision charged to operating expense	1,290	480	800	510	
Balance at end of year	\$ 7,223	\$ 3,887	\$ 3,809	\$ 3,339	\$ 2,697
Allowance for credit losses as a percentage of outstanding loan balance	1.49%	1.14%	1.18%	1.11%	1.29%
Net (charge-offs) recoveries to average loans outstanding	(0.20)%	(0.12)%	(0.11)%	(0.22)%	0.14%

Table of Contents

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 and by the Bank's and our Board of Directors. 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 significant adversely graded asset, as well as 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.

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. For 2007, the Bank added \$480,000 to the allowance for credit losses. The increase in 2007 was due in part to the growth in loans and the result of our assessment of probable losses within the loan portfolio. In 2006, the Bank added \$800,000 to the allowance for credit losses. The increase in 2006 is due in part to the increase in the volume of outstanding loans and our assessment of the overall adequacy of the allowance for credit losses after the first quarter charge off of one commercial relationship which resulted in a net charge off of \$348,000. For 2005, we added \$510,000 to the allowance for credit losses. The main reason for the provision in 2005 was two commercial loans that were charged off in the fourth quarter. The loans were to related borrowers whose business suffered a major event in the fourth quarter which affected their ability to continue their business. We made no additions to the allowance for credit losses in 2004 due mainly to decreased levels of risk-rated loans and increased recoveries on previously charged-off loans.

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Table of Contents

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

(Dollars in thousands)	2008		2007		2006		2005		2004	
	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	\$ 1,777	26.7%	\$ 1,254	27.1%	\$ 1,656	31.1%	\$ 1,325	27.5%	\$ 786	27.5%
Real estate construction, land development and other land loans	820	11.9%	312	14.2%	294	15.0%	378	15.4%	197	16.9%
Real estate - other	2,570	44.6%	1,353	40.3%	1,210	35.8%	1,138	41.0%	898	35.9%
Equity loans and lines of credit	64	0.2%	157	7.2%	171	7.5%	175	7.8%	136	8.9%
Loans to finance agricultural and other loans to farmers	235	6.7%	501	9.4%	227	9.0%	198	5.8%	151	7.6%
Loans to individuals for household, family and other personal expenditures and other loans	593	3.1%	236	1.7%	193	1.5%	120	2.5%	178	3.1%
Other	64	6.8%	23	0.1%	1	0.1%	1	0.0%	51	0.1%
Unallocated reserve	1,100		51		57		4		300	
	\$ 7,223	100%	\$ 3,887	100%	\$ 3,809	100%	\$ 3,339	100%	\$ 2,697	100%

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

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, 2008, 2007, and 2006.

(Dollars in thousands)	2008		2007		2006	
	Balance	Rate	Balance	Rate	Balance	Rate
Savings, money market and NOW accounts	\$ 185,116	1.28%	\$ 172,520	1.78%	\$ 184,042	1.43%
Time certificates of deposit	\$ 128,425	3.09%	\$ 110,019	4.39%	\$ 98,118	3.65%
Non-interest bearing demand	\$ 131,744	N/A	\$ 135,152	N/A	\$ 132,150	N/A
Total deposits	\$ 445,285	1.42%	\$ 417,691	1.89%	\$ 414,310	1.50%

**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, 2008.

(In thousands)	
Three months or less	\$ 63,953
Over 3 months through 6 months	26,422
Over 6 through 12 months	10,186
Over 12 months	7,693
	\$ 108,254

**Table J****FINANCIAL RATIOS**

The following table sets forth certain financial ratios for the years ended December 31, 2008, 2007, and 2006.



	2008	2007	2006
Net income:			
To average assets	0.95%	1.32%	1.47%
To average shareholders' equity	8.82%	12.13%	15.17%
Dividends declared per share to net income per share	12.66%	10.10%	N/A
Average shareholders' equity to average assets	10.75%	10.84%	9.69%

Table of Contents

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 (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.

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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 the recently enacted 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.

Table of Contents

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 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 Bank is participating in the FDIC Transaction Account Guarantee Program. Under this program, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account and the Bank is assessed an annual fee of 10 basis points for all deposit amounts exceeding the existing deposit insurance limit of \$250,000.

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

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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. At December 31, 2008, we had no outstanding shares of preferred stock. See Note 19 of the Company's audited Consolidated Financial Statements in Item 8 of this Annual Report concerning preferred stock issued through the Capital Purchase Program (CPP) subsequent to December 31, 2008. Dividends on common stock in 2009 will also be limited without the prior approval of the United States Treasury due to the Company's participation in the CPP.

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.

Table of Contents

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 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, 2008 are as follows:

	<b>REQUIREMENT</b>	<b>ACTUAL</b>	
	<b>FOR THE BANK TO BE WELL CAPITALIZED</b>	<b>BANK</b>	<b>COMPANY</b>
<b>ADEQUATELY CAPITALIZED</b>			

<b>Total risk-based capital ratio</b>	8.00%	10.00%	10.05%	10.57%
<b>Tier 1 risk-based capital ratio</b>	4.00%	6.00%	8.81%	9.33%
<b>Tier 1 leverage capital ratio</b>	4.00%	5.00%	8.18%	8.67%

Table of Contents

USA PATRIOT ACT

On October 26, 2001, the President 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
- 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.

Table of Contents

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 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.

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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 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 October 2006.

Table of Contents

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 (except in limited circumstances), 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 fines, reimbursements and other 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 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.

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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 apply 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.

Table of Contents

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

**Recent Accounting Pronouncements**

*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*

On January 1, 2008, the Company adopted EITF 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsed Split-Dollar Life Insurance Arrangements*, and recorded a liability of \$316,000 for the future benefits or premiums to be provided to the participants with a corresponding reduction as a cumulative-effect adjustment to retained earnings.

*Accounting for Business Combinations*

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards

No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R). SFAS No. 141(R), among other things, establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired business, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company is required to adopt SFAS No. 141(R) for all business combinations for which the acquisition date is on or after January 1, 2009. Earlier adoption is prohibited. This standard will change the accounting treatment for business combinations on a prospective basis.

*The Hierarchy of Generally Accepted Accounting Principles*

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). This standard identifies a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. It establishes that the GAAP hierarchy should be directed to entities because it is the entity (not the auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. SFAS No. 162 is effective November 15, 2008. The adoption of this statement did not have any effect on the Company's consolidated financial position, results of operations or cash flows.

*Employers' Disclosures about Postretirement Benefit Plan Assets*

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In December 2008, the FASB issued FASB Staff Position (FSP) Financial Accounting Standard No. 132R-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP 132(R)-1). This standard provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. It also includes a technical amendment to FASB Statement No. 132(R) that requires a nonpublic entity to disclose net periodic benefit cost for each annual period for which a statement of income is presented. The objectives of the disclosures about plan assets in an employer's defined benefit pension or other postretirement plan are to provide users of financial statements with an understanding of how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies, the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period, and significant concentrations of risk within plan assets. The disclosures about plan assets required by this FSP are effective for fiscal years ending after December 15, 2009. Early adoption is permitted. The adoption of FSP 132(R)-1 is not expected to have a material impact on the Company's consolidated 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.

Table of Contents

**ITEM 1A - RISK FACTORS**

**Risks, Uncertainties and Other Factors That May Affect Our Future Results**

*Our profitability depends significantly on economic conditions.*

Our success depends primarily on the general economic conditions of the Central Valley and California. Unlike larger banks that are more geographically diversified, we provide banking and financial services to customers primarily in the market areas in which we operate. The local economic conditions of these areas have a significant impact on our commercial, real estate and construction loans, the ability of the borrowers to repay these loans and the value of the collateral securing these loans. A continued significant decline in general economic conditions, such as inflation, recession, acts of terrorism, an outbreak of hostilities, unemployment and other factors beyond our control will impact these local economic conditions and will negatively affect the financial results of our banking operations. 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 rely on the small to medium sized business market.*

Our business development and marketing strategy primarily targets the banking and financial needs of small to medium sized businesses with non-complex credit needs. These businesses are diverse and not dependent upon one industry and represent a major sector of the Central Valley economies. If general economic conditions negatively impact this economic sector in the Central Valley

in which we operate, our results of operations and financial condition will be significantly affected.

*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 affect on us.



*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;
  
- recession;
  
- 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.

*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.



Table of Contents

*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 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 growth or may not even be able to grow at all. We may not be able to obtain the financing necessary to fund additional 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 growth. A significant decrease in our historical rate of growth may adversely impact our results of operations and financial condition.

*We may be unable to complete 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.

*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.

**ITEM 2 - DESCRIPTION OF PROPERTY.**

Other

**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, 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, SBA department, 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.**

Table of Contents

**ITEM 3 - LEGAL PROCEEDINGS.**

*Regent Hotel Litigation*

On May 1, 2008, Regent Hotel, LLC ( Regent ) filed a lawsuit in the Superior Court of California, County of Sacramento (the Regent Litigation ). Regent Hotel, LLC, a California limited liability company and subsidiary of Regent Development, Inc., a California corporation, filed the Regent Litigation naming as defendants First Bank, as the lead bank in a loan participation, and East West Bank and S1 Bank, which was acquired by the Bank on November 13, 2008, which are participating in the loan. Regent claims that First Bank refused to fund a construction loan draw request and that East West Bank and S1 Bank interfered in the relationship between Regent and First Bank which affected the decision by First Bank not to fund the draw request. Through its acquisition of S1 Bank, the Bank is a 9.915% participant in the amount of approximately \$4,000,000. Regent has filed for Chapter 11 bankruptcy. The suit asks for actual and punitive damages in excess of \$10,000,000. In addition, certain contractors have filed mechanics liens against Regent, under which S1 Bank has been named in the complaint. These complaints have been removed to the bankruptcy court.

The Company believes that the suit is without merit, and intends to defend its position vigorously. Additionally, included in the merger consideration paid by the Company to acquire Service 1st, \$3,500,000 was placed into an escrow fund to protect the Company and the Bank from all losses and liabilities that related to the loan participation and/or the Regent Litigation.

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 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

a. The Company held a special meeting of shareholders on October 10, 2008 for the purpose of considering and voting upon the approval of the principal terms of the Reorganization Agreement and Plan of Merger (Merger Agreement) by and among the Company and Service 1st Bancorp.

b. At the special meeting the shareholders took the following actions:

- The approval of the Merger Agreement by the following votes:

Votes for: 4,645,155

Votes against: 24,266

Abstentions and broker non-votes: 4,100

**PART II**

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

Our common stock is listed for trading on the Nasdaq Capital Market under the ticket symbol CVCY. As of March 5, 2009, we had approximately 704 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 2008	Qtr 2 2008	Qtr 3 2008	Qtr 4 2008	Qtr 1 2007	Qtr 2 2007	Qtr 3 2007	Qtr 4 2007
High	\$ 13.24	\$ 10.99	\$ 10.25	\$ 8.98	\$ 15.50	\$ 15.22	\$ 14.95	\$ 13.03
Low	\$ 9.60	\$ 9.40	\$ 7.30	\$ 4.59	\$ 13.81	\$ 13.80	\$ 11.70	\$ 10.25

We paid \$0.10 per common share cash dividends in 2008 and 2007. The Company's primary source of income with which to pay cash dividends is 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 12 in the audited Consolidated Financial Statements in Item 8 of this Annual Report.

Table of Contents**ISSUER PURCHASES OF EQUITY SECURITIES**

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet Be Purchased Under Current Plan
10/01/2007 - 10/31/2007				
11/01/2007 - 11/30/2007	5,436	\$ 10.30		
12/01/2007 - 12/31/2007				
<b>Total</b>	<b>5,436</b>	<b>\$ 10.30</b>		

(1) In 2008 the Company repurchased 5,436 shares of common stock from shareholders who perfected their dissenters' rights related to the merger with Service 1st Bancorp at an average price of \$10.30 for a total cost of \$56,000.

**Equity Compensation Plan Information**

The following chart sets forth information for the year ended December 31, 2008, regarding equity based compensation plans of the Company.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	823,881	\$ 6.60	456,936
Equity compensation plans not approved by security holders	N/A	N/A	N/A
<b>Total</b>	<b>823,881</b>	<b>\$ 6.60</b>	<b>456,936</b>

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





Table of Contents

**PERFORMANCE GRAPH**

Table of Contents**ITEM 6 SELECTED CONSOLIDATED FINANCIAL DATA**

Statements of Income	Years ended December 31, (In thousands, except per share amounts)				
	2008	2007	2006	2005	2004
Total interest income	\$ 31,845	\$ 32,566	\$ 30,932	\$ 26,070	\$ 16,799
Total interest expense	7,278	8,058	6,559	4,139	1,978
Net interest income before provision for credit losses	24,567	24,508	24,373	21,931	14,821
Provision for credit losses	1,290	480	800	510	0
Net interest income after provision for credit losses	23,277	24,028	23,573	21,421	14,821
Non-interest income	5,190	4,518	5,177	4,009	4,084
	28,467	28,546	28,750	25,430	18,905
Non-interest expenses	20,976	19,099	18,541	16,042	13,266
Income before provision for income taxes	7,491	9,447	10,209	9,388	5,639
Provision for income taxes	2,352	3,167	3,298	3,344	1,944
Net income	\$ 5,139	\$ 6,280	\$ 6,911	\$ 6,044	\$ 3,695
Basic earnings per share	\$ 0.83	\$ 1.05	\$ 1.16	\$ 1.03	\$ 0.71
Diluted earnings per share	\$ 0.79	\$ 0.99	\$ 1.07	\$ 0.94	\$ 0.64
Cash dividends declared per common share	\$ 0.10	\$ 0.10	\$ 0.00	\$ 0.00	\$ 0.05

	December 31, (in thousands)				
	2008	2007	2006	2005	2004
<b>Balances at end of year:</b>					
Investment securities, Federal funds sold and deposits in other banks	\$ 194,215	\$ 98,909	\$ 128,463	\$ 136,340	\$ 127,895
Net loans	477,015	337,241	318,853	298,463	206,582
Total deposits	635,058	402,562	440,627	430,989	326,186
Total assets	752,713	483,685	500,059	483,677	368,147
Shareholders' equity	75,375	54,194	49,778	41,523	29,606
Earning assets	681,280	441,825	453,211	440,646	338,032
<b>Average balances:</b>					
Investment securities, Federal funds sold and deposits in other banks	\$ 125,932	\$ 103,253	\$ 125,702	\$ 135,679	\$ 115,069
Net loans	362,333	327,665	300,591	274,348	192,658
Total deposits	445,285	417,691	414,310	407,188	307,453
Total assets	541,789	477,321	470,221	455,680	346,217
Shareholders' equity	58,251	51,754	45,564	38,691	28,203
Earning assets	492,414	436,564	431,368	414,257	311,456

Data from 2008 reflects the partial year impact of the acquisition of Service 1st Bancorp and its subsidiary, Service 1st Bank. Data from 2005 forward reflects the impact of the merger with Bank of Madera County.

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

**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 (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. 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 the Trust 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 2008, the Company 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. During 2008 the Company acquired Service 1st Bancorp and its banking subsidiary adding three strategically located branches and we relocated our Herndon and Fowler branch from an in-store location to a new larger facility. During 2007, the Bank opened a loan production office in Modesto, California, and relocated our Kerman branch to a new larger facility. During 2006, the Bank opened two full service retail offices in the Fresno one in the downtown area and one in the Sunnyside area of Fresno, respectively. Also in 2006, the Company consolidated its administrative offices into a single stand location in Fresno and opened a limited service branch there. With the acquisition of S1 Bank in 2008, the Bank now operates 15 full-service branches, one limited service branch and one loan production office.

### **ECONOMIC CONDITIONS**

The economy in California's Central Valley has been negatively impacted by the economic recession that began in 2007 and the related real estate market and the slowdown in residential construction. The recession has impacted most industries in our market area. During 2008, 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. However, housing in the Central Valley continues to be relatively more affordable than the major metropolitan areas in California.

Table of Contents

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

**OVERVIEW**

Diluted earnings per share (EPS) for the year ended December 31, 2008 was \$0.79 compared to \$0.99 and \$1.07 for the years ended December 31, 2007 and 2006, respectively. Net income for 2008 was \$5,139,000 compared to \$6,280,000 and \$6,911,000 for the years ended December 31, 2007 and 2006, respectively. Total assets at December 31, 2008 were \$752,713,000 compared to \$483,685,000 at December 31, 2007.

Return on average equity for 2008 was 8.82% compared to 12.13% and 15.17% for 2007 and 2006, respectively. Return on average assets for 2008 was 0.95% compared to 1.32% and 1.47% for 2007 and 2006, respectively. Total equity was \$75,375,000 at December 31, 2008 compared to \$54,194,000 at December 31, 2007. The primary driver in the growth in total assets and equity at December 31, 2008 compared to 2007 was the acquisition on November 12, 2008 of Service 1st and its subsidiary bank Service 1st Bank (S1 Bank).

As a result of both the acquisition of Service 1st and organic growth, total loans continued to increase during 2008. Average total loans increased \$35,550,000 or 10.7% to \$367,009,000 in 2008 compared to \$331,459,000 in 2007. As a result of the economic recession during 2008, and the acquisition of Service 1st the Company experienced an increase in the level of nonperforming assets. In 2008, we recorded a provision for credit losses of \$1,290,000 compared to \$480,000 in 2007 and \$800,000 in 2006. The Company had non-accrual loans totaling \$15,750,000 at December 31, 2008 and \$179,000 at December 31, 2007. Of the nonaccrual loans at December 31, 2008, \$14,340,000 related to former S1 Bank loans. Net charge-offs for 2008 were \$740,000 compared to \$402,000 for 2007 and \$330,000 for 2006. Refer to Asset Quality below for further information. We had no other real estate owned at either December 31, 2008 or 2007.

**Key Factors in Evaluating Financial Condition and Operating Performance**

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

- Return to our stockholders;
- Return on average assets;
- Development of core earnings, including net interest income and non-interest income;

- Asset quality;
- Asset growth; and
- Operating efficiency;
- Liquidity

*Return to Our Stockholders*

Our return to our stockholders is measured in the form of return on average equity (ROE). Our ROE was 8.82% for the year ended 2008 compared to 12.13% and 15.17% for the years ended 2007 and 2006, respectively. The decrease in ROE for 2008 is primarily due to the decrease in our net income and the overall increase in the level of capital due to the additional common stock issued in connection with our acquisition of Service 1st. Our net income for the year ended December 31, 2008 decreased \$1,141,000 compared to a decrease of \$631,000 and an increase of \$867,000 for 2007 and 2006, respectively. During 2008 net interest income decreased due primarily to the 500 basis point reduction in interest rates by the Federal Reserve Bank since September 2007. Non-interest expenses also increased due to higher occupancy expenses from our acquisition and expansion in 2008 and 2007, and higher other general expenses. Basic EPS was \$0.83 for 2008 compared to \$1.05 and \$1.16 for the years ended 2007 and 2006, respectively. Diluted EPS was \$0.79 for the year ended 2008 compared to \$0.99 and \$1.07 for the years ended 2007 and 2006, respectively. The decrease in EPS in 2008 was due primarily to the decrease in net income and the increase in weighted average shares outstanding.

*Return on Average Assets*

Our return on average assets (ROA) is a measure we use to compare our performance with other banks and bank holding companies. Our ROA for the year ended 2008 decreased to 0.95% compared to 1.32% and 1.47% for the years ended December 31, 2007 and 2006, respectively. The 2008 decrease in ROA is due to the decrease in net income compounded by our increase in average assets. Annualized ROA for our peer group was 0.44% at September 30, 2008. Peer group information from SNL Financial data includes bank holding companies in central California with assets from \$300M to \$950M and not subchapter S.

Table of Contents

*Development of Core Earnings*

Over the past several years, we have focused on not only our net income, but improving the consistency of our core earnings in order to create more predictable future earnings and reduce the effect of changes in our operating environment on our net income. Specifically, we have focused on net interest income through a variety of processes, including changes in the mix and increases in average interest earning assets through loan generation and retention and maintaining our net interest margin by managing the cost of funds. Since September 2007, the Federal Reserve Bank has reduced interest rates by 500 basis points, which has had a significant negative impact on our ability to increase a sizable increase on net interest income in this type of a falling rate environment. As a result, our net interest income before provision for credit losses increased only slightly by \$59,000 or 0.2% to \$24,567,000 for the year ended 2008 compared to \$24,508,000 and \$24,373,000 for the years ended 2007 and 2006, respectively. Our net interest margin contracted 61 basis points to 5.13% for the year ended 2008 compared to 5.74% for the year ended 2007 and 5.79% for 2006.

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 other income. Non-interest income in 2008 increased \$672,000 or 14.9% to \$5,190,000 compared to \$4,518,000 in 2007 and \$5,177,000 in 2006. Customer service charges increased \$491,000 or 17.2% to \$3,350,000 in 2008 compared to \$2,859,000 and \$2,532,000 in 2007 and 2006, respectively, mainly due to an increase in fee rates and in the number of transaction accounts. Non-interest income in 2006 included tax-exempt proceeds from a life insurance policy of \$625,000, and net pre-tax gains from the sale of real estate and equipment of \$192,000. 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. We had non-performing loans totaling \$15,750,000 or 3.25% of gross loans as of December 31, 2008 and \$179,000 or 0.05% of gross loans as of December 31, 2007. We did not have any other non performing assets at December 31, 2008 or 2007. Of the non-performing loans at December 31, 2008, \$14,340,000 related to the loan portfolio acquired from Service 1st. Management maintains certain loans that have been brought current by the borrower (less than 30 days delinquent) on non-accrual status until such time as management has determined that the loans are likely to remain current in future periods. The Company did not have any other real estate owned at December 31, 2008 or 2007.

*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. The acquisition of Service 1st on November 12, 2008 contributed to the growth our asset size in 2008. Total assets increased 55.6% during 2008 to \$752,713,000 as of December 31, 2008 from \$483,685,000 as of December 31, 2007. Total gross loans increased 42.0% to \$484,238,000 as of December 31, 2008, compared to \$341,128,000 at December 31, 2007. Total investment securities and Federal funds sold increased 96.4% to \$194,215,000 as of December 31, 2008 compared to \$98,909,000 as of December 31, 2007. Total deposits increased 57.8% to



\$635,058,000 as of December 31, 2008 compared to \$402,562,000 as of December 31, 2007. Our loan to deposit ratio at December 31, 2008 was 76.3% compared to 84.7% at December 31, 2007. The loan to deposit ratio of our peers was 97.0% at September 30, 2008.

#### *Operating Efficiency*

Operating efficiency is the measure of how efficiently earnings before taxes are generated as a percentage of revenue. The Company's efficiency ratio (non-interest expenses, excluding amortization of intangibles divided by net interest income plus non-interest income, excluding net gains from sale of securities) was 70.10% for 2008 compared to 65.21% for 2007 and 62.28% for 2006. The deterioration in the efficiency ratio in 2008 is due to the increase in operating expenses due to our acquisition and expansion. The Company's net interest income before provision for credit losses plus non-interest income increased 2.5% to \$29,757,000 in 2008 compared to \$29,026,000 in 2007 and \$29,550,000 in 2006, while operating expenses increased 9.8% in 2008, 3.0% in 2007, and 15.9% in 2006.

#### *Liquidity*

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

Table of Contents

**RESULTS OF OPERATIONS**

**Net Income**

Net income was \$5,139,000 in 2008 compared to \$6,280,000 and \$6,911,000 in 2007 and 2006, respectively. Basic earnings per share were \$0.83, \$1.05, and \$1.16 for 2008, 2007 and 2006, respectively. Diluted earnings per share were \$0.79, \$0.99, and \$1.07 for 2008, 2007 and 2006, respectively. ROE was 8.82% for 2008 compared to 12.13% for 2007 and 15.17% for 2006. ROA for 2008 was 0.95% compared to 1.32% for 2007 and 1.47% for 2006.

The decrease in net income for 2008 compared to 2007 was due primarily to the 500 basis point reduction in interest rates by the Federal Reserve Bank since September 2007, the increase in the provision for credit losses and the increases in non interest expenses. These items were offset by the increase in non interest income, primarily service charges and gains on sales of investment securities and the reduction in the provision for income taxes.. Net income for 2007 decreased compared to 2006 mainly due to the decrease in non-interest income primarily due to the tax-exempt life insurance proceeds of \$625,000 and the net gain from the sale of real estate and equipment of \$192,000 received in 2006, the decrease in loan placement fees and increases in non-interest expenses, partially offset by the increases in services charges and the decrease in the provision for credit losses.

### **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 non-accrual loans are not included as interest earning assets for purposes of this table. For 2008, average balances reflect the acquisition of Service 1st for 13.4% of the year.

Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP

## SCHEDULE OF AVERAGE BALANCES AND AVERAGE YIELDS AND RATES

(Dollars in thousands)

	YEAR ENDED DECEMBER 31, 2008			YEAR ENDED DECEMBER 31, 2007		
	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	\$ 1,318	\$ 39	2.96%	\$ 168	\$ 5	2.98%
Securities						
Taxable securities	81,925	4,806	5.87%	67,516	3,350	4.96%
Non-taxable securities (1)	28,709	1,694	5.90%	23,848	1,333	5.59%
Total investment securities	110,634	6,500	5.88%	91,364	4,683	5.13%
Federal funds sold	13,980	251	1.80%	11,721	583	4.97%
Total	125,932	6,790	5.39%	103,253	5,271	5.10%
Loans (2) (3)	364,285	25,631	7.06%	331,347	27,748	8.37%
Federal Home Loan Bank stock	2,197	118	5.37%	1,964	102	5.19%
<b>Total interest-earning assets</b>	492,414	\$ 32,539	6.61%	436,564	\$ 33,121	7.59%
Allowance for credit losses	(4,676)			(3,794)		
Non-accrual loans	2,724			112		
Cash and due from banks	17,888			16,675		
Bank premises and equipment	6,043			5,747		
Other non-earning assets	27,396			22,017		
<b>Total average assets</b>	\$ 541,789			\$ 477,321		
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>						
Interest-bearing liabilities:						
Savings and NOW accounts	\$ 76,900	\$ 279	0.36%	\$ 73,072	\$ 445	0.61%
Money market accounts	108,216	2,098	1.94%	99,448	2,621	2.64%
Time certificates of deposit, under \$100,000	69,691	2,085	3.00%	49,552	2,112	4.26%
Time certificates of deposit, \$100,000 and over	58,734	1,878	3.21%	60,467	2,716	4.49%
Total interest-bearing deposits	313,541	6,340	2.03%	282,539	7,894	2.79%
Other borrowed funds	32,526	938	2.89%	2,759	164	5.94%
<b>Total interest-bearing liabilities</b>	346,067	\$ 7,278	2.11%	285,298	\$ 8,058	2.82%
Non-interest bearing demand deposits	131,744			135,152		
Other liabilities	5,727			5,117		
Shareholders equity	58,251			51,754		
Total average liabilities and shareholders equity	\$ 541,789			\$ 477,321		
Interest income and rate earned on average earning assets		\$ 32,539	6.61%		\$ 33,121	7.59%
Interest expense and interest cost related to average interest-bearing liabilities		7,278	2.11%		8,058	2.82%
<b>Net interest income and net interest margin (4)</b>		\$ 25,261	5.13%		\$ 25,063	5.74%

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- (1) Calculated on a fully tax equivalent basis, which includes Federal tax benefits relating to income earned on municipal bonds totaling \$576 and \$453 in 2008 and 2007, respectively.
- (2) Loan interest income includes loan fees of \$720 in 2008 and \$873 in 2007.
- (3) Average loans do not include non-accrual loans.
- (4) Net interest margin is computed by dividing net interest income by total average interest-earning assets.

Table of Contents

Interest and fee income from loans decreased \$2,117,000 or 7.6% in 2008 compared to 2007. Interest and fee income increased \$2,221,000 or 8.7% in 2007 compared to 2006. The decrease in 2008 is attributable to a decrease in the yield of 131 basis points partially offset by a 9.9% increase in the level of average loans in 2008 compared to 2007. Average total loans for 2008 increased \$35,550,000 to \$367,009,000 compared to \$331,459,000 for 2007 and \$304,074,000 for 2006. The yield on loans for 2008 was 7.06% compared to 8.37% and 8.40% for 2007 and 2006, respectively.

Interest income from total investments, (total investments include investment securities, Federal funds sold, interest bearing deposits with other banks, and other securities) not on a fully tax equivalent basis, increased \$1,396,000 or 29.0% in 2008 compared to 2007 primarily due to a \$21,529,000 increase in the average balance to \$125,932,000 in 2008 compared to \$103,253,000 in 2007, coupled with an increase in yield on investments of 29 basis points. In 2007, total investment income decreased \$587,000 from 2006 mainly due to a 17.9% decrease in the average balances of these investments partially offset by a 39 basis point increase in the yields earned. Average total investments for 2007 were \$103,253,000 compared to \$125,702,000 for 2006. The decrease in the investment portfolio is due primarily to the growth in our loans as maturities and sales of investments were used to fund loans in the absence of a corresponding growth in deposits.

In an effort to increase yields, without accepting unreasonable risk, a significant portion of the investment purchases have been in mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs). At December 31, 2008, we held \$45,757,000 or 24.6% of the total market value of the investment portfolio in MBS and CMOs with an average yield of 6.16%. We understand the interest rate risks and prepayment risks associated with MBS and CMOs. In a declining interest rate environment, prepayments from MBS and CMOs could be expected to increase and the expected life of the investment could be expected to shorten. Conversely, if interest rates increase, prepayments could be expected to decline and the average life of the MBS and CMOs could be expected to extend. Additionally, changes in interest rates are reflected in the market value of the investment portfolio. During declining interest rates, the investment portfolio could be expected to have market value gains and in increasing rate environments, the market value could be expected to decline. The net of tax effect value of the change in market value of the available-for-sale investment portfolio is also reflected in the Company's equity. At December 31, 2008, the average life of the investment portfolio was 7.9 years and the market value reflected a pre-tax gain of \$313,000. Management reviews market value declines on individual investment securities to determine whether they represent an other-than-temporary impairment and has concluded that none such existed as of December 31, 2008. However, future deterioration in the market values of our investment securities may require the Company to recognize other-than-temporary impairment losses.

A component of the Company's strategic plan has been to use its investment portfolio to offset, in part, its interest rate risk relating to variable rate loans. At December 31, 2008, an immediate rate increase of 200 basis points would result in an estimated decrease in the market value of the investment portfolio by approximately \$18,250,000. Conversely, with an immediate rate decrease of 200 basis points, the estimated increase in the market value of the investment portfolio is \$14,936,000. 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 changes in interest rates in the past year, 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 Item 7A - 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 2008 decreased \$721,000, to \$31,845,000 compared to \$32,566,000 in 2007 and \$30,932,000 in 2006. Although average interest earning assets increased \$55,850,000 or 12.8% to \$492,414,000 for 2008 compared to \$436,564,000 for 2007 and \$431,368,000 for 2006, the yield on those assets decreased 98 basis points from 2007 to 2008, resulting in a 3.1% decrease in total interest income. The

increases in average earning assets in 2008 and 2007 were the result of our own organic growth and the acquisition of Service 1st in November 2008. The yield on interest earning assets was 6.69% for 2008 compared to 7.59% for 2007 and 7.31% for 2006. .

Interest expense on deposits in 2008 decreased \$1,554,000 or 19.7% to \$6,340,000 compared to \$7,894,000 in 2007 and was \$6,210,000 in 2006. The decrease in interest expense in 2008 compared to 2007 was primarily due to the repricing of interest bearing deposits which decreased 76 basis points to 2.03% in 2008 from 2.79% in 2006, as a result of the decreases in the Federal funds interest rate. This decrease was partially offset by an increase in the level of average interest bearing deposits and the change in mix of interest bearing deposits continuing to be into time certificates of deposits. The increase in 2007 compared to 2006 was due to the change in mix of interest-bearing deposits with higher average balances in time certificates and the repricing of interest bearing deposits, which increased 59 basis points to 2.79% in 2007 from 2.20% in 2006, as a result of the increases in the Federal funds interest rate. Average interest-bearing deposits were \$313,541,000 for 2008 compared to \$282,539,000 and \$282,160,000 for 2007 and 2006, respectively. The increases in average interest-bearing deposits in 2008 and 2007 were the result of our own organic growth and the acquisition of Service 1st in November 2008.

Table of Contents

Average other borrowings increased to \$32,526,000 with an effective rate of 2.89% for 2008 compared to \$2,759,000 with an effective rate of 5.94% for 2007. In 2006, the average other borrowings were \$6,774,000 with an effective rate of 5.15%. 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). We borrowed funds from the Federal Home Loan Bank in 2008 as part of leverage strategy employed whereby we purchased investment securities. The effective rate of the FHLB advances was 3.08% for 2008 compared to 4.87% for 2007 and 3.97% for 2006. Other borrowings in 2007 and 2006 included a loan from a major bank, which we paid in full during 2007.

Average demand deposits decreased 2.5% to \$131,744,000 in 2008 compared to \$135,152,000 for 2007 and \$132,150,000 for 2006. The cost of all of our interest bearing liabilities decreased 71 basis points to 2.11% for 2008 compared to 2.82% for 2007 and 2.27% for 2006, while the cost of total deposits decreased to 1.42% for the year ended December 31, 2008 compared to 1.89% and 1.50% for the years ended December 31, 2007 and 2006, respectively. The ratio of non-interest demand deposits to total deposits decreased to 29.6% for 2008 compared to 32.4% and 32.0% for 2007 and 2006, respectively.

**Net Interest Income before Provision for Credit Losses**

As a result of the activity discussed above, net interest income before provision for credit losses for 2008 increased slightly by \$59,000 or 0.24% to \$24,567,000 compared to \$24,508,000 for 2007 and \$24,373,000 for 2006. The increase in 2008 was mainly due to an increase in average total interest earning assets of 12.8%, offset by an increase in interest bearing liabilities of 21.3% and a decrease in the yield on total interest earning assets of 98 basis points compared to 2007, while the cost of total interest-bearing liabilities decreased only 71 basis points. The increase in 2007 was primarily due to an increase in average interest earning assets and the yields earned on those assets, offset by the change in mix of interest bearing liabilities and the increase in rates paid on those liabilities. Average interest earning assets and net interest margin, respectively, were \$492,414,000 and 5.13% in 2008, \$436,564,000 and 5.74% in 2007, and \$431,368,000 and 5.79% in 2006. For a discussion of the repricing of our assets and liabilities, refer to Item 7A 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, past delinquency levels, losses and non-performing 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 on loans that exceed the credit officers' lending limits are submitted to the Chief Credit Administrator (CCA), who reviews the grades for accuracy and makes recommendations to Credit Review who gives final approval. The risk grading and reserve allocation is analyzed annually by a third party credit reviewer and by various regulatory agencies.



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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 adversely graded. Historical loss experience within the portfolio along with peer bank loss experiences are used in determining the level of the reserves held.

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

Table of Contents

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

Loan Type (Dollars in thousands)	December 31, 2008 Amount	% of Loans in Each Category to Total Loans	December 31, 2007 Amount	% of Loans in Each Category to Total Loans
Commercial & industrial	\$ 1,777	26.7%	\$ 1,254	27.1%
Agricultural land and production	235	6.7%	501	9.4%
Real estate	2,570	44.6%	1,353	40.3%
Real estate - construction and other land loans	820	11.9%	312	14.2%
Equity loans and lines of credit	64	6.8%	157	7.2%
Consumer & installment	593	3.1%	236	1.7%
Other	64	0.2%	23	0.1%
Unallocated reserves	1,100		51	
Total allowance for credit losses	\$ 7,223	100.0%	\$ 3,887	100.0%

Managing problem credits identified through our 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 2008, 2007 and 2006 were \$1,290,000, \$480,000, and \$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. Non-performing loans were \$15,750,000 and \$179,000 at December 31, 2008 and 2007, respectively. Non-performing loans acquired from Service 1st represented \$14,340,000 of the total balance at December 31, 2008, which includes a \$3,486,000 loan that is secured by a \$3,500,000 escrow fund held at another bank for the benefit of the Company and therefore management has not provided an allowance against this loan. We did not have any non-performing loans as of December 31, 2006. The Company did not have any other real estate owned at December 31, 2008 or 2007.

For 2008, 2007, and 2006, we had a net charge off ratio to average loans of 0.20%, 0.12% and 0.11%, respectively. The potential for a future net recovery position of loans previously charged off is not very likely.

The acquisition of Service 1st provided an additional \$2,786,000 to the allowance for credit losses. Based on information currently available, management believes that the allowance for credit losses should be adequate to absorb estimated probable losses in the portfolio. However, no assurance can be given that we may not sustain charge-offs which are in excess of the allowance in any given period. Refer to Allowance for Credit Losses below for further information.

**Net Interest Income After Provision for Credit Losses**

Net interest income, after the provision for credit losses of \$1,290,000 in 2008, \$480,000 in 2007, and \$800,000 in 2006, was \$23,277,000 for 2008 compared to \$24,028,000 and \$23,573,000 for 2007 and 2006, respectively.

**Non-Interest Income**

Non-interest income is comprised of customer service charges, loan placement fees, appreciation in cash surrender value of bank owned life insurance, gains on sales and calls of investment securities and other income. Non-interest income was \$5,190,000 in 2008 compared to \$4,518,000 and \$5,177,000 in 2007 and 2006, respectively. The \$672,000 increase in non-interest income in 2008 compared to 2007 was primarily due to increases in customer service charges, gains on sales and calls of investment securities and other income. The \$659,000 decrease in non-interest income comparing 2007 to 2006 was primarily due to the decreases in loan placement fees, the tax-exempt proceeds from a life insurance policy of \$625,000 and net gains from the sale of real estate and equipment of \$192,000 received in 2006, partially offset by the increase in service charges.

Table of Contents

Customer service charges increased \$491,000 to \$3,350,000 in 2008 compared to \$2,859,000 in 2007 and \$2,532,000 in 2006. The increase in both years is mainly due to an increase in the activity level as the average number of transaction accounts has increased organically and as a result of the Service 1st acquisition, as have and the fees generated by the overdraft protection program. In addition, during 2008 and 2007 the Company increased the fee structure on transaction accounts.

We earn loan placement fees from the brokerage of single-family residential mortgage loans provided for the convenience of our customers. Loan placement fees decreased \$74,000 in 2008 to \$111,000 compared to \$185,000 in 2007 and \$350,000 in 2006. The decreases in 2008 and 2007 are primarily due to a slowdown in the housing market in California and the tightening of the credit market resulting in fewer refinancing opportunities.

The Bank holds stock from the Federal Home Loan Bank in relationship with the borrowing capacity and generally receives quarterly dividends. As of December 31, 2008, we held \$3,140,000 in FHLB stock compared to \$2,022,000 at December 31, 2007. Dividends in 2008 increased to \$118,000 compared to \$102,000 in 2007 and \$89,000 in 2006.

Realized gains on sales and calls of investment securities increased \$102,000 to \$165,000 for 2008 compared to \$63,000 for 2007 and \$123,000 for 2006.

Other income increased to \$1,178,000 in 2008 compared to \$1,080,000 and \$1,013,000 in 2007 and 2006, respectively. The \$98,000 increase in 2008 compared to 2007 and the \$67,000 increase comparing 2007 to 2006 are primarily due to increases in merchant fees from bankcards and debit card interchange fees.

**Non-Interest Expenses**

Salaries and employee benefits, occupancy and equipment, professional services, and data processing are the major categories of non-interest expenses. Non-interest expenses increased \$1,877,000 to \$20,976,000 in 2008 compared to \$19,099,000 in 2007, which was an increase of \$558,000 in 2007 compared to \$18,541,000 in 2006.

The Company's efficiency ratio, measured as the percentage of non-interest expenses, excluding amortization of intangibles, to net interest income before provision for credit losses plus non-interest income, excluding realized gains on sale of investments was 70.10% for 2008 compared to 65.21% for 2007 and 62.28% for 2006. Our efficiency ratio decreased in 2008 and 2007 due to the increase in operating expenses coupled with a slight decrease in revenues.

Salaries and employee benefits increased \$749,000 or 6.9% to \$11,578,000 in 2008 compared to \$10,829,000 in 2007 and \$10,871,000 in 2006. The increase in 2008 compared to 2007 is primarily due to normal cost increases for salaries and benefits, and a slight increase in personnel since November 12, 2008 due to the Service 1st acquisition. In 2006 we made changes to certain executive salary continuation agreements and recorded an expense related to the change of \$518,000. The decrease in salaries and employee

benefits in 2007 compared to 2006 is primarily due to the above charge in 2006 offset by normal cost increases for salaries and benefits and incentive based compensation due to loan and deposit production in 2007.

The Company has three 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.

In October 2007, the Board of Directors of the Company approved the cancellation of options to purchase 15,000 shares of the Company's common stock granted on May 1, 2006 and options to purchase 78,900 shares of common stock granted on April 23, 2007. The Board granted new options to the directors, senior managers and other employees in the same numbers and to the same employees who were holders of the cancelled options. The grant date of the new options was October 17, 2007 and the options were granted with an exercise price equal to the fair market value on the grant date of \$12.00 per share. As a result of this modification the Company recognized an additional \$29,000 in incremental stock based compensation expense in 2007.

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

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

Table of Contents

The Company bases the fair value of the options previously granted on the date of grant using a Black-Scholes 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.

As of December 31, 2008, there was \$710,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the 1992, 2000 and 2005 Plans. The cost is expected to be recognized over a weighted average period of 3 years. See Notes 1 and 13 to the audited Consolidated Financial Statements.

Occupancy and equipment expense increased \$272,000 or 10.4% to \$2,890,000 in 2008 compared to \$2,618,000 in 2007 and \$2,421,000 in 2006. The increase in 2008 compared to 2007 was primarily due to three new locations that were added in the Service 1st acquisition since November 12, 2008, and due to the relocation of our Herndon and Fowler branch in Clovis, California from an in-store location to a new larger traditional branch facility. The increase in 2007 compared to 2006 was due mainly to a full year's worth of expense in 2007 for the three new branches and the Company's new administrative office added during 2006, in addition to the new loan production office added during 2007.

Other non-interest expenses increased \$856,000 or 15.2% to \$6,508,000 in 2008 compared to \$5,652,000 in 2007 and \$5,249,000 in 2006. The increase in 2008 compared to 2007 related primarily to \$447,000 of Service 1st merger related expenses, and \$40,000 of branch relocation expenses incurred in 2008. The increase in 2007 was attributable primarily to increases in advertising, consulting, data processing, and telephone expenses, partially offset by a reduction in legal expenses.

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

For the year ended December 31, (Dollars in thousands) (Dollars in thousands)	Other Expense 2008	% Avg. Assets	Other Expense 2007	% Avg. Assets
Data processing	\$ 848	0.16%	\$ 847	0.18%
Advertising	500	0.09%	481	0.10%
Merger expenses	447	0.08%		0.00%
Audit and accounting	390	0.07%	382	0.08%
ATM and debit card expenses	356	0.07%	312	0.07%
Regulatory assessments	330	0.06%	109	0.02%
Stationery and supplies	226	0.04%	222	0.05%
Telephone	205	0.04%	189	0.04%
Consulting fees	192	0.04%	197	0.04%
Postage	178	0.03%	178	0.04%
Director fees and related expenses	173	0.03%	173	0.04%
Legal fees	141	0.03%	112	0.02%
General Insurance	136	0.03%	131	0.03%
Education and training	96	0.02%	87	0.02%
Donations	90	0.02%	107	0.02%
Travel	82	0.02%	89	0.02%

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Operating losses		41	0.01%	34	0.01%
Other		2,076	0.38%	2,002	0.42%
Total other non-interest expense	\$	6,508		\$	5,652

Table of Contents

**Provision for Income Taxes**

Our effective income tax rate was 31.4% for 2008 compared to 33.5% for 2007 and 32.3% for 2006. The provision for income taxes totaled \$2,352,000, \$3,167,000, and \$3,298,000 in 2008, 2007, and 2006, respectively. The effective tax rates in 2008 and 2007 were favorably impacted by the increase in our state tax deduction for enterprise zone loans, and by hiring tax credits. In 2006 we received tax exempt life insurance proceeds of \$625,000 which favorably impacted our effective tax rate in that year.

**FINANCIAL CONDITION**

**Summary of Changes in Consolidated Balance Sheets**

December 31, 2008 compared to December 31, 2007

For 2008 we continued to see demand for and growth in our loans and deposits. Our acquisition of Service 1st in November 2008 added \$122 million in loans, \$193 million in deposits, and \$215 million in total assets. As of December 31, 2008, total assets were \$752,713,000, an increase of 55.6%, or \$269,028,000, compared to \$483,685,000 as of December 31, 2007. Total gross loans increased 42.0%, or \$143,110,000, to \$484,238,000 as of December 31, 2008 compared to \$341,128,000 as of December 31, 2007. Total deposits increased 57.8%, or \$232,496,000, to \$635,058,000 as of December 31, 2008 compared to \$402,562,000 as of December 31, 2007. Shareholders' equity increased 39.1%, or \$21,181,000, to \$75,375,000 as of December 31, 2008 compared to \$54,194,000 as of December 31, 2007.

**Investments**

Our investment portfolio consists primarily of agency securities, mortgage backed securities, municipal securities, mortgage backed and corporate debt securities, and overnight investments in the Federal funds market and are classified at the date of acquisition as available for sale or held to maturity. As of December 31, 2008, investment securities with a fair value of \$112,262,000 were held as collateral for public funds, 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, 2008 was 76.3% compared to 84.7% at December 31, 2007. The loan to deposit ratio of our peers was 97.1% at September 30, 2008. The total investment portfolio increased 96.4% or \$95,306,000 to \$194,215,000 at December 31, 2008 from \$98,909,000 at December 31, 2007 primarily due to the investment securities acquired in the acquisition of Service 1st. The market value



of the portfolio reflected an unrealized gain of \$313,000 at December 31, 2008 compared to \$234,000 at December 31, 2007.

Management periodically evaluates each investment security that is in an unrealized loss position for other than temporary impairment, relying primarily on industry analyst reports, observation of market conditions and interest rate fluctuations. Management believes it will be able to collect all amounts due according to the contractual terms of the underlying investment securities; therefore, management does not consider these investments to be other-than-temporarily impaired. However no assurance can be made that the credit quality of certain securities will not deteriorate in the future which may necessitate future loss provisions.

See Note 4 to the Company's audited Consolidated Financial Statements in Item 8 of this Annual Report for carrying values and estimated fair values of our investment securities portfolio.

### **Loans**

Total gross loans have increased as a result of both our organic growth and the acquisition of Service 1st in November 2008. Loans increased to \$484,238,000 as of December 31, 2008 compared to \$341,128,000 as of December 31, 2007.

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## Table of Contents

The following table sets forth information concerning the composition of our loan portfolio as of:

Loan Type (Dollars in thousands)	December 31, 2008	% of Total loans	December 31, 2007	% of Total loans
<b>Commercial:</b>				
Commercial	\$ 129,563	26.7%	\$ 92,613	27.1%
Agricultural land and production	32,408	6.7%	32,167	9.4%
Total commercial	161,971	33.4%	124,780	36.5%
<b>Real estate:</b>				
Owner occupied	113,414	23.4%	76,808	22.5%
Real estate-construction and other land loans	57,923	11.9%	48,593	14.2%
Commercial real estate	64,358	13.3%	43,334	12.7%
Other	38,060	7.9%	17,406	5.1%
Total real estate	273,755	56.5%	186,141	54.5%
<b>Consumer:</b>				
Equity loans and lines of credit	32,874	6.8%	24,595	7.2%
Consumer and installment	14,993	3.1%	5,742	1.7%
Other	863	0.2%	458	0.1%
Total consumer	48,730	10.1%	30,795	9.0%
Deferred loan fees, net	(218)		(588)	
Total gross loans	484,238	100.0%	341,128	100.0%
Allowance for credit losses	(7,223)		(3,887)	
Total loans	\$ 477,015		\$ 337,241	

As of December 31, 2008, a concentration of loans existed in loans collateralized by real estate (real estate, real estate construction, land development and other land loans, and equity loans and lines of credit) comprising 63.3% of total loans. This level of concentration is slightly higher than the 61.8% at December 31, 2007. Management believes these loans bear no more than the typical risks of collectibility, but in light of the highly unsettled economy, additional declines in the performance of the economy in general or a continued decline in real estate values in our primary market areas, in particular, could have an adverse impact on collectibility, increase the level of real estate-related non-performing loans, or have other adverse effects which alone or in the aggregate could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

**Non-Performing Assets**

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

Table of Contents

At December 31, 2008, we had no OREO or repossessed assets, and two restructured loans totaling \$1,703,000, which are included in non-accrual loans. We had no OREO, repossessed assets or restructured loans at December 31, 2007. We had non-accrual loans totaling \$15,750,000 at December 31, 2008 and \$179,000 at December 31, 2007.

The Company's aggregated recorded investment in loans considered troubled debt restructurings was \$1,703,000 as of December 31, 2008. The gross income that would have been recorded in the year ended December 31, 2008 if these loans had been current in accordance with their original terms was \$139,000. No interest income was recognized during the year ended December 31, 2008 on either of these loans. There are not outstanding commitments to lend additional funds on either of these loans.

A summary of non-accrual, restructured, and past due loans at December 31, 2008 and 2007 is set forth below. The Company had no loans past due more than 90 days and still accruing interest at December 31, 2008 and 2007. Management is not aware of any potential problem loans, which were current and accruing at December 31, 2008, where serious doubt exists as to the ability of the borrower to comply with the present repayment terms. Management can give no assurance that non-accrual and other non-performing loans will not increase in the future.

Composition of Non-accrual, Past Due and Restructured Loans

(Dollars in thousands)	December 31, 2008	December 31, 2007
Non-accrual loans		
Commercial and industrial	\$ 1,125	\$ 100
Real estate	5,159	79
Real estate construction and land development	7,635	
Consumer	80	
Other	48	
Restructured loans (non-accruing)	1,703	
<b>Total non-accrual</b>	<b>15,750</b>	<b>179</b>
Accruing loans past due 90 days or more		
<b>Total non-performing loans</b>	<b>\$ 15,750</b>	<b>\$ 179</b>
Nonperforming loans to total loans	3.25%	0.05%
Ratio of non-performing loans to allowance for credit losses	218.05%	4.61%
Loans considered to be impaired	\$ 15,750	\$ 179
Related allowance for credit losses on impaired loans	\$ 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, 2008 and 2007, we had impaired loans totaling \$15,750,000 and \$179,000, respectively. We place loans on non-accrual status that are delinquent 90 days or more or when a reasonable doubt exists as to the collectibility of interest and principal under the original contractual terms. Management maintains certain loans that have been brought current by the borrower (less than 30 days delinquent) on non-accrual status until such time as management has determined that the loans are likely to remain current in future periods. Foregone interest on nonaccrual loans totaled \$371,000 and \$8,000 for 2008 and 2007, respectively. There was no foregone interest on nonaccrual loans in 2006.

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Included in the impaired and nonaccrual loans above are two loans in the amount of \$1,703,000 that were considered to be troubled debt restructurings at December 31, 2008. There are no outstanding commitments to lend additional funds to either of these borrowers.

### **Classified Assets**

From time to time, management has reason to believe that certain borrowers may not be able to repay their loans within the parameters of the present repayment terms, even though, in some cases, the loans are current at the time. These loans are graded in the classified loan grades of substandard, doubtful, or loss and include non-performing loans. Each classified loan is monitored monthly.

**Table of Contents****Allowance for Credit Losses**

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

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

The allowance for credit losses is maintained to cover 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 Officer (CCA) to determine the loss reserve ratio for each type of asset and reviews, at least quarterly, the adequacy of the allowance based on an evaluation of the portfolio, past experience, prevailing market conditions, amount of government guarantees, concentration in loan types and other relevant factors.

The allowance for credit losses is an estimate of the losses that may be sustained in our loan and lease portfolio. The allowance is based on two principles of accounting: (1) Statement of Financial Accounting Standards (SFAS) No. 5, Accounting for Contingencies, which requires that losses be accrued when they are probable of occurring and estimable; and (2) SFAS No. 114, Accounting by Creditors for Impairment of a Loan and SFAS No. 118, Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosures, which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

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

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

(Dollars in thousands)	Years Ended December 31,	
	2008	2007
Balance, beginning of the year	\$ 3,887	\$ 3,809
Provision charged to operations	1,290	480

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Losses charged to allowance	(851)	(481)
Recoveries	111	79
Allowance from acquisition of Service 1st	2,786	
Balance, end of year	\$ 7,223	\$ 3,887
Ratio of non-performing loans to allowance for credit losses	218.05%	4.61%
Allowance for credit losses to total loans	1.49%	1.14%

As of December 31, 2008 the balance in the allowance for credit losses was \$7,223,000 compared to \$3,887,000 as of December 31, 2007. The increase resulted from the addition of \$2,786,000 related to the merger with Service 1st along with management's assessment of the probable losses within the portfolio resulting in the 2008 provision of \$1,290,000 as offset by the net charge-offs totaling \$740,000.

Table of Contents

The balance of commitments to extend credit on undisbursed construction and other loans and letters of credit was \$160,450,000 as of December 31, 2008 compared to \$135,638,000 as of December 31, 2007. Risks and uncertainties exist in all lending transactions, and even though there have historically been no charge offs on construction and other loans that have not been fully disbursed.

The Company's management and Directors' Loan Committee have established reserve levels on disbursed loans based on historical losses as well as economic uncertainties and other risks that exist as of each reporting period.

As of December 31, 2008 the allowance was 1.49% of total gross loans compared to 1.14% as of December 31, 2007. Assumptions regarding the collateral value of various under performing loans may affect the level and allocation of the allowance for credit losses in future periods. The allowance may also be affected by trends in the amount of charge offs experienced or expected trends within different loan portfolios. Of the losses charged to the allowance in 2008 and 2007 of \$851,000 and \$481,000, the portion related to overdraft losses on transaction deposit accounts totaled \$137,000 and \$127,000, respectively.

The allowance for credit losses as a percentage of non-performing loans was 45.9% and 2,171.5% as of December 31, 2008 and 2007, respectively. Included in non-performing loans as of December 31, 2008, is a loan for \$3,486,000 which is secured by a \$3,500,000 escrow fund held at another bank for the benefit of the Company and therefore management has not provided allowance against this loan. Management believes the allowance at December 31, 2008 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.

**Deposits and Borrowings**

The Bank's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to applicable legal limits. The Bank is also participating in the FDIC Transaction Account Guarantee Program (TAGP). Under that program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the TAGP is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules.

Total deposits increased \$232,496,000 or 57.8% to \$635,058,000 as of December 31, 2008 compared to \$402,562,000 as of December 31, 2007. Interest bearing deposits increased \$198,510,000 or 72.3% to \$472,952,000 as of December 31, 2008 compared to \$274,442,000 as of December 31, 2007. Non-interest bearing deposits increased \$33,986,000 or 26.5% to \$162,106,000 as of December 31, 2008 compared to \$128,120,000 as of December 31, 2007. The increase in deposits in 2008 was primarily the result of the acquisition of Service 1st. Our total market share of deposits in Fresno, Madera, and San Joaquin counties was 2.40% in 2008 compared to 2.38% in 2007 based on FDIC deposit market share information published as of June 30, 2008.

The composition of the deposits and average interest rates paid at December 31, 2008 and 2007 is summarized in the table below.



(Dollars in thousands)	December 31, 2008	% of Total Deposits	Effective Rate	December 31, 2007	% of Total Deposits	Effective Rate
NOW accounts	\$ 84,802	13.4%	0.37%	\$ 53,114	13.2%	0.66%
MMA accounts	154,931	24.4%	1.94%	90,402	22.5%	2.64%
Time deposits	211,987	33.4%	3.09%	111,628	27.7%	4.39%
Savings deposits	21,232	3.3%	0.35%	19,298	4.8%	0.48%
Total interest-bearing	472,952	74.5%	2.03%	274,442	68.2%	2.79%
Non-interest bearing	162,106	25.5%		128,120	31.8%	
Total deposits	\$ 635,058	100.0%		\$ 402,562	100.0%	

Short-term borrowings totaled \$6,368,000 as of December 31, 2008 compared to \$20,000,000 as of December 31, 2007. Short-term borrowings consist of overnight correspondent bank borrowings and FHLB advances maturing within one month. The maximum amount of short-term borrowings at any month-end during 2008, 2007 and 2006, was \$24,600,000, \$20,000,000, and \$9,788,000,000, respectively. We maintain a line of credit with the FHLB collateralized by government securities. Refer to Liquidity section below for further discussion of FHLB advances.

Total long-term debt as of December 31, 2008 was \$19,000,000 and consisted of FHLB advances with interest rates ranging from of 2.73% to 3.59% and an average rate of 3.08%, and maturing between 2010 and 2013. There was no long-term debt as of December 31, 2007.

Table of Contents

The Bank is eligible to issue certain debt that is backed by the full faith and credit of the United States, up to a limit of \$9,424,000, under the FDIC's Temporary Liquidity Guarantee Program. Any senior unsecured debt with a stated maturity of more than thirty days issued by the Bank up to its debt guarantee limit falls under this program. The Bank will be charged an annualized assessment from the FDIC, ranging from 50 to 100 basis points, based on the term and amount of the debt outstanding under the program. At December 31, 2008, the Company had no borrowings under this debt guarantee program.

**Capital Resources**

Capital serves as a source of funds and helps protect depositors and shareholders against potential losses. The primary source of capital for the Company has been internally generated capital through retained earnings.

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

Our stockholders' equity increased to \$75,375,000 as of December 31, 2008 compared to \$54,194,000 as of December 31, 2007. The increase in stockholders' equity is primarily a result of the issuance of additional shares of common stock in connection with the merger of Service 1st Of \$16,600,000, net income of \$5,139,000 for 2008, and proceeds from the exercise of stock options of \$264,000, offset by the payment of cash dividends of \$598,000.

During 2008 and 2007, the Board of Directors declared and paid cash dividends of \$0.10 per share. The Company did not pay any cash dividends in 2006.

We participated in the U. S. Treasury Capital Purchase Program under the Emergency Economic Stabilization Act. The Company issued preferred stock and warrants to issue common stock and received \$7,000,000 in cash under this program. The Company agreed to restrict dividend payments on common stock to no more than historic levels while our preferred stock is owned by the U. S. Treasury. See Note 19 to the audited Consolidated Financial Statements in Item 8 of this Annual Report for a more detailed discussion.

During 2008 and 2007, the Bank declared and paid cash dividends to the Company of \$6,100,000 and \$3,000,000, respectively, in connection with the acquisition of Service 1st and stock repurchase agreements approved by the Company's Board of Directors. The Bank would not pay any dividend that would cause it to be deemed not well capitalized under applicable banking laws and regulations.

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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.

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## Table of Contents

The following table presents the Company's and the Bank's capital ratios as of December 31, 2008 and 2007:

(Dollars in thousands)	December 31, 2008		December 31, 2007	
	Amount	Ratio	Amount	Ratio
<b><u>Tier 1 Leverage Ratio</u></b>				
Central Valley Community Bancorp and Subsidiary	\$ 54,519	8.67%	\$ 44,238	9.43%
Minimum regulatory requirement	\$ 25,148	4.00%	\$ 18,758	4.00%
Central Valley Community Bank	\$ 51,296	8.18%	\$ 42,202	9.00%
Minimum requirement for Well-Capitalized institution	\$ 31,360	5.00%	\$ 23,438	5.00%
Minimum regulatory requirement	\$ 25,088	4.00%	\$ 18,751	4.00%
<b><u>Tier 1 Risk-Based Capital Ratio</u></b>				
Central Valley Community Bancorp and Subsidiary	\$ 54,519	9.33%	\$ 44,238	11.65%
Minimum regulatory requirement	\$ 23,374	4.00%	\$ 15,188	4.00%
Central Valley Community Bank	\$ 51,296	8.81%	\$ 42,202	11.12%
Minimum requirement for Well-Capitalized institution	\$ 34,934	6.00%	\$ 22,773	6.00%
Minimum regulatory requirement	\$ 23,289	4.00%	\$ 15,182	4.00%
<b><u>Total Risk-Based Capital Ratio</u></b>				
Central Valley Community Bancorp and Subsidiary	\$ 61,742	10.57%	\$ 48,125	12.67%
Minimum regulatory requirement	\$ 46,748	8.00%	\$ 30,376	8.00%
Central Valley Community Bank	\$ 58,519	10.05%	\$ 46,089	12.14%
Minimum requirement for Well-Capitalized institution	\$ 58,223	10.00%	\$ 37,954	10.00%
Minimum regulatory requirement	\$ 46,579	8.00%	\$ 30,363	8.00%

## **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 Directors' Asset/Liability Committees. This process is intended to ensure the maintenance of sufficient funds to meet our needs, including adequate cash flow for off-balance sheet commitments.

Our primary sources of liquidity are derived from financing activities which include the acceptance of customer and, to a lesser extent, broker deposits, Federal funds facilities and advances from the Federal Home Loan Bank of San Francisco. These funding sources are augmented by payments of principal and interest on loans, the routine maturities and pay downs of securities from the securities portfolio, the stability of our core deposits and the ability to sell investment securities. 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.

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As a means of augmenting our liquidity, we have established Federal funds lines with correspondent banks. At December 31, 2008 our available borrowing capacity includes approximately \$39,000,000 in Federal funds lines with our correspondent banks and \$19,207,000 in unused FHLB advances. The Bank is also eligible to issue certain debt that is backed by the full faith and credit of the United States, up to a limit of \$9,424,000, under the FDIC's Temporary Liquidity Guarantee Program. We believe our liquidity sources to be stable and adequate. At December 31, 2008, 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, 2008 and 2007:

Table of Contents

Credit Lines (In thousands)	December 31,	
	2008	2007
<b>Unsecured Credit Lines</b>		
(interest rate varies with market):		
Credit limit	\$ 39,000	\$ 18,000
Balance outstanding	\$ 6,368	\$
<b>Federal Home Loan Bank</b>		
(interest rate at prevailing interest rate):		
Credit limit	\$ 38,207	\$ 23,498
Balance outstanding	\$ 19,000	\$ 20,000
Collateral pledged	\$ 54,350	\$ 24,231
Fair value of collateral	\$ 52,783	\$ 24,203
<b>Federal Reserve Bank</b>		
(interest rate at prevailing discount interest rate):		
Credit limit	\$ 1,878	\$ 1,986
Balance outstanding	\$	\$
Collateral pledged	\$ 1,885	\$ 2,032
Fair value of collateral	\$ 1,929	\$ 2,057

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

**OFF-BALANCE SHEET ITEMS**

In the ordinary 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 \$160,450,000 as of December 31, 2008 compared to \$135,638,000 as of December 31, 2007. For a more detailed discussion of these financial instruments, see Note 11 to the audited Consolidated Financial Statements in Item 8 of 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 11 to the audited Consolidated Financial Statements in Item 8 of this Annual Report.

**Table of Contents****CONTRACTUAL OBLIGATIONS**

The following summarizes the Company's long-term contractual obligations at December 31, 2008:

(In thousands)	Less than 1 year	1 - 3 years	3 - 5 years	Thereafter	Total
Time deposits	\$ 192,352	\$ 9,996	\$ 4,670	\$ 4,969	\$ 211,987
FHLB Advances		15,000	4,000		19,000
Deferred Compensation Liability (1)	1,776				1,776
Salary Continuation Liability (1)	2,135	407	384	1,545	4,471
Obligations reflected on Consolidated Balance Sheet	\$ 196,263	\$ 25,403	\$ 9,054	\$ 6,514	\$ 237,234
Operating lease obligations	\$ 1,746	\$ 3,124	\$ 2,700	\$ 6,664	\$ 14,234
Obligations not reflected on Consolidated Balance Sheet	\$ 1,746	\$ 3,124	\$ 2,700	\$ 6,664	\$ 14,234

(1) These amounts represent the current accrual for payments to participants under the Company's deferred compensation and salary continuation plans. See Note 15 to the consolidated financial statements at Item 8 of this Annual Report.

**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 borrowings are affected by market interest rates. As of December 31, 2008, 83.1% of our loan portfolio was tied to adjustable-rate indices. The majority of these adjustable-rate loans are tied to prime and reprice within 90 days. The majority of our time deposits have a fixed rate of interest. As of December 31, 2008, 90.7% of our time deposits mature within one year or less. As of December 31, 2008, \$6,368,000 of our short term debt and \$19,000,000 of our long-term debt was fixed rate. Our long-term debt has maturities through 2013.

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

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

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



Table of Contents

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 incorporate 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 300 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 83.1% of our loan portfolio is tied to adjustable rate indices and 40% of our loan portfolio reprices within 90 days. As of December 31, 2008, we had 198 commercial and real estate loans totaling \$125,422,000 with floors ranging from 1% to 8.25% and ceilings ranging from 7% to 25%.

The following table shows the effects of changes in projected net interest income for the twelve months ending December 31, 2008 under the interest rate shock scenarios stated. The table was prepared as of December 31, 2008, using a prime interest rate of 3.25%.

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

<b>HYPOTHETICAL CHANGE IN RATES (Dollars in thousands)</b>	<b>PROJECTED NET INTEREST INCOME</b>	<b>\$ CHANGE FROM RATES AT DEC. 31, 2008</b>	<b>% CHANGE FROM RATES AT DEC. 31, 2008</b>
UP 300 bp	\$ 33,492	\$ 880	2.70%
UP 200 bp	33,174	562	1.73%
UP 100 bp	32,865	254	0.78%
UNCHANGED	32,611		
DOWN 25 bp	32,609	(2)	0.01%

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. In the model above, the simulation shows that the Company is neutral over the one-year horizon. If interest rates increase or decline, there will be similar positive and negative impact to net interest income.

There is no material change in our current market risk exposure from the market risk exposure we experienced in 2007. The outcome of the sensitivity analysis conducted for 2007 was essentially the same as 2008.

**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 in Item 8 of this Annual Report. Not all of the significant accounting policies presented in Note 1 of the audited consolidated financial statements 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.

Table of Contents

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

**Accounting Principles Generally Accepted in the United States of America**

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

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

**Allowance for Credit Losses**

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

The calculation of the allowance for credit losses is by nature inexact, as the allowance represents our management's best estimate of the 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**

An investment security is impaired if its estimated fair value is less than its amortized cost. Investment securities that are in an unrealized loss position are evaluated for other-than-temporary 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 below amortized cost is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline, the financial condition of the issuer, rating agency changes related to the issuer's securities and the intent and ability of the Bank to retain its investment in the issues 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, the value of the security is reduced and a corresponding charge to earnings is recognized.

**Amortization of Premiums 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 of these investments affects our net interest income. Our management monitors the prepayment speed of these investments and adjusts premium amortization 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, 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 is by nature inexact, and represents management's best estimate of principal pay downs inherent in the total investment portfolio.

Table of Contents

**Goodwill**

Business combinations involving the Company's acquisition of the equity interests or net assets of another enterprise or the assumption of net liabilities in an acquisition of branches constituting a business may give rise to goodwill. Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed in transactions accounted for under the purchase method of accounting. The value of goodwill is ultimately derived from the Company's ability to generate net earnings after the acquisition. A decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed for impairment at a reporting unit level at least annually. 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 based option valuation model that requires the use of assumptions to estimate the grant date fair value. The estimates are based on assumptions on the expected option life, the level of estimated forfeitures, expected stock volatility and the risk-free interest rate. The calculation of the fair value of share based payments is by nature inexact, and represents management's best estimate of the grant date fair value of the share based payments. See Note 1 to the audited Consolidated Financial Statements in Item 8 of 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 provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) have been applied to all tax positions of the Company since January 1, 2007. Only tax positions that met the more-likely-than-not recognition threshold on January 1, 2007 were recognized or continue to be 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, 2008, 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 majority of our loan portfolio. Refer to Market Risk section for further discussion.

Table of Contents

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Contents	Page No.
<u>Report of Independent Registered Public Accounting Firm</u>	56
<u>Consolidated Balance Sheet</u>	57
<u>Consolidated Statement of Income</u>	58
<u>Consolidated Statement of Changes in Shareholders' Equity</u>	60
<u>Consolidated Statement of Cash Flows</u>	62
<u>Notes to Consolidated Financial Statements</u>	65

Table of Contents

**CENTRAL VALLEY COMMUNITY BANCORP**

**AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2008 AND 2007**

**AND FOR THE YEARS ENDED**

**DECEMBER 31, 2008, 2007 AND 2006**

**AND**

**REPORT OF INDEPENDENT REGISTERED**

**PUBLIC ACCOUNTING FIRM**



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 balance sheets of Central Valley Community Bancorp and subsidiary as of December 31, 2008 and 2007 and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 consolidated 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 provided a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Central Valley Community Bancorp and subsidiary as of December 31, 2008 and 2007 and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Sacramento, California

March 12, 2009

Table of Contents**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY****CONSOLIDATED BALANCE SHEETS**

December 31, 2008 and 2007

(In thousands, except share amounts)

	2008	2007
<b>ASSETS</b>		
Cash and due from banks	\$ 18,061	\$ 17,108
Federal funds sold	1,457	14,536
Total cash and cash equivalents	19,518	31,644
Investment securities:		
Available-for-sale, at fair value	185,718	84,373
Held-to-maturity, at amortized cost	7,040	
Loans, less allowance for credit losses of \$7,223 in 2008 and \$3,887 in 2007	477,015	337,241
Bank premises and equipment, net	6,900	5,767
Bank owned life insurance	10,808	6,723
Federal Home Loan Bank stock	3,140	2,022
Goodwill	23,773	8,934
Core deposit intangibles	2,026	857
Accrued interest receivable and other assets	16,775	6,124
Total assets	\$ 752,713	\$ 483,685
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Deposits:		
Non-interest bearing	\$ 162,106	\$ 128,120
Interest bearing	472,952	274,442
Total deposits	635,058	402,562
Short-term borrowings	6,368	20,000
Long-term debt	19,000	
Junior subordinated deferrable interest debentures	5,155	
Accrued interest payable and other liabilities	11,757	6,929
Total liabilities	677,338	429,491
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred stock, no par value; 10,000,000 shares authorized, no shares issued or outstanding	30,479	13,571

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Common stock, no par value; 80,000,000 shares authorized, 7,642,280 and 5,975,316 shares issued and outstanding in 2008 and 2007, respectively

Retained earnings	44,708	40,483
Accumulated other comprehensive income, net of taxes	188	140
Total shareholders' equity	75,375	54,194
Total liabilities and shareholders' equity	\$ 752,713	\$ 483,685

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

Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2008, 2007 and 2006

(In thousands, except per share amounts)

	2008	2007	2006
Interest income:			
Interest and fees on loans	\$ 25,631	\$ 27,748	\$ 25,527
Interest on Federal funds sold	251	583	1,165
Interest and dividends on investment securities:			
Taxable	4,845	3,355	3,213
Exempt from Federal income taxes	1,118	880	1,027
Total interest income	31,845	32,566	30,932
Interest expense:			
Interest on deposits	6,340	7,894	6,210
Interest on junior subordinated deferrable interest debentures	46		
Other	892	164	349
Total interest expense	7,278	8,058	6,559
Net interest income before provision for credit losses	24,567	24,508	24,373
Provision for credit losses	1,290	480	800
Net interest income after provision for credit losses	23,277	24,028	23,573
Non-interest income:			
Service charges	3,350	2,859	2,532
Appreciation in cash surrender value of bank owned life insurance	268	226	253
Loan placement fees	111	185	350
Federal Home Loan Bank stock dividends	118	102	89
Net realized gains on sales and calls of investment securities	165	63	123
Gain on sale and disposal of equipment		3	192
Gain from bank owned life insurance			625
Other income	1,178	1,080	1,013
Total non-interest income	5,190	4,518	5,177

(Continued)



Table of Contents**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF INCOME**

(Continued)

**For the Years Ended December 31, 2008, 2007 and 2006****(In thousands, except per share amounts)**

	2008		2007		2006
Non-interest expenses:					
Salaries and employee benefits	\$ 11,578	\$	10,829	\$	10,871
Occupancy and equipment	2,890		2,618		2,421
Other expenses	6,508		5,652		5,249
Total non-interest expenses	20,976		19,099		18,541
Income before provision for income taxes	7,491		9,447		10,209
Provision for income taxes	2,352		3,167		3,298
Net income	\$ 5,139	\$	6,280	\$	6,911
Basic earnings per share	\$ 0.83	\$	1.05	\$	1.16
Diluted earnings per share	\$ 0.79	\$	0.99	\$	1.07
Cash dividends per share	\$ 0.10	\$	0.10	\$	

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

Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

For the Years Ended December 31, 2008, 2007 and 2006

(In thousands, except share and per share amounts)

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss) (Net of Taxes)	Total Shareholders Equity	Total Comprehensive Income
Balance, January 1, 2006	5,891,820	\$ 13,053	\$ 28,977	\$ (507)	\$ 41,523	
Comprehensive income:						
Net income			6,911		6,911	\$ 6,911
Other comprehensive income, net of tax:						
Net change in unrealized loss on available-for-sale investment securities				390	390	390
Total comprehensive income						\$ 7,301
Repurchase and retirement of common stock	(26,200)	(395)			(395)	
Stock-based compensation expense		163			163	
Stock options exercised and related tax benefit	172,036	1,186			1,186	
Balance, December 31, 2006	6,037,656	14,007	35,888	(117)	49,778	
Comprehensive income:						
Net income			6,280		6,280	\$ 6,280
Other comprehensive income, net of tax:						
Net change in unrealized gain (loss) on available-for-sale investment securities				257	257	257
Total comprehensive income						\$ 6,537
Cash dividend payment (\$0.10 per share)			(595)		(595)	
Repurchase and retirement of common stock	(186,800)	(1,617)	(1,090)		(2,707)	
Stock-based compensation expense		221			221	
Stock options exercised and related tax benefit	124,460	960			960	
Balance, December 31, 2007	5,975,316	13,571	40,483	140	54,194	

(Continued)





Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Continued)

For the Years Ended December 31, 2008, 2007 and 2006

(In thousands, except share and per share amounts)

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss) (Net of Taxes)	Total Shareholders Equity	Total Comprehensive Income
Balance, December 31, 2007	5,975,316	\$ 13,571	\$ 40,483	\$ 140	\$ 54,194	
Comprehensive income:						
Net income			5,139		5,139	\$ 5,139
Other comprehensive income, net of tax:						
Net change in unrealized gain on available- for-sale investment securities				48	48	48
Total comprehensive income						\$ 5,187
Cash dividend payment (\$0.10 per share)			(598)		(598)	
Repurchase and retirement of common stock	(5,436)	(56)			(56)	
Stock issued for acquisition	1,628,397	16,600			16,600	
Stock-based compensation expense		100			100	
Stock options exercised and related tax benefit	44,003	264			264	
Cumulative effect of adopting Emerging Issues Task Force (EITF) 06-04			(316)		(316)	
Balance, December 31, 2008	7,642,280	\$ 30,479	\$ 44,708	\$ 188	\$ 75,375	
			<b>2008</b>	<b>2007</b>	<b>2006</b>	
Disclosure of reclassification amount, net of taxes:						
Unrealized holding (losses) gains arising during the year			\$ 147	\$ 295	\$ 464	
Less reclassification adjustment for net gains included in net income			(99)	(38)	(74)	
Net change in unrealized gains (losses) on available-for-sale investment securities			\$ 48	\$ 257	\$ 390	

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

Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2008, 2007 and 2006

(In thousands)

	2008	2007	2006
Cash flows from operating activities:			
Net income	\$ 5,139	\$ 6,280	\$ 6,911
Adjustments to reconcile net income to net cash provided by operating activities:			
Net (decrease) increase in deferred loan fees	(370)	(164)	160
Depreciation, accretion and amortization, net	814	1,077	1,619
Stock-based compensation	100	221	163
Tax benefit from exercise of stock options	(57)	(395)	(451)
Provision for loan losses	1,290	480	800
Net realized gains on sales and calls of available-for-sale investment securities	(165)	(63)	(123)
Net gain on sale and disposal of equipment		(3)	(192)
Increase in bank owned life insurance, net of expenses	(269)	(226)	(248)
FHLB stock dividends	(118)	(102)	(89)
Net decrease (increase) in accrued interest receivable and other assets	(426)	648	(398)
Net increase in accrued interest payable and other liabilities	294	525	2,190
Provision for deferred income taxes	(556)	(403)	(838)
Net cash provided by operating activities	5,676	7,875	9,504
Cash flows from investing activities:			
Cash and cash equivalents acquired in acquisition	2,132		21
Purchases of available-for-sale investment securities	(57,484)	(20,693)	(30,657)
Purchases of held-to-maturity investment securities	(7,466)		
Proceeds from principle repayments of held-to-maturity investment securities	501		
Proceeds from sales or calls of available-for-sale investment securities	12,327	15,700	16,559
Proceeds from maturity of available-for-sale investment securities	9,000	10,499	1,000
Proceeds from principal repayments of available-for-sale investment securities	18,525	14,608	15,085
Net decrease in interest bearing deposits in other banks		323	595
Net FHLB stock purchases	(275)	(29)	(143)
Net increase in loans	(24,666)	(18,704)	(21,350)
Purchases of premises and equipment	(1,092)	(2,047)	(2,987)
Proceeds from sale of equipment		4	488
Proceeds from bank owned life insurance			1,332
Purchases of bank owned life insurance		(351)	(505)
Net cash used in investing activities	(48,223)	(690)	(20,562)

(Continued)

62

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Table of Contents**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Continued)

**For the Years Ended December 31, 2008, 2007 and 2006****(In thousands)**

	2008	2007	2006
Cash flows from financing activities:			
Net increase (decrease) in demand, interest-bearing and savings deposits	\$ 26,676	(45,523)	\$ (5,951)
Net increase in time deposits	12,332	7,458	15,589
Proceeds from short-term borrowings from Federal Home Loan Bank	135,500	87,500	9,788
Proceeds from long-term borrowings from Federal Home Loan Bank	19,000		
Repayments of short-term borrowings to Federal Home Loan Bank	(165,500)	(69,500)	(11,788)
Net increase in short-term borrowings	2,803		
Repayment of borrowings from other financial institutions		(1,250)	(1,250)
Share repurchase and retirement	(56)	(2,707)	(395)
Proceeds from exercise of stock options	207	565	735
Tax benefit from exercise of stock options	57	395	451
Cash dividend payments	(598)	(595)	
Net cash provided by (used in) financing activities	30,421	(23,657)	7,179
Decrease in cash and cash equivalents	(12,126)	(16,472)	(3,879)
Cash and cash equivalents at beginning of year	31,644	48,116	51,995
Cash and cash equivalents at end of year	\$ 19,518	\$ 31,644	\$ 48,116
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest expense	\$ 6,926	\$ 7,805	\$ 6,362
Income taxes	\$ 3,209	\$ 3,380	\$ 3,400
Non-cash investing activities:			
Net change in unrealized gain (loss) on available-for-sale investment securities	\$ 79	\$ 429	\$ 650
Cumulative effect of adopting EITF 06-04	\$ (316)	\$	\$
Non-cash financing activities:			
Tax benefit from stock options exercised	\$ 57	\$ 395	\$ 451

(Continued)



Table of Contents**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Continued)

**For the Years Ended December 31, 2008, 2007 and 2006****(In thousands)**

	2008	2007	2006
<b>Supplemental Schedule Related to Acquisitions:</b>			
<b>Acquisition of Bank of Madera County:</b>			
Goodwill and intangibles	\$	\$	\$ 21
Cash and cash equivalents acquired, net of cash paid to Bank of Madera County shareholders and option holders	\$	\$	\$ 21
<b>Acquisition of Service 1st Bancorp:</b>			
Deposits	\$	193,488	
Fed funds purchased		3,565	
Short-term borrowings from Federal Home Loan Bank		10,000	
Junior subordinated deferrable interest debentures		5,155	
Other liabilities		4,220	
Loans, net		(116,028)	
Goodwill and intangibles		(16,239)	
Premises and equipment		(1,070)	
Federal Home Loan Bank stock		(1,000)	
Investment securities		(83,099)	
Other assets		(9,644)	
Bank owned life insurance		(3,816)	
Stock issued		16,600	
Cash and cash equivalents acquired, net of cash paid	\$	2,132	

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

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.





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

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

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

The Bank operates 15 branches in Clovis, Fresno, west and northeast Fresno County, Madera County, Tracy, Stockton, Lodi and Sacramento, California. The Bank's primary source of revenue is providing loans to customers who are predominately small and middle-market businesses and individuals. The Bank's subsidiaries have nominal activity.

The deposits of the Bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to applicable legal limits. The Bank is participating in the FDIC Transaction Account Guarantee Program. Under this program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account and the Bank is assessed an annual fee of 10 basis points for all deposit amounts exceeding the existing deposit insurance limit of \$250,000. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules.

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

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

Certain reclassifications have been made to prior years' balances to conform to classifications used in 2008.

Table of Contents

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the consolidated accounts of its wholly-owned subsidiary, the Bank. In addition, the accounts of the Bank's wholly owned subsidiaries, Clovest Corporation and Clovis Securities Corporation (an inactive company), as well as a majority ownership in Central Valley Community Insurance Services, LLC, are included in the consolidated financial statements. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

Use of Estimates

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

#### Cash and Cash Equivalents

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

#### Investment Securities

Investments are classified into the following categories:

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

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value. As of December 31, 2008 and 2007, there were no transfers between categories.

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.

Table of Contents

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

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

Investment Securities (Continued)

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, the value of the security is reduced and a corresponding charge to earnings is recognized.

**Loans**



Loans are stated at principal balances outstanding. Interest is accrued daily based upon outstanding loan balances. However, when, in the opinion of management, loans are considered impaired and the future collectibility of interest and principal is in serious doubt, a loan is placed on nonaccrual status and the accrual of interest income is suspended. Any interest accrued but unpaid is charged against income. Payments received are applied to reduce principal to the extent necessary 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 earned but unpaid interest and then to principal.

An impaired loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical matter, at the loan's observable market price or the fair value of collateral if the loan is collateral dependent. 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 both principal and interest) in accordance with the contractual terms of the loan agreement. Interest income on impaired loans, if appropriate, is recognized on a cash basis.

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, to be amortized to interest income over the contractual term of the loan. The unamortized balance of deferred fees and costs is reported as a component of net loans.

The Company may acquire loans through a business combination or a purchase for which differences may exist between the contractual cash flows and the cash flows expected to be collected due, at least in part, to credit quality. When the Company acquires such loans, the yield that may be accreted (accretable yield) is limited to the excess of the Company's estimate of undiscounted cash flows expected to be collected over the Company's initial investment in the loan. The excess of contractual cash flows over cash flows expected to be collected may not be recognized as an adjustment to yield, loss, or a valuation allowance. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as an impairment. The Company may not carry over or create a valuation allowance in the initial accounting for loans acquired under these circumstances.

Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

Loans (Continued)

At December 31, 2008, the Company has loans that were acquired through the merger with Service 1st for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected.

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

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

Subsequent to the acquisition, all of these loans were placed on nonaccrual status. The carrying amount of those loans is included in loans on the balance sheet at December 31, 2008. The outstanding contractual balance and carrying amount of those loans at December 31, 2008 are as follows (in thousands):

Commercial	\$ 1,565
Real estate	10,765
Consumer	149
Outstanding balance	\$ 12,479
Carrying amount at December 31, 2008	\$ 9,025

At December 31, 2007, there were no such loans being accounted for under this policy.

Allowance for Credit Losses

The allowance for credit losses is maintained to provide for losses related to impaired loans and other losses that can be expected to occur in the normal course of business. The determination of the allowance is based on estimates made by management, to include consideration of the character of the loan portfolio, specifically identified problem loans, potential losses inherent in the portfolio taken as a whole and economic conditions in the Bank's service area.

Classified loans and loans determined to be impaired are individually evaluated by management for specific risk of loss. In addition, a reserve factor is assigned to currently performing loans based on the Bank's historical loss experience and other factors. Management also computes specific and expected loss reserves for loan commitments. These estimates are susceptible to changes in the economic environment and market conditions.

The Bank's Audit Committee reviews the adequacy of the allowance for credit losses quarterly, to include consideration of the relative risks in the portfolio, current economic conditions and other factors. The allowance is adjusted based on that review if, in the judgment of the Audit Committee and management, changes are warranted.

Table of Contents

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

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

Allowance for Credit Losses (Continued)

This 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. The allowance for credit losses at December 31, 2008 and 2007, respectively, reflects management's estimate of potential losses in the portfolio.

Bank Premises and Equipment

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

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

### 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, 2008 was \$23,773,000 consisting of \$14,839,000 and \$8,934,000 representing the excess of the cost of Service 1st Bank and Bank of Madera County, respectively, over the net of the amounts assigned to assets acquired and liabilities assumed in the transaction 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 acquisition 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. There was no impairment resulting from management's assessment during 2008, 2007 or 2006.

### Intangible Assets

The intangible assets represent the estimated fair value of the core deposit relationships acquired in the acquisition of Service 1st Bank in 2008 of \$1,383,000, net of \$17,000 in amortization, and the 2005 acquisition of Bank of Madera County of \$626,000, net of \$874,000 in amortization, at December 31, 2008. Core deposit intangibles are being amortized by the straight-line method over an estimated life of seven years from the date of acquisition. Management evaluates the recoverability and remaining useful life annually to determine whether events or circumstances warrant a revision to the intangible asset or the remaining period of amortization. Amortization expense recognized in 2008 was \$231,000, and for 2007 and 2006 was \$214,000.

### 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.











Table of Contents



**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

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

Income Taxes (Continued)

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.

Accounting for Uncertainty in Income Taxes

Since January 1, 2007, the Company has accounted for uncertainty in income taxes under Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). Under the provisions of FIN 48, only tax positions that met the more-likely-than-not recognition threshold on January 1, 2007 were recognized or continue to be recognized upon adoption. The Company previously recognized income tax positions based on management's estimate of whether it was reasonably possible that a liability had been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*. The adoption of FIN 48 did not have a material impact on the Company's financial position, results of operations or cash flows.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. 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, if any, are classified as income tax expense in the consolidated statement of income.

Earnings Per Share

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

Share-Based Compensation

The Company has three share-based compensation plans, the Central Valley Community Bancorp 2005 Omnibus Incentive Plan and the 2000 and 1992 Stock Option Plans, all of which were approved by the shareholders of the Company. The Plans do not provide for the settlement of awards in cash and new shares are issued upon option exercise or restricted share grants. These plans are more fully described in Note 13.



Table of Contents

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

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

Share-Based Compensation (Continued)

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

In October 2007, the Company cancelled options to purchase 15,000 shares of common stock granted on May 1, 2006 and 78,900 granted on April 23, 2007 and on October 17, 2007, granted options to purchase 93,900 shares of common stock to directors, senior managers and other employees. The modification affected 60 employees and eight directors and the total incremental compensation cost recognized for the modification in 2007 was \$29,000. In addition, the Company granted options to purchase 15,000 shares of common stock during 2007. All options were granted with an exercise price equal to the fair market value on the grant date.

The cash flows from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) are classified as a cash flow from financing activity in the statement of cash flows. Excess tax benefits for the years ended December 31, 2008, 2007 and 2006 were \$57,000, \$395,000 and \$451,000, respectively.

The Company bases the fair value of the options previously granted on the date of grant using a Black-Scholes 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.

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

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	2008	2007	2006
Dividend yield	.10%	0 - .10%	.5%
Expected volatility	31.32%	28.45% - 29.34%	15.65%
Risk-free interest rate	2.29%	4.20% - 4.48%	5.05%
Expected option term	6.5 years	6.5 years	6.5 years

Table of Contents

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

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

Impact of New Financial Accounting Standards

*Business Combinations*

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R), among other things, establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired business, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company is required to adopt SFAS No. 141(R) for all business combinations for which the acquisition date is on or after January 1, 2009. Earlier adoption is prohibited. This Standard will change the Company's accounting treatment for business combinations on a prospective basis.

*The Hierarchy of Generally Accepted Accounting Principles*

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). This standard identifies a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. It establishes that the GAAP hierarchy should be directed to entities because it is the entity (not the auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. SFAS No. 162 is effective November 15, 2008. The adoption of this Statement did not have any effect on the Company's consolidated financial position, results of operations or cash flows.

*Employers' Disclosures about Postretirement Benefit Plan Assets*

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In December 2008, the FASB issued FASB Staff Position (FSP) Financial Accounting Standard No. 132R-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP 132(R)-1). This standard provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. It also includes a technical amendment to FASB Statement No. 132(R) that requires a nonpublic entity to disclose net periodic benefit cost for each annual period for which a statement of income is presented. The objectives of the disclosures about plan assets in an employer's defined benefit pension or other postretirement plan are to provide users of financial statements with an understanding of how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies, the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period, and significant concentrations of risk within plan assets. The disclosures about plan assets required by this FSP are effective for fiscal years ending after December 15, 2009. Early adoption is permitted. The adoption of FSP 132(R)-1 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Table of Contents

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

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

After the close of business on November 12, 2008, the Company and Service 1st completed their previously announced merger and Service 1st was merged into the Company, and the Service 1st subsidiary, S1 Bank merged into the Bank. The Company acquired 100% of the outstanding common shares of Service 1st and the results of Service 1st's operations have been included in the consolidated financial statements beginning November 13, 2008. Management believes that the merger will allow the Bank to further accommodate a growing customer base in San Joaquin County and provide Service 1st customers with more convenient locations in the Central Valley, as well as offer new advancement and geographic opportunities for their employees. As a result of the above factors, management believes that the potential for the combined performance exceeds what each entity could accomplish independently and the goodwill in this transaction arose from the synergies associated with the merger. The acquisition is part of the Company's long-term strategy to increase its presence from Sacramento to Bakersfield along the Highway 99 corridor and the surrounding foothills.

The total consideration paid to Service 1st shareholders was approximately \$22,728,000. Under the merger agreement, Service 1st shareholders received in exchange for each share of Service 1st common stock held, cash in the amount of \$2.50 and shares of the Company's common stock based on an exchange ratio of 0.681818, representing an aggregate cash amount of \$5,972,000 and an aggregate share amount of 1,628,397 (valued at \$16,600,000 for purposes of the merger agreement) subject to a cash holdback of \$3,500,000, or approximately \$1.36 per share, that was deposited into an escrow account pending the outcome of certain litigation matters (see Note 11). Total consideration paid to Service 1st shareholders was established under the terms of the merger agreement based on a value of \$9.52 per share of Service 1st common stock.

The excess of the purchase price over the estimated fair value of the net assets acquired was \$14,839,000, which was recorded as goodwill, is not subject to amortization, and is not deductible for tax purposes. In addition, assets acquired also included a core deposit intangible of \$1,400,000 which is being amortized using a straight-line method over a period of seven years with no significant residual value. Amortization expense recognized in 2008 was \$17,000.

The following supplemental information is a condensed balance sheet showing the fair values of the assets acquired and the liabilities assumed as of the date of acquisition. Dollars are in thousands.

Assets:		
Cash and cash equivalents	\$	6,626
Investment securities		83,099
Loans, net of allowance of \$2,786		116,028
Premises and equipment		1,070
Bank owned life insurance		3,816
Other		10,644
		221,283
Liabilities:		
Deposits		193,488
Short-term borrowings		13,565
Long-term borrowings		5,155
Other		4,220
Net assets acquired	\$	4,855

Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

(Continued)

The accompanying consolidated financial statements include the accounts of Service 1st since November 13, 2008. The following supplemental pro forma information discloses selected financial information for the periods indicated as though the Service 1st merger had been completed as of the beginning of each of the periods being reported. Dollars are in thousands except per share data. 2008 pro forma net income includes non-recurring merger expenses for legal, accounting and other professional fees, net of tax, totaling \$595,000.

	Years Ended December 31,	
	2008	2007
Revenue	\$ 49,666	\$ 52,879
Net income	\$ 1,689	\$ 6,617
Diluted earnings per share	\$ 0.22	\$ 0.83

## 3. FAIR VALUE MEASUREMENTS

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

	December 31, 2008		December 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial assets:				
Cash and due from banks	\$ 18,061	\$ 18,061	\$ 17,108	\$ 17,108
Federal funds sold	1,457	1,457	14,536	14,536
Available-for-sale investment securities	185,718	185,718	84,373	84,373
Held-to-maturity investment securities	7,040	6,700		
Loans, net	477,015	482,819	337,241	342,638

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Bank owned life insurance	10,808	10,808	6,723	6,723
FHLB stock	3,140	3,140	2,022	2,022
Accrued interest receivable	3,710	3,710	2,324	2,324
<b>Financial liabilities:</b>				
Deposits	\$ 635,058	\$ 638,359	\$ 402,562	\$ 404,147
Short-term borrowings	6,368	6,368	20,000	20,000
Long-term debt	19,000	19,740		
Junior subordinated deferrable interest debentures	5,155	5,155		
Accrued interest payable	718	718	680	680

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.



Table of Contents

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

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

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

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

Fair Value Measurements under SFAS 157

On January 1, 2008, the Company adopted FASB Statement No. 157 (SFAS 157), *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurement. Upon adoption of SFAS No. 157, there was no cumulative effect adjustment to beginning retained earnings and no impact on the consolidated financial statements.

In October 2008, the FASB issued FSP Financial Accounting Standard No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. The FSP was effective immediately and clarifies the application of FASB Statement No. 157, *Fair Value Measurements* and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active.



Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## 3. FAIR VALUE MEASUREMENTS (Continued)

Fair Value Measurements under SFAS 157 (Continued)

The following table presents information about the Company's financial assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2008, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Description	Fair Value December 31, 2008	Fair Value Measurements at December 31, 2008, Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands)				
Financial assets and liabilities measured on a recurring basis:				
Available-for-sale investment securities	\$ 185,718	\$ 3,297	\$ 166,257	\$ 16,164
Financial assets and liabilities measured on a non-recurring basis:				
Impaired loans	\$ 15,750	\$	\$ 15,750	\$

Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## 3. FAIR VALUE MEASUREMENTS (Continued)

Fair Value Measurements under SFAS 157 (Continued)

The fair value of available-for-sale investment securities is based on quoted market prices, if available, or on market price determinations from third party evaluation vendors utilizing available trade, bid and other market information and through processes such as benchmark curves, benchmarking to like securities, sector groupings and matrix pricing. The fair value of impaired loans is based on the fair value of the collateral for all collateral dependent loans and for other impaired loans is estimated using a discounted cash flow model.

## Fair Value Measurements Using Significant Unobservable Inputs

(Level 3)

	<b>Available-for-Sale Investment Securities Year Ended December 31, 2008 (in thousands)</b>
Beginning balance	\$ 9,011
Total gains or losses (realized/unrealized):	
Included in earnings	3
Included in other comprehensive income	457
Purchases, sales and principal payments, net	6,693
Ending balance	\$ 16,164

## 4. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities at December 31, 2008 and 2007 consisted of the following:

Earnings Per Share

Available-for-Sale Securities	Amortized Cost	2008		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
		(In thousands)		
Debt securities:				
U.S. Government agencies	\$ 12,745	\$ 116	\$ (1)	\$ 12,860
Obligations of states and political subdivisions	56,961	2,469	(808)	58,622
U.S. Government agencies collateralized by mortgage obligations	44,967	813	(23)	45,757
Other securities	70,732	4,069	(6,322)	68,479
	\$ 185,405	\$ 7,467	\$ (7,154)	\$ 185,718

Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## 4. INVESTMENT SECURITIES (Continued)

Held-to-Maturity Securities	Amortized Cost	2008		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In thousands)				
Other debt securities	\$ 7,040	\$	\$ (340)	\$ 6,700

Available-for-Sale Securities	Amortized Cost	2007		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In thousands)				
Debt securities:				
U.S. Government agencies	\$ 8,496	\$ 4	\$ (10)	\$ 8,490
Obligations of states and political subdivisions	25,736	323	(77)	25,982
U.S. Government agencies collateralized by mortgage obligations	46,088	275	(239)	46,124
Other securities	3,819		(42)	3,777
	\$ 84,139	\$ 602	\$ (368)	\$ 84,373

Investment securities with unrealized losses at December 31, 2008 and 2007 are summarized and classified according to the duration of the loss period as follows:

	Less than 12 Months		2008 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
<u>Available-for-Sale Securities</u>						
Debt securities:						
U.S. Government agencies	\$ 2,277	\$ (1)	\$	\$	\$ 2,277	\$ (1)
Obligations of states and political subdivisions	15,061	(808)			15,061	(808)
U.S. Government agencies collateralized by mortgage	7,264	(17)	1,063	(6)	8,327	(23)

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obligations

Other securities	39,644	(6,173)	2,118	(149)	41,762	(6,322)
	\$ 64,246	\$ (6,999)	\$ 3,181	\$ (155)	\$ 67,427	\$ (7,154)

Held-to-Maturity Securities

Other debt securities	\$ 6,700	\$ (340)	\$	\$	\$ 6,700	\$ (340)
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Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## 4. INVESTMENT SECURITIES (Continued)

	Less than 12 Months		2007 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
<u>Available-for-Sale Securities</u>						
Debt securities:						
U.S. Government agencies	\$	\$	\$ 3,990	\$ (10)	\$ 3,990	\$ (10)
Obligations of states and political subdivisions	5,057	(25)	6,903	(52)	11,960	(77)
U.S. Government agencies collateralized by mortgage obligations	20,553	(153)	6,721	(86)	27,274	(239)
Other securities			1,458	(42)	1,458	(42)
	\$ 25,610	\$ (178)	\$ 19,072	\$ (190)	\$ 44,682	\$ (368)

U.S. Government Agencies

At December 31, 2008, the Company held 23 U.S. Government agency securities of which four were in a loss position and had been in a loss position for less than 12 months. The unrealized losses on the Company's investments in direct obligations of U.S. government agencies were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized costs of the investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold 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, 2008.

Obligations of States and Political Subdivision

At December 31, 2008, the Company held 156 obligations of states and political subdivision securities of which 36 were in a loss position for less than 12 months. 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 has the ability and intent to hold 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, 2008.

Table of Contents

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**4. INVESTMENT SECURITIES (Continued)**

U.S. Government Agencies Collateralized by Mortgage Obligations

At December 31, 2008, the Company held 137 U.S. Government agency securities collateralized by mortgage obligation securities of which 17 were in a loss position for less than 12 months and one was in a loss position and had been in a loss position for twelve months or more. The unrealized losses on the Company's investments in U.S. government agencies collateralized by mortgage obligations were caused by interest rate changes. The Company purchased those investments at a discount relative to their face amount, and the contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold 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, 2008.

Other Securities

At December 31, 2008, the Company's other securities consist of 72 investments in residential mortgage backed debt securities, corporate debt securities, and marketable equity securities, of which 37 were in a loss position for less than 12 months and two were in a loss position and had been in a loss position for more than 12 months. The unrealized losses on the Company's other securities were caused by interest rate changes and illiquidity in certain markets. Based on the Company's evaluation and the Company's ability and intent to hold the investment for a reasonable period of time sufficient for a recovery of fair value, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2008.

Net unrealized gains on available-for-sale investment securities totaling \$313,000 and \$234,000 are recorded net of \$125,000 and \$94,000 in tax liabilities as accumulated other comprehensive income within shareholders' equity at December 31, 2008 and 2007, respectively.

Proceeds and gross realized gains from sales or calls of available-for-sale investment securities totaled \$12,327,000 and \$165,000, respectively, for the year ended December 31, 2008. Proceeds and gross realized gains from sales or calls of available-for-sale investment securities totaled \$15,700,000 and \$63,000, respectively, for the year ended December 31, 2007. Proceeds and gross realized gains from sales or calls of available-for-sale investment securities totaled \$16,559,000 and \$123,000, respectively, for the year ended December 31, 2006.

There were no sales or transfers of held-to-maturity investment securities for the year ended December 31, 2008. The Company did not have any held-to-maturity securities in 2007 or 2006.

Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## 4. INVESTMENT SECURITIES (Continued)

The amortized cost and estimated fair value of investment securities at December 31, 2008 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In thousands)			
Within one year	\$ 1,380	\$ 1,379	\$	\$
After one year through five years	1,606	1,633		
After five years through ten years	15,929	16,443		
After ten years	50,791	52,027		
	69,706	71,482		
Investment securities not due at a single maturity date:				
U.S. Government agencies collateralized by mortgage obligations	44,967	45,757		
Other securities	70,732	68,479	7,040	6,700
	\$ 185,405	\$ 185,718	\$ 7,040	\$ 6,700

Investment securities with amortized costs totaling \$111,851,000 and \$39,206,000 and fair values totaling \$111,922,000 and \$39,326,000 were pledged to secure public deposits, other contractual obligations and short-term borrowings at December 31, 2008 and 2007, respectively.

**5. LOANS AND ALLOWANCE FOR CREDIT LOSSES**

Outstanding loans are summarized as follows:

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	2008	December 31, (In thousands)	2007
<b>Commercial:</b>			
Commercial	\$	129,563	\$ 92,613
Agricultural land and production		32,408	32,167
<b>Total commercial</b>		<b>161,971</b>	<b>124,780</b>
<b>Real estate:</b>			
Owner occupied		113,414	76,808
Real estate construction and other land loans		57,923	48,593
Commercial real estate		64,358	43,334
Other		38,060	17,406
<b>Total real estate</b>		<b>273,755</b>	<b>186,141</b>

Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## 5. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

	2008	December 31, (In thousands)	2007
Consumer:			
Equity lines of credit	\$	32,874	\$ 24,595
Consumer and installment		14,993	5,742
Other		863	458
Total consumer		48,730	30,795
Deferred loan fees, net		(218)	(588)
Total gross loans		484,238	341,128
Allowance for credit losses		(7,223)	(3,887)
Total loans	\$	477,015	\$ 337,241

At December 31, 2008 and 2007, loans originated under Small Business Administration (SBA) programs totaling \$29,321,000 and \$28,961,000, respectively, were included in the real estate and commercial categories.

Salaries and employee benefits totaling \$285,000, \$326,000 and \$388,000 have been deferred as loan origination costs for the years ended December 31, 2008, 2007 and 2006, respectively.



Changes in the allowance for credit losses were as follows:

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	2008	Years Ended December 31,		2006
		2007		
		(In thousands)		
Balance, beginning of year	\$ 3,887	\$ 3,809	\$	3,339
Provision charged to operations	1,290	480		800
Losses charged to the allowance	(851)	(481)		(721)
Recoveries	111	79		391
Allowance from merger with Service 1st	2,786			
Balance, end of year	\$ 7,223	\$ 3,887	\$	3,809

At December 31, 2008 and 2007, the recorded investment in impaired loans was \$15,750,000 and \$179,000, respectively. There were no loans considered to be impaired at December 31, 2006. The Company had \$125,000 of specific allowance for loan losses on impaired loans at December 31, 2008. There was no required valuation allowance for impaired loans at December 31, 2007. The average outstanding balance of impaired loans for the years ended December 31, 2008 and 2007 was \$2,724,000 and \$113,000, respectively, and no income was recognized as interest income on a cash basis in either year.

Table of Contents

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**5. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

At December 31, 2008, nonaccrual loans totaled \$15,750,000 and interest foregone on nonaccrual loans totaled \$371,000 for the year then ended. At December 31, 2007, nonaccrual loans totaled \$179,000 and interest foregone on nonaccrual loans totaled \$8,000 for the year then ended. There were no loans on nonaccrual at December 31, 2006 or interest foregone on nonaccrual loans for the year then ended. There were no accruing loans past due 90 days or more at December 31, 2008, 2007 or 2006.

Included in the impaired and nonaccrual loans above are two loans in the amount of \$1,703,000 that were considered to be troubled debt restructurings at December 31, 2008. There are no outstanding commitments to lend additional funds to either of these borrowers.

**6. BANK PREMISES AND EQUIPMENT**

Bank premises and equipment consisted of the following:

	<b>2008</b>	<b>December 31,</b> <b>(In thousands)</b>	<b>2007</b>
Land	\$ 580	\$	580
Buildings and improvements	3,087		3,074
Furniture, fixtures and equipment	6,408		5,316
Leasehold improvements	3,236		2,331
	13,311		11,301
Less accumulated depreciation and amortization	(6,411)		(5,534)
	\$ 6,900	\$	5,767

Depreciation and amortization included in occupancy and equipment expense totaled \$1,028,000, \$935,000 and \$948,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

7. **DEPOSITS**

Interest-bearing deposits consisted of the following:

	2008	December 31, (In thousands)	2007
Savings	\$	21,232	\$ 19,298
Money market		154,931	90,402
NOW accounts		84,802	53,114
Time, \$100,000 or more		108,254	61,197
Time, under \$100,000		103,733	50,431
	\$	472,952	\$ 274,442

Table of Contents

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**7. DEPOSITS (Continued)**

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

<b>Years Ending December 31,</b>		
2009	\$	192,352
2010		8,740
2011		1,256
2012		3,131
2013		1,539
Thereafter		4,969
	\$	211,987

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

	2008	Years Ended December 31, 2007		2006
		(In thousands)		
Savings	\$ 65	\$ 98	\$ 106	
Money market	2,098	2,621	2,467	
NOW accounts	214	347	56	
Time certificates of deposit	3,963	4,828	3,581	
	\$ 6,340	\$ 7,894	\$ 6,210	

## 8. BORROWING ARRANGEMENTS

### Federal Home Loan Bank Advances

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Advances from the Federal Home Loan Bank (FHLB) of San Francisco at December 31, 2008 and 2007 consisted of the following:

Amount	2008 Rate (Dollars in thousands)	Maturity Date	Amount	2007 Rate (Dollars in thousands)	Maturity Date
\$ 5,000	2.73%	February 5, 2010	\$ 10,000	4.37%	January 10, 2008
5,000	3.00%	February 7, 2011	10,000	4.49%	January 9, 2008
5,000	3.10%	February 14, 2011			
4,000	3.59%	February 12, 2013			
19,000			20,000		
		Less short-term portion	(20,000)		Less short-term portion
\$ 19,000		Long-term debt	\$		Long-term debt

FHLB advances are secured by investment securities with amortized costs totaling \$54,350,000 and \$24,231,000 and market values totaling \$52,783,000 and \$24,203,000 at December 31, 2008 and 2007, respectively. The Bank's credit limit varies according to the amount and composition of the investment and loan portfolios pledged as collateral.



Table of Contents

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**8. BORROWING ARRANGEMENTS (Continued)**

Lines of Credit

The Bank had unsecured lines of credit with its correspondent banks which, in the aggregate, amounted to \$39,000,000 and \$18,000,000 at December 31, 2008 and 2007, respectively, at interest rates which vary with market conditions. The Bank also had a line of credit with the Federal Reserve Bank of San Francisco at December 31, 2008 and 2007 which bears interest at the prevailing discount rate collateralized by investment securities with amortized costs totaling \$1,885,000 and \$2,032,000 and market values totaling \$1,929,000 and \$2,057,000, respectively. At December 31, 2008, the Bank had \$6,368,000 in outstanding short-term borrowings under these lines of credit and none outstanding at December 31, 2007.

Temporary Liquidity Guarantee Program



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The Company is eligible to issue certain debt that is backed by the full faith and credit of the U.S. Government, up to a limit of \$9,424,000, under the Federal Deposit Insurance Corporation's Temporary Guarantee Program. Any senior unsecured debt with a stated maturity of more than thirty days issued by the Bank up to its debt guarantee limit falls under this program. The Company will be charged an annualized assessment from the FDIC, ranging from 50 to 100 basis points, based on the term and amount of the debt outstanding under the program. At December 31, 2008, the Company had no borrowings under this debt guarantee program.

**9. 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, 2008, all of the trust preferred securities that have been issued qualify as Tier 1 capital. The trust preferred securities mature on October 7, 2036, are redeemable at the Company's option beginning after five years, and require quarterly distributions by the Trust to the holder of the trust preferred securities at a variable interest rate which will adjust quarterly to equal the three month LIBOR plus 1.60%.

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

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

Table of Contents

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**9. JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES (Continued)**

Holders of the trust preferred securities are entitled to a cumulative cash distribution on the liquidation amount of \$1,000 per security. For each January 7, April 7, July 7 or October 7 of each year, the rate will be adjusted to equal the three month LIBOR plus 1.60%. As of December 31, 2008, the rate was 6.42%. Interest expense recognized by the Company for the year ended December 31, 2008 was \$46,000.

**10. INCOME TAXES**

The provision for income taxes for the years ended December 31, 2008, 2007 and 2006 consisted of the following:

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	Federal	State (In thousands)	Total
<u>2008</u>			
Current	\$ 1,851	\$ 556	\$ 2,407
Deferred	108	(163)	(55)
Provision for income taxes	\$ 1,959	\$ 393	\$ 2,352
<u>2007</u>			
Current	\$ 2,982	\$ 588	\$ 3,570
Deferred	(265)	(138)	(403)
Provision for income taxes	\$ 2,717	\$ 450	\$ 3,167
<u>2006</u>			
Current	\$ 3,135	\$ 1,001	\$ 4,136
Deferred	(680)	(158)	(838)
Provision for income taxes	\$ 2,455	\$ 843	\$ 3,298

Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

**10. INCOME TAXES (Continued)**

Deferred tax assets (liabilities) consisted of the following:

	2008	December 31, (In thousands)	2007
Deferred tax assets:			
Allowance for credit losses	\$ 3,766		\$ 1,542
Other reserves	116		116
Bank premises and equipment	490		312
Deferred compensation	3,493		2,056
Future benefit of state tax	203		231
Share-based compensation			68
Mark to market adjustment for HTM	1,218		
Impairment charges carryover from merger	1,453		
NOL carryover from merger	2,184		
Unrealized loss on available-for-sale investment securities	1,246		
<b>Total deferred tax assets</b>	<b>14,169</b>		<b>4,325</b>
Deferred tax liabilities:			
Other accruals	(844)		(212)
Loan origination costs	(61)		(263)
Finance leases	(2,040)		(80)
Future liability of State deferred tax asset	(840)		(257)
Unrealized gain on available-for-sale investment securities	(125)		(94)
Share-based compensation	(232)		
Core deposit intangible	(908)		(384)
<b>Total deferred tax liabilities</b>	<b>(5,050)</b>		<b>(1,290)</b>
<b>Net deferred tax assets</b>	<b>\$ 9,119</b>		<b>\$ 3,035</b>

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, 2008, 2007 and 2006 consisted of the following:



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	2008	2007	2006
Federal income tax, at statutory rate	34.0%	34.0%	34.0%
State taxes, net of Federal tax benefit	3.4%	3.1%	7.2%
Tax exempt investment security income, net	(4.7)%	(2.9)%	(3.2)%
Bank owned life insurance, net	(1.4)%	(0.8)%	(3.5)%
Other	0.1%	0.1%	(2.2)%
Effective tax rate	31.4%	33.5%	32.3%

Table of Contents**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**10. INCOME TAXES (Continued)**

The Company and its subsidiary file income tax returns in the U.S. federal and California jurisdictions. The Company conducts all of its business activities in the State of California. There are currently no pending U.S. federal, state, and local income tax or non-U.S. income tax examinations by tax authorities. With few exceptions, the Company is no longer subject to the examination by federal taxing authorities for the years ended before December 31, 2005 and by state and local taxing authorities for the years ended before December 31, 2004.

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

Balance at January 1, 2008	\$	179
Additions based on tax positions related to the current year		50
Additions for tax positions of prior years		12
Reductions for tax positions of prior years		(79)
Balance at December 31, 2008	\$	162

During the year ended December 31, 2008, the Company did not recognize any interest and penalties related to uncertain tax positions. During the year ended December 31, 2007, the Company recognized and accrued \$22,000 in interest and penalties.

**11. 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 \$1,244,000, \$1,047,000 and \$724,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

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

<b>Years Ending December 31,</b>		
2009	\$	1,746
2010		1,597
2011		1,527
2012		1,370
2013		1,330
Thereafter		6,664
	\$	14,234

Federal Reserve Requirements

Banks are required to maintain reserves with the Federal Reserve Bank equal to a percentage of their reservable deposits. The amount of such reserve balances required at December 31, 2008 and 2007 was \$25,000 and \$1,327,000, respectively.

Table of Contents

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**11. COMMITMENTS AND CONTINGENCIES (Continued)**

Correspondent Banking Agreements

The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. Uninsured deposits totaled \$106,738 at December 31, 2008.

Financial Instruments With Off-Balance-Sheet Risk

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

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

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

	2008	December 31, (In thousands)	2007
Commitments to extend credit	\$	158,896	\$ 134,669
Standby letters of credit	\$	1,554	\$ 969

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Commitments to extend credit consist primarily of unfunded commercial loan commitments and revolving lines of credit, single-family residential equity lines of credit and commercial real estate construction loans. Construction loans are established under standard underwriting guidelines and policies and are secured by deeds of trust, with disbursements made over the course of construction. Commercial revolving lines of credit have a high degree of industry diversification. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are generally secured and are issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2008 and 2007. The Company recognizes these fees as revenue over the term of the commitment or when the commitment is used.

At December 31, 2008, commercial loan commitments represent approximately 57.7% of total commitments and are generally secured by collateral other than real estate or unsecured. Real estate loan commitments represent 32.2% 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 10.1% of total commitments and are generally unsecured. In addition, the majority of the Bank's loan commitments have variable interest rates.

Table of Contents

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**11. COMMITMENTS AND CONTINGENCIES (Continued)**

Concentrations of Credit Risk

At December 31, 2008, in management's judgment, a concentration of loans existed in commercial loans and real-estate-related loans. At that date, approximately 96.8% of the Bank's loans were commercial and real-estate-related, representing 33.5% and 63.3% of total loans, respectively.

At December 31, 2007, in management's judgment, a concentration of loans existed in commercial loans and real-estate-related loans. At that date, approximately 98.4% of the Bank's loans were commercial and real-estate-related, representing 36.6% and 61.8% of total loans, respectively.

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

*Regent Hotel Litigation*

On May 1, 2008, Regent Hotel, LLC ( "Regent" ) filed a lawsuit in the Superior Court of California, County of Sacramento (the "Regent Litigation" ). Regent Hotel, LLC, a California limited liability company and subsidiary of Regent Development, Inc., a California corporation, filed the Regent Litigation naming as defendants First Bank, as the lead bank in a loan participation, and East West Bank and S1 Bank, which was acquired by the Bank on November 13, 2008, which are participating in the loan. Regent claims that First Bank refused to fund a construction loan draw request and that East West Bank and S1 Bank interfered in the relationship between Regent and First Bank which affected the decision by First Bank not to fund the draw request. Through its acquisition of S1 Bank, the Bank is a 9.915% participant in the amount of

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approximately \$4,000,000. Regent has filed for Chapter 11 bankruptcy. The suit asks for actual and punitive damages in excess of \$10,000,000. In addition, certain contractors have filed mechanics liens against Regent, under which S1 Bank has been named in the complaint. These complaints have been removed to the bankruptcy court.

The Company believes that the suit is without merit, and intends to defend its position vigorously. Additionally, included in the merger consideration paid by the Company to acquire Service 1st, \$3,500,000 was placed into an escrow fund to protect the Company and the Bank from all losses and liabilities that related to the loan participation and/or the Regent Litigation.

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.

Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## 12. SHAREHOLDERS EQUITY

Regulatory Capital

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

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

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

Management believes that the Company and the Bank met all their capital adequacy requirements as of December 31, 2008 and 2007. There are no conditions or events since those notifications that management believes have changed those categories.

	2008		2007	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
<u>Tier 1 Leverage Ratio</u>				
Central Valley Community Bancorp and Subsidiary	\$ 54,519	8.67%	\$ 44,238	9.43%
Minimum regulatory requirement	\$ 25,148	4.00%	\$ 18,758	4.00%
Central Valley Community Bank	\$ 51,296	8.18%	\$ 42,202	9.00%



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Minimum requirement for Well-Capitalized institution	\$	31,360	5.00%	\$	23,438	5.00%
Minimum regulatory requirement	\$	25,088	4.00%	\$	18,751	4.00%

Tier 1 Risk-Based Capital Ratio

Central Valley Community Bancorp and Subsidiary	\$	54,519	9.33%	\$	44,238	11.65%
Minimum regulatory requirement	\$	23,374	4.00%	\$	15,188	4.00%

Central Valley Community Bank	\$	51,296	8.81%	\$	42,202	11.12%
Minimum requirement for Well-Capitalized institution	\$	34,934	6.00%	\$	22,773	6.00%
Minimum regulatory requirement	\$	23,289	4.00%	\$	15,182	4.00%

Total Risk-Based Capital Ratio

Central Valley Community Bancorp and Subsidiary	\$	61,742	10.57%	\$	48,125	12.67%
Minimum regulatory requirement	\$	46,748	8.00%	\$	30,376	8.00%

Central Valley Community Bank	\$	58,519	10.05%	\$	46,089	12.14%
Minimum requirement for Well-Capitalized institution	\$	58,223	10.00%	\$	37,954	10.00%
Minimum regulatory requirement	\$	46,579	8.00%	\$	30,363	8.00%

Table of Contents

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**12. SHAREHOLDERS' EQUITY (Continued)**

Dividends

On February 20, 2008, the Board of Directors declared a \$0.10 per share cash dividend for shareholders of record as of March 11, 2008, payable on March 31, 2008. On July 19, 2007, the Board of Directors declared a \$0.10 per share cash dividend for shareholders of record as of August 8, 2007, payable on August 24, 2007. The Company did not pay any cash dividends in 2006.

The Company's primary source of income with which to pay cash dividends is 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, 2008, retained earnings of \$8,592,000 were free of such restrictions. Dividends on common stock in 2009 will also be limited without the prior approval of the United States Treasury due to the Company's participation in the Capital Purchase Program - see Note 19.

Share Repurchase Plan

During 2006, the Board of Directors approved a stock repurchase plan authorizing the purchase of shares of the Company's common stock up to a total cost of approximately \$1,000,000 or approximately 1% of its outstanding shares of common stock during the period from October 23, 2006 to June 30, 2007.

On April 18, 2007, the Board of Directors approved a stock repurchase plan authorizing the purchase of shares of the Company's common stock. The plan called for repurchases of up to approximately \$2,000,000 of the Company's outstanding shares of common stock during the period from April 18, 2007 to October 18, 2007.

On November 20, 2007, the Board of Directors approved a stock repurchase plan authorizing the purchase of shares of the Company's common stock up to a total cost of approximately \$1,000,000 during the period from November 21, 2007 to May 21, 2008.

No shares were repurchased under a repurchase plan during 2008. In 2008, the Company repurchased 5,436 shares of common stock from shareholders who perfected their dissenters' rights related to the acquisition of Service 1st at an average price of \$10.30 for a total cost of \$56,000. During 2007, under all three plans, the Company repurchased 186,800 shares of common stock at an average price of \$14.49 for a total cost of \$2,707,000.

Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## 12. SHAREHOLDERS EQUITY (Continued)

Earnings Per Share

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

	2008	For the Years Ended December 31, 2007		2006
		(In thousands, except share and per share amounts)		
Basic Earnings Per Share:				
Net income	\$ 5,139	\$ 6,280	\$ 6,911	
Weighted average shares outstanding	6,212,199	5,990,812	5,978,314	
Net income per share	\$ 0.83	\$ 1.05	\$ 1.16	
Diluted Earnings Per Share:				
Net income	\$ 5,139	\$ 6,280	\$ 6,911	
Weighted average shares outstanding	6,212,199	5,990,812	5,978,314	
Effect of dilutive stock options	257,037	376,438	500,595	
Weighted average shares of common stock and common stock equivalents	\$ 6,469,236	6,367,250	6,478,909	
Net income per diluted share	\$ 0.79	\$ 0.99	\$ 1.07	

## 13. SHARE-BASED COMPENSATION

On December 31, 2008, the Company had three share-based compensation plans, which are described below.

During 1992, the Bank established a Stock Option Plan for which shares are reserved for issuance to employees and directors under incentive and nonstatutory agreements. The Company assumed all obligations under this plan as of November 15, 2000, and options to purchase shares of the Company's common stock were substituted for options to purchase shares of common stock of the Bank. Outstanding options under this plan are exercisable until their expiration, however, no new options will be granted under this plan.

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 793,881 shares remain reserved for issuance for options already granted to employees and directors under incentive and nonstatutory agreements and 10,936 remain reserved for future grants as of December 31, 2008. The plan requires that the option 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 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 is determined by the Board of Directors and is generally over five years.

Table of Contents

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**13. SHARE-BASED COMPENSATION (Continued)**

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 30,000 shares reserved for issuance for options already granted to employees and 446,000 remain reserved for future grants as of December 31, 2008. 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 December 2008, the Company cancelled options to purchase 90,550 shares of the Company's common stock previously granted from the 2000 Plan on October 17, 2007 and options to purchase 15,000 shares of the Company's common stock previously granted from the 2005 Plan on October 1, 2007 and on December 17, 2008 granted options to purchase 90,550 shares of the Company's common stock from the 2000 Plan and options to purchase 15,000 shares of the Company's common stock from the 2005 Plan at an exercise price of \$6.70, the fair market value on the grant date. Also, from the 2005 Plan, new options to purchase 15,000 shares of the Company's common stock were granted in 2008 at an exercise price of \$6.70.

In 2007, options to purchase 78,900 shares of the Company's common stock were granted at an exercise price of \$12.00 from the 2000 Plan. From the 2005 Plan, options to purchase 15,000 shares of the Company's common stock were granted in 2007 at an exercise price of \$12.20.

For the years ended December 31, 2008, 2007 and 2006, the compensation cost recognized for stock option compensation was \$100,000, \$221,000 and \$163,000, respectively. The recognized tax benefit for stock option compensation expense was \$50,000, \$42,000 and \$21,000 for 2008, 2007 and 2006, respectively. As of December 31, 2008, there was \$710,000 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 three years.

Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

A summary of the combined activity of the Plans for the years ended December 31, 2008 and 2007 follows:

	Number of Stock Options Outstanding	Weighted Average Exercise Price  (Dollars in thousands, except per share amounts)	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2007	899,834	\$ 6.45		
Options granted	187,800	\$ 13.15		
Options exercised	(124,460)	\$ 4.55		
Options canceled	(101,340)	\$ 14.69		
Options outstanding at December 31, 2007	861,834	\$ 7.22	4.77	\$ 3,712
Options vested or expected to vest at December 31, 2007	821,138	\$ 6.92	6.71	\$ 3,541
Options exercisable at December 31, 2007	662,324	\$ 5.64	3.68	\$ 3,689
Options outstanding at January 1, 2008	861,834			
Options granted	120,550	\$ 6.70		
Options exercised	(44,003)	\$ 4.71		
Options canceled	(114,400)	\$ 12.10		
Options outstanding at December 31, 2008	823,881	\$ 6.60	4.03	\$ 990
Options vested or expected to vest at December 31, 2008	799,710	\$ 6.50	4.95	\$ 990
Options exercisable at December 31, 2008	673,381	\$ 6.03	3.18	\$ 990

Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

**13. SHARE-BASED COMPENSATION (Continued)**

The weighted-average grant-date fair value of options granted during 2008, 2007 and 2006 was \$2.00, \$5.49 and \$4.34, respectively.

The total intrinsic value of options exercised in the years ended December 31, 2008, 2007 and 2006 was \$142,000, \$962,000 and \$1,900,000, respectively.

Cash received from options exercised for the years ended December 31, 2008, 2007 and 2006 was \$207,000, \$565,000 and \$735,000, respectively. The actual tax benefit realized for the tax deductions from options exercised totaled \$57,000, \$395,000 and \$451,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

As of December 31, 2008, there was \$710,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the 1992, 2000 and 2005 Plans. The cost is expected to be recognized over a weighted average period of 3.0 years. The total fair value of options vested was \$295,000 and \$168,000 for the years ended December 31, 2008 and 2007, respectively.

**14. OTHER EXPENSES**

Other expenses consisted of the following:

	2008	Years Ended December 31, 2007 (In thousands)	2006
Data processing	\$ 848	\$ 847	\$ 816
Advertising	500	481	452
Merger expenses	447		
Audit and accounting fees	390	382	317
Regulatory assessments	330	109	112



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Amortization of core deposit intangible	231	214	214
Legal fees	141	112	300
Other expenses	3,621	3,507	3,038
	\$ 6,508	\$ 5,652	\$ 5,249

**15. EMPLOYEE BENEFITS**

401(k) and Profit Sharing Plan

The Bank has established a 401(k) and profit sharing plan. The 401(k) plan covers substantially all employees who have completed a six-month period in which they are credited with at least 1,000 hours of service. Participants in the profit sharing plan are eligible to receive employer contributions after completion of two years of service. Bank contributions to the profit sharing plan are determined at the discretion of the Board of Directors. Participants are automatically vested 100% in all employer contributions. The Bank contributed \$157,000, \$260,000 and \$300,000 the profit sharing plan in 2008, 2007 and 2006, respectively.

Table of Contents

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**15. EMPLOYEE BENEFITS (Continued)**

401(k) and Profit Sharing Plan (Continued)

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, 2008, 2007 and 2006, the Bank made a 100% matching contribution on all deferred amounts up to 3% of eligible compensation and a 50% matching contribution on all deferred amounts above 3% to a maximum of 5%. For the years ended December 31, 2008, 2007 and 2006, the Bank made matching contributions totaling \$254,000, \$241,000 and \$232,000, respectively.

Deferred Compensation Plan

The Bank has a nonqualified Deferred Compensation Plan which provides directors and a former key executive 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 (8.25% at December 31, 2008). At December 31, 2008 and 2007, the total net deferrals included in accrued interest payable and other liabilities were \$1,776,000 and \$1,598,000, 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. During 2006, the Company recognized a gain of \$625,000 from the proceeds of one of the life insurance policies. The cash surrender value of the policies totaled \$2,909,000, \$2,813,000 and \$2,720,000 at December 31, 2008, 2007 and 2006, respectively. The current annual tax-free interest rates on these policies is 5.6%. Income recognized on these policies, excluding the gain noted above and net of related expenses, for the years ended December 31, 2008, 2007 and 2006 was \$99,000, \$93,000 and \$131,000, 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

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substantially equivalent to those available under split-dollar life insurance policies purchased by the Bank on the life of the executives. In addition, the estimated present value of these future benefits are accrued from the effective date of the plans until the executives' expected retirement date based on a discount rate of 6.00%. The expense recognized under these plans for the years ended December 31, 2008, 2007 and 2006 totaled \$389,000, \$367,000 and \$1,000,000, respectively. Accrued compensation payable under the salary continuation plan totaled \$2,865,000 and \$2,623,000 at December 31, 2008 and 2007, respectively. On January 1, 2008, the Company adopted EITF 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsed Split-Dollar Life Insurance Arrangements*, and recorded a liability of \$316,000 for the future benefits or premiums to be provided to the participants with a corresponding reduction as a cumulative-effect adjustment to retained earnings.

In connection with these plans, the Bank purchased single premium life insurance policies with cash surrender values totaling \$4,064,000 and \$3,910,000 at December 31, 2008 and 2007, respectively. Income recognized on these policies, net of related expense, for the years ended December 31, 2008, 2007 and 2006 totaled \$157,000, \$133,000 and \$117,000, respectively.

Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

**15. EMPLOYEE BENEFITS (Continued)**Salary Continuation Plans (Continued)

In connection with the merger with 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, 2008, the total amount of the liability was \$1,606,000. Expense recognized by the Bank in 2008 associated with these plans was \$5,000. These benefits are substantially equivalent to those available under split-dollar life insurance policies acquired with the merger. These single premium life insurance policies had cash surrender values totaling \$3,835,000 at December 31, 2008. Income recognized on these policies, net of related expenses, for the year ended December 31, 2008 was \$12,000.

**16. LOANS TO RELATED PARTIES**

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

Balance, January 1, 2008	\$	844
Disbursements		502
Amounts repaid		(555)
Balance, December 31, 2008	\$	791
Undisbursed commitments to related parties, December 31, 2008	\$	1,256

**17. COMPREHENSIVE INCOME**

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

At December 31, 2008, 2007 and 2006, the Company held securities classified as available-for-sale which had net unrealized gains or losses as follows:

	Before Tax	Tax Expense (In thousands)	After Tax
<u>For the Year Ended December 31, 2008</u>			
Other comprehensive income:			
Unrealized holding losses	\$ 244	\$ (97)	\$ 147
Less reclassification adjustment for net gains included in net income	165	(66)	99
Total other comprehensive income	\$ 79	\$ (31)	\$ 48

Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

17. **COMPREHENSIVE INCOME** (Continued)

	Before Tax	Tax Expense (In thousands)	After Tax
<u>For the Year Ended December 31, 2007</u>			
Other comprehensive income:			
Unrealized holding gains	\$ 493	\$ (198)	\$ 295
Less reclassification adjustment for net gains included in net income	64	(26)	38
Total other comprehensive income	\$ 429	\$ (172)	\$ 257
<u>For the Year Ended December 31, 2006</u>			
Other comprehensive income:			
Unrealized holding gains	\$ 773	\$ (309)	\$ 464
Less reclassification adjustment for net gains included in net income	123	(49)	74
Total other comprehensive income	\$ 650	\$ (260)	\$ 390

Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## 18. PARENT ONLY CONDENSED FINANCIAL STATEMENTS

## CONDENSED BALANCE SHEETS

December 31, 2008 and 2007

(In thousands)

	2008	2007
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,087	\$ 1,455
Investment in subsidiary	77,307	52,158
Other assets	2,381	675
<b>Total assets</b>	<b>\$ 80,778</b>	<b>\$ 54,288</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Junior subordinated debentures due to subsidiary grantor trust	\$ 5,155	\$
Other liabilities	248	94
<b>Total liabilities</b>	<b>5,403</b>	<b>94</b>
Shareholders' equity:		
Common stock	30,479	13,571
Retained earnings	44,708	40,483
Accumulated other comprehensive income, net of taxes	188	140
<b>Total shareholders' equity</b>	<b>75,375</b>	<b>54,194</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 80,778</b>	<b>\$ 54,288</b>





Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## 18. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

## CONDENSED STATEMENTS OF INCOME

For the Years Ended December 31, 2008, 2007 and 2006

(In thousands)

	2008	2007	2006
<b>Income:</b>			
Dividends declared by subsidiary - eliminated in consolidation	\$ 6,100	\$ 3,600	\$ 1,000
Other income	2	1	1
<b>Total income</b>	<b>6,102</b>	<b>3,601</b>	<b>1,001</b>
<b>Expenses:</b>			
Interest on junior subordinated deferrable interest debentures	46		
Professional fees	104	104	72
Other expenses	231	281	516
<b>Total expenses</b>	<b>381</b>	<b>385</b>	<b>588</b>
Income before equity in undistributed income of subsidiary	5,721	3,216	413
Equity in undistributed net income of subsidiary, net of distributions	(692)	2,942	6,342
Income before income tax benefit	5,029	6,158	6,755
Income tax benefit	110	122	156
<b>Net income</b>	<b>\$ 5,139</b>	<b>\$ 6,280</b>	<b>\$ 6,911</b>

Table of Contents

## CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## 18. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

## CONDENSED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2008, 2007 and 2006

(In thousands)

	2008	2007	2006
Cash flows from operating activities:			
Net income	\$ 5,139	\$ 6,280	\$ 6,911
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed net income of subsidiary, net of distributions	692	(2,942)	(6,342)
Stock-based compensation	100	221	163
Tax benefit from exercise of stock options	(57)	(395)	(451)
Decrease in other assets	265	492	430
(Decrease) increase in other liabilities	116	(108)	132
Provision for deferred income taxes		22	(134)
Net cash provided by operating activities	6,255	3,570	709
Cash flows (used in) provided by investing activities:			
Investment in subsidiary	(6,233)		22
Cash flows from financing activities:			
Repayments of borrowings from other financial institution		(1,250)	(1,250)
Share repurchase and retirement	(56)	(2,707)	(395)
Proceeds from exercise of stock options	207	565	735
Tax benefit from exercise of stock options	57	395	451
Cash dividends paid	(598)	(595)	
Net cash used in financing activities	(390)	(3,592)	(459)
(Decrease) increase in cash and cash equivalents	(368)	(22)	272
Cash and cash equivalents at beginning of year	1,455	1,477	1,205

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Cash and cash equivalents at end of year	\$	1,087	\$	1,455	\$	1,477
Cash paid during the year for interest expense	\$		\$	67	\$	161
Non-cash investing activities:						
Net change in unrealized gain (loss) on available-for-sale investment securities	\$	79	\$	429	\$	650
Fair market value of common stock issued in acquisition of subsidiary	\$	16,600	\$		\$	
Non-cash financing activities:						
Tax benefit from stock options exercised	\$	57	\$	395	\$	451

Table of Contents

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**19. SUBSEQUENT EVENT**

Capital Purchase Program Troubled Asset Relief Program

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

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

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

If the Company receives aggregate gross cash proceeds of not less than \$7,000,000 from Qualified Equity Offerings on or prior to December 31, 2009, the number of shares of Common Stock issuable pursuant to the Treasury's exercise of the Warrant will be reduced by one half of the original number of shares, taking into account all adjustments, underlying the Warrant. Pursuant to the Purchase Agreement, the Treasury has agreed not to exercise voting power with respect to any shares of Common Stock issued upon exercise of the Warrant.

The Series A Preferred Stock and the Warrant were issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. Upon the request of the Treasury at any time, the Company has agreed to promptly enter into a deposit arrangement pursuant to which the Preferred Stock may be deposited and depositary shares (the Depositary Shares) representing fractional shares of the Preferred Stock, may be issued. The Company has agreed to register the Series A Preferred Stock, the Warrant, the shares of Common Stock underlying the Warrant (the Warrant Shares), and Depositary Shares, as soon as practicable after the date of the issuance of the Series A Preferred Stock and the Warrant in accordance with the terms of the Purchase Agreement. Neither the Series A Preferred Stock nor the Warrant will be subject to any contractual restrictions on transfer, except that the Treasury may only transfer or exercise an aggregate of one-half of the Warrant Shares prior to the earlier of the redemption of 100% of the shares of Series A Preferred Stock or December 31, 2009.

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

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

Table of Contents

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**19. SUBSEQUENT EVENT (Continued)**

Capital Purchase Program Troubled Asset Relief Program (Continued)

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

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

The Company allocated the proceeds received between the Series A Preferred Stock and the Warrant based on the estimated relative fair value of each. The fair value of the Warrant was estimated based on a Black-Scholes-Merton model and totaled \$460,000. The discount recorded on the Series A Preferred Stock will be amortized using the level-yield method over five years.

Table of Contents**SUPPLEMENTARY FINANCIAL INFORMATION**

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 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	\$ 6,969	\$ 6,023	\$ 5,726	\$ 5,849	\$ 6,224	\$ 6,186	\$ 6,130	\$ 5,968
Provision for credit losses	385	635	135	135	120	120	120	120
Net interest income after provision for credit losses	6,584	5,388	5,591	5,714	6,104	6,066	6,010	5,848
Total non-interest income	1,296	1,382	1,274	1,238	1,168	1,075	1,116	1,159
Total non-interest expense	6,054	4,984	4,966	4,972	4,774	4,864	4,756	4,705
Provision for income taxes	521	572	584	675	865	701	751	850
Net income	\$ 1,305	\$ 1,214	\$ 1,315	\$ 1,305	\$ 1,633	\$ 1,576	\$ 1,619	\$ 1,452
Basic earnings per share	\$ 0.19	\$ 0.20	\$ 0.22	\$ 0.22	\$ 0.27	\$ 0.26	\$ 0.27	\$ 0.24
Diluted earnings per share	\$ 0.19	\$ 0.19	\$ 0.21	\$ 0.21	\$ 0.26	\$ 0.25	\$ 0.25	\$ 0.23

**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, 2008, 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, 2008, the Company's internal control over financial reporting was effective based on those criteria.

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 temporary 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.

105

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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 2009 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. To the best knowledge of the Company, the only greater than ten-percent holder of the Company's common stock is Mr. Louis McMurray and his related interests.

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 2008 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.

**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 18, 2009

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

107

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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.
3.1.1	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).
3.2	Bylaws of the Company as amended to date. (2)
4	N/A
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) *
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) *



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### Table of Contents

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)*
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) *

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### Table of Contents

- 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) \*
- 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)\*



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### Table of Contents

- 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)\*
- 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)\*

## Edgar Filing: CENTRAL VALLEY COMMUNITY BANCORP - Form 10-K

### Table of Contents

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)*
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)*
11.	N/A

12. N/A

13. N/A

Table of Contents

16	N/A
18	N/A
21	Subsidiaries.
22	N/A
23	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.

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\* 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.
- (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.



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### Table of Contents

- (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 filing herein.