

CENTRAL VALLEY COMMUNITY BANCORP
Form 10-K
March 29, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

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

For the fiscal year ended December 31, 2006

OR

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

For the transition period from _____ to _____

Commission file number: 000-31977

CENTRAL VALLEY COMMUNITY BANCORP

(Exact name of registrant as specified in its charter)

CALIFORNIA

(State or other jurisdiction of
incorporation or organization)

77-0539125

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

600 POLLASKY AVE, CLOVIS, CA
(Address of principal executive offices)

93612
(Zip Code)

559-298-1775

(Registrant's telephone number, including area code)

[None]

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

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

None

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

[EXCHANGE]

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

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

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Yes

No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes

No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Yes

No

As of **June 30, 2006**, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$63,023,000 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

Outstanding at March 21, 2007

[Common Stock, No par value per share]

6,018,246 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document

Parts Into Which Incorporated

Proxy Statement for the Annual Meeting of Shareholders to be held May 16, 2007 (Proxy Statement)

Part III

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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, 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. 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, 2006 may be obtained without charge upon written request to Dave Kinross, Chief Financial Officer, at the Company's administrative offices, 600 Pollasky Ave., Clovis, CA 93612.

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 or anonymously at 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, 2006, 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, and Sacramento 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, 2006, we had consolidated total assets of approximately \$500,059,000. See Items 7 and 8, Management's Discussion and Analysis or Plan of Operation and Financial Statements.

During 2004, the Company approved a stock repurchase plan authorizing the purchase of shares of the Company's common stock up to a total cost of \$500,000, or approximately 2% of its outstanding shares of common stock. As of December 31, 2004, the Company repurchased 18,000 at an average price of \$11.83 for a total cost of \$213,000. On October 20, 2004, the Company announced the suspension of the 2004 stock repurchase plan. We had no repurchase plan in place for 2005.

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During 2006, the Company approved a stock repurchase plan authorizing the purchase of shares of the Company's common stock up to a total cost of \$1,000,000 or approximately 1% of its outstanding shares of common stock during the period from October 23, 2006 to June 30, 2007. As of December 31, 2006, the Company had repurchased 26,200 shares at an average price of \$15.08 for a total cost of \$395,000.

As of March 15, 2007, we had a total of 162 employees and 136.4 full time equivalent employees, including the employees of the Bank.

After the close of business on December 31, 2004, we completed our merger with Bank of Madera County (BMC) and BMC was merged into the Bank. We believe that the merger allows us to further accommodate a growing customer base in Madera County, provided Bank of Madera County customers with more convenient locations in the Central Valley, as well as offering new advancement and geographic opportunities for the BMC employees. As a result of the above factors, we believe that the potential for the combined performance exceeded what each entity could accomplish independently and the goodwill in this transaction arose from the synergies associated with the merger. The acquisition was part of our long-term strategy to increase our presence from Sacramento to Bakersfield along the Highway 99 corridor and the surrounding foothills.

As of the date of acquisition, BMC had total assets of \$68,080,000, comprised of \$2,842,000 in cash and due from banks, \$19,250,000 in Federal funds sold, \$45,028,000 in loans (net of allowance for credit losses of \$751,000), \$390,000 in premises and equipment and \$570,000 in other assets. Total liabilities acquired amounted to \$64,208,000, including \$63,769,000 in deposits. The accompanying audited Consolidated Financial Statements included in Item 8 of this Annual Report include the accounts of BMC since January 1, 2005.

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 12 full-service banking offices in Clovis, Fresno, Kerman, Madera, Oakhurst, Sacramento, and Prather, California. The Oakhurst and Madera branches were added through the BMC merger. One of the offices is in a Save Mart Supermarket and offers extended banking hours, including Saturday hours, for the convenience of the Bank's customers. 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 construction loans for single family residences and commercial buildings. All types of permanent single family residential loans are also offered. According to the June 30, 2006 FDIC data, the seven branches in Fresno County (Clovis, Fresno, Kerman, and Prather branches) have a 4.8% combined deposit market share of all banks and 3.9% of all depositories including credit unions, thrifts, and savings banks.

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 small branch there.

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 branch openings to meet the growing service needs of its customers, although none are planned during 2007.

The Bank established an interest in Central Valley Community Insurance Services, LLC (Insurance Services) at the end of 2006. The purpose of this new entity is to market insurance products and services primarily to business customers in the area of employee benefit plans.

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 issues cashier's checks, sells traveler's checks 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.

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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 stock, 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, 2006, we had total loans of \$323,414,000. Total commercial and industrial loans outstanding were \$78,895,000; total agricultural loans outstanding were \$17,102,000, total real estate construction, land development and other land loans outstanding were \$48,424,000; total other real estate loans outstanding were \$149,586,000, total equity lines of credit were \$21,858,000 and total consumer installment loans outstanding were \$7,549,000. 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, 2006 approximately 68.0% of our loan portfolio held for investment consisted of real estate-related loans, including construction loans, real estate mortgage loans and commercial loans secured by real estate and 24.2% 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 County, California. Consequently, our results of operations and financial condition are dependent upon the general trends in this part of the California economy and, in particular, the residential and commercial real estate markets. In addition, our concentration of operations in this area of California exposes us to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires and floods in this region or as a result of energy shortages in California.

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

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

Branch	Monday	Thursday	Friday	Saturday
Clovis Main	9:00 a.m. to 4:00 p.m.		9:00 a.m. to 6:00 p.m.	None
Clovis Main Drive Up	8:00 a.m. to 5:30 p.m.		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	10:00 a.m. to 7:00 p.m.		10:00 a.m. to 7:00 p.m.	10:00 a.m. to 5:00 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.		9:00 a.m. to 6:00 p.m.	None
River Park	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.
River Park Drive Up	9:00 a.m. to 5:30 p.m.		9:00 a.m. to 6:00 p.m.	10:00 a.m. to 2:00 p.m.
Sacramento Private Banking	9:00 a.m. to 4:00 p.m.		9:00 a.m. to 4:00 p.m.	None

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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.
Sunnyside Drive Up	8:00 a.m. to 5:00 p.m.	8:00 a.m. to 6:00 p.m.	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. Walkup window 8:00 a.m. to 9:00 a.m.	9:00 a.m. to 5:00 p.m.	None

Automated teller machines operate at 11 branch locations and two non-branch location 24 hours per day, seven days per week. No automated teller machines are currently located at the Sacramento office. Our Real Estate and Small Business Administration (SBA) Departments maintain business hours of 8:00 A.M. to 5:00 P.M., Monday through Friday, and extended hours are available upon customer request.

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

In Fresno and Madera Counties, in addition to our 10 full-service and one limited service branch locations, serving the Bank's primary service areas, as of December 31, 2006 there were 183 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. Business activity in our primary service area is oriented toward light industry, small business and agriculture. The June 2006 FDIC Summary of Deposits report indicated the Company had 3.1% of the total deposits held by all depositories in Fresno County and 4.7% in Madera County. In Sacramento County, in addition to our one branch, as of December 31, 2006 there were 246 operating banking and credit union offices in our primary service area.

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, 2006, the Bank's legal loan limits to individual customers were \$6,428,000 for unsecured loans and \$10,714,000 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, self-service branches, and in-store branches.

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

Statistical Disclosure

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

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

Table A sets forth our average consolidated balance sheets for the years ended December 31, 2006, 2005 and 2004 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 2006 and 2005 resulting from changes in volume and changes in rates.

Investment Portfolio

The book value (amortized cost) of investment securities at December 31, 2006, 2005 and 2004 and the book value, maturities and weighted average yield of investment securities at December 31, 2006 are set forth in Table C.

Loan Portfolio

The composition of the loan portfolio at December 31, 2006, 2005, 2004, 2003, and 2002, is summarized in Table D.

Maturities and sensitivity to changes in interest rates in the loan portfolio at December 31, 2006 are summarized in Table E.

Table F shows the composition of non-accrual, past due and restructured loans at December 31, 2006, 2005, 2004, 2003, and 2002. Set forth in the text accompanying Table F is a discussion of the Company's policy for placing loans on non-accrual 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, 2006, 2005, 2004, 2003, and 2002.

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, 2006, 2005, and 2004.

Table I sets forth the maturity of time certificates of deposit of \$100,000 or more at December 31, 2006.

Return on Equity and Assets

Table J sets forth certain financial ratios for the years ended December 31, 2006, 2005, 2004, 2003 and 2002.

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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, 2006, 2005, and 2004. The average balances reflect daily averages except non-accrual loans, which were computed using quarterly averages.

(Dollars in thousands)	2006			2005			2004		
	Average Balance	Interest Income/Expense	Average Interest Rate	Average Balance	Interest Income/Expense	Average Interest Rate	Average Balance	Interest Income/Expense	Average Interest Rate
ASSETS:									
Interest-earning deposits in other banks	\$ 634	\$ 22	3.47 %	\$ 2,136	\$ 59	2.76 %	\$ 2,192	\$ 37	1.69 %
Securities:									
Taxable securities	74,915	3,191	4.26 %	86,857	3,002	3.46 %	77,734	2,462	3.17 %
Non-taxable securities (1)	26,749	1,556	5.82 %	25,096	1,806	7.20 %	18,833	1,271	6.75 %
Total investment securities	101,664	4,747	4.67 %	111,953	4,808	4.29 %	96,567	3,733	3.87 %
Federal funds sold	23,404	1,165	4.98 %	21,590	702	3.25 %	16,310	234	1.43 %
Total	125,702	5,934	4.72 %	135,679	5,569	4.10 %	115,069	4,004	3.48 %
Loans (2)(3)	303,867	25,527	8.40 %	276,957	21,115	7.63 %	195,187	13,227	6.78 %
Federal Home Loan Bank stock	1,799	89	4.95 %	1,621	68	4.19 %	1,200	41	3.42 %
Total interest-earning assets (1)	431,368	\$ 31,550	7.31 %	414,257	\$ 26,752	6.46 %	311,456	\$ 17,272	5.55 %
Allowance for credit losses	(3,483)			(3,507)			(2,565)		
Non-accrual loans	207			898			36		
Cash and due from banks	17,404			19,365			23,567		
Bank premises and equipment	3,369			3,004			2,863		
Other non-earning assets	21,356			21,663			10,860		
Total average assets	\$ 470,221			\$ 455,680			\$ 346,217		

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(Dollars in Thousands)	2006			2005			2004			
	Average Balance	Interest Income/Expense	Average Interest Rate	Average Balance	Interest Income/Expense	Average Interest Rate	Average Balance	Interest Income/Expense	Average Interest Rate	
LIABILITIES AND SHAREHOLDERS EQUITY:										
Deposits:										
Savings and NOW accounts	\$ 78,410	\$ 162	0.21	% \$ 83,781	\$ 149	0.18	% \$ 67,099	\$ 118	0.18	%
Money market accounts (MMA)	105,632	2,467	2.34	% 111,519	1,500	1.35	% 84,178	660	0.78	%
Time certificates of deposit, under \$100,000	53,208	1,499	2.82	% 50,841	1,017	2.00	% 37,082	550	1.48	%
Time certificates of deposit, \$100,000 and over	44,910	2,082	4.64	% 36,872	1,220	3.31	% 21,884	465	2.12	%
Total interest-bearing deposits	282,160	6,210	2.20	% 283,013	3,886	1.37	% 210,243	1,793	0.85	%
Other borrowed funds	6,774	349	5.15	% 6,725	253	3.76	% 7,311	185	2.53	%
Federal funds purchased							2			
Total interest-bearing liabilities	288,934	\$ 6,559	2.27	% 289,738	\$ 4,139	1.43	% 217,556	\$ 1,978	0.91	%
Non-interest bearing demand deposits	132,150			124,175			97,210			
Other liabilities	3,573			3,076			3,248			
Shareholders' equity	45,564			38,691			28,203			
Total average liabilities and shareholders' equity	\$ 470,221			\$ 455,680			\$ 346,217			
Interest income and rate earned on average earning assets (1)		\$ 31,550	7.31	%	\$ 26,752	6.46	%	\$ 17,272	5.55	%
Interest expense and interest cost related to average interest-bearing liabilities		6,559	2.27	%	4,139	1.43	%	1,978	0.91	%
Net interest income and net interest margin (4)		\$ 24,991	5.79	%	\$ 22,613	5.46	%	\$ 15,294	4.91	%

- (1) Computed on a tax equivalent basis, which includes Federal tax benefits relating to income earned on municipal bonds totaling \$529, \$614, and \$432 in 2006, 2005 and 2004, respectively.
- (2) Loan interest income includes loan fees of \$798 in 2006; \$961 in 2005; and \$808 in 2004.
- (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 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)	Year Ended December 31			2005 Compared to 2004		
	2006 Compared to 2005		Net	Volume	Rate	Net
	Volume	Rate				
Increase (decrease) due to changes in:						
Interest income:						
Interest-earning deposits in other banks	\$ (59)	\$ 22	\$ (37)	\$ (1)	\$ 23	\$ 22
Investment securities:						
Taxable	(274)	463	189	304	236	540
Non-taxable (1)	131	(381)	(250)	446	89	535
Total investment securities	(143)	82	(61)	750	325	1,075
Federal funds sold	63	400	463	95	373	468
Loans	2,154	2,258	4,412	6,009	1,879	7,888
FHLB Stock	8	13	21	16	11	27
Total earning assets (1)	2,023	2,775	4,798	6,869	2,611	9,480
Interest expense:						
Deposits:						
Savings, NOW and MMA	(89)	1,069	980	272	599	871
Certificates of deposit under \$100,000	49	433	482	241	226	467
Certificates of deposit \$100,000 and over	304	558	862	416	339	755
Total interest-bearing deposits	264	2,060	2,324	929	1,164	2,093
Other borrowed funds	2	94	96	(13)	81	68
Total interest bearing liabilities	266	2,154	2,420	916	1,245	2,161
Net interest income (1)	\$ 1,757	\$ 621	\$ 2,378	\$ 5,953	\$ 1,366	\$ 7,319

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

Table C**INVESTMENT PORTFOLIO**

The book value of investment securities at December 31, 2006, 2005, and 2004 is set forth in the following table. At December 31, 2006, we held no investment securities from any issuer which totaled over 10% of our shareholders' equity.

Available for Sale (In thousands)	Book Value at December 31		
	2006	2005	2004
U.S. Treasury securities and obligations of other U.S. government agencies and corporations	\$ 28,643	\$ 23,314	\$ 22,492
Mortgage-backed securities	45,561	48,479	52,292
Obligations of states and political subdivisions	26,210	31,036	19,993
Other securities	3,703	3,608	3,644
Total Available-for-Sale Securities	\$ 104,117	\$ 106,437	\$ 98,421

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The book value, maturities and weighted average yield of investment securities at December 31, 2006 are summarized in the following table.

(Dollars in Thousands) Available for Sale	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	\$ 10,148	3.89	% \$ 18,495	4.21	% \$		\$		\$ 28,643	4.10	%
Mortgage-backed securities	157	4.50	% 1,263	4.50	% 4,907	5.21	% 39,234	5.46	% 45,561	5.40	%
Obligations of states & political subdivisions	300	4.75	% 1,377	4.30	% 12,993	4.47	% 11,540	2.85	% 26,210	3.60	%
Other securities	3,703	4.60	%						3,703	4.60	%
Total Available for Sale	\$ 14,308	4.10	% \$ 21,135	4.24	% \$ 17,900	4.67	% \$ 50,774	4.87	% \$ 104,117	4.56	%

(1) Not computed on a tax equivalent basis.

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Table D**LOAN PORTFOLIO**

The composition of the loan portfolio at December 31, 2006, 2005, 2004, 2003, and 2002 is summarized in the table below.

(In thousands)	2006	2005	2004	2003	2002
Commercial and industrial	\$ 78,441	\$ 82,978	\$ 57,669	\$ 55,506	\$ 47,790
Real estate					
Construction, land development & other land loans	48,424	46,523	35,364	25,232	20,379
Other	149,586	124,043	75,424	77,468	72,252
Equity lines of credit	21,858	23,604	18,714	12,565	6,086
Loans to finance agricultural production or other loans to farmers	17,102	17,547	15,946	10,714	3,285
Installment loans to individuals for household, family and other personal expenditures	7,549	7,539	6,420	5,117	5,581
Leases					3,828
Other	454	160	240	320	13
Subtotal	323,414	302,394	209,777	186,922	159,214
Deferred loan fees, net	(752)	(592)	(498)	(648)	(488)
Subtotal	322,662	301,802	209,279	186,274	158,726
Allowance for credit losses	(3,809)	(3,339)	(2,697)	(2,425)	(2,433)
Total (1)	\$ 318,853	\$ 298,463	\$ 206,582	\$ 183,849	\$ 156,293

(1)Includes non-accrual loans of:

2006	2005	2004	2003	2002
	\$ 616		\$ 634	\$ 466

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, 2006.

(In thousands)	One Year or Less	After One Through Five Years	After Five Years	Total
Real estate construction	\$ 46,146	\$ 2,278	\$	\$ 48,424
Other real estate	64,085	92,445	14,914	171,444
Commercial, agricultural and other	72,488	20,860	2,649	95,997
Installment	4,918	1,683	948	7,549
	\$ 187,637	\$ 117,266	\$ 18,511	\$ 323,414
Sensitivity to Changes in Interest Rates:				
Loans with Fixed Interest Rates	\$ 19,105	\$ 27,897	\$ 15,772	\$ 62,774
Loans with Floating Interest Rates	168,532	89,369	2,739	260,640
Total	\$ 187,637	\$ 117,266	\$ 18,511	\$ 323,414

Table F**COMPOSITION OF NON-ACCRUAL, PAST DUE AND RESTRUCTURED LOANS**

A summary of non-accrual, restructured and past due loans at December 31, 2006, 2005, 2004, 2003, and 2002 is set forth below:

(Dollars in thousands)	December 31				
	2006	2005	2004	2003	2002
Non-accrual	\$	\$ 616	\$	\$ 634	\$ 466
Accruing loans past due 90 days or more					
Restructured loans					615
	\$	\$ 616	\$	\$ 634	\$ 1,081
Non-accrual loans to total loans	0.0	% 0.2	% 0.0	% 0.3	% 0.3

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

Loans are placed on non-accrual 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 non-accrual category are treated as non-accrual 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. There were no loans on non-accrual at December 31, 2006 or interest foregone on nonaccrual loans for the year then ended. See Note 4 of Company's audited Consolidated Financial Statements in Item 8 of this Annual Report.

There were \$616,000 in loans on non-accrual 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.

In 2002, we had one restructured loan in the principal amount of \$615,000. At December 31, 2006, 2005, 2004 and 2003 the Company had no restructured loans. See Note 4 of the Company's audited Consolidated Financial Statements in Item 8 of this Annual Report concerning our recorded investment in loans for which an 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. 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.

As of December 31, 2006, 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 G

SUMMARY OF LOAN LOSS EXPERIENCE

The following table summarizes loan loss experience as of and for the years ended December 31, 2006, 2005, 2004, 2003, and 2002.

(Dollars in Thousands)	2006	2005	2004	2003	2002	
Loans outstanding at December 31,	\$ 323,414	\$ 302,394	\$ 209,777	\$ 186,922	\$ 159,214	
Average loans outstanding during year	\$ 304,074	\$ 277,855	\$ 195,223	\$ 174,708	\$ 148,654	
Allowance for credit losses:						
Balance at beginning of year	\$ 3,339	\$ 2,697	\$ 2,425	\$ 2,433	\$ 2,474	
Deduct loans charged-off:						
Commercial and industrial	(539)	(702)		(172)	(289)	
Real estate construction						
Real estate other						
Loans to finance agricultural and other loans to farmers						
Loans to individuals for household, family and other personal expenditures	(182)	(85)	(24)	(45)	(63)	
Other						
Total loans charged-off	(721)	(787)	(24)	(217)	(352)	
Add recoveries of loans charged off:						
Commercial and industrial	293	10	273	167	275	
Real estate construction						
Real estate other		25		9		
Loans to finance agricultural and other loans to farmers						
Loans to individuals for household, family and other personal expenditures	98	48	23	33	36	
Other		85				
Total recoveries	391	168	296	209	311	
Net (charge-offs) recoveries	(330)	(619)	272	(8)	(41)	
Allowance acquired in merger of Bank of Madera County		751				
Add provision charged to operating expense	800	510				
Balance at end of year	\$ 3,809	\$ 3,339	\$ 2,697	\$ 2,425	\$ 2,433	
Allowance for credit losses as a percentage of outstanding loan balance	1.18	% 1.11	% 1.29	% 1.30	% 1.53	%
Net (charge-offs) recoveries to average loans outstanding	(0.11)(0.22)0.14	%(0.01)(0.03)%

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 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.

For 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, 2003 and 2002 due mainly to decreased levels of risk-rated loans and increased recoveries on previously charged-off loans.

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

(Dollars in thousands)	2006		2005		2004		2003		2002		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	Amount	Percent of Loans in Each Category to Total Loans	
Commercial and industrial	\$ 1,656	24.2	% \$ 1,325	27.5	% \$ 786	27.5	% \$ 717	28.8	% \$ 985	41.9	%
Real estate construction, land development and other land loans	294	15.0	% 378	15.4	% 197	16.9	% 249	13.6	% 85	13.8	%
Real estate - other	1,210	46.3	% 1,138	41.0	% 898	35.9	% 777	48.5	% 1,039	36.3	%
Equity lines of credit	171	6.8	% 175	7.8	% 136	8.9	%				
Loans to finance agricultural and other loans to farmers	227	5.3	% 198	5.8	% 151	7.6	% 540	5.8	% 159	2.5	%
Loans to individuals for household, family and other personal expenditures and other loans	193	2.3	% 120	2.5	% 178	3.1	% 85	2.3	% 58	3.0	%
Lease contracts							3	0.9	%	2.3	%
Other	1	0.1	% 1	0.0	% 51	0.1	% 47	0.2	% 40	0.2	%
Non-specific reserve	57		4		300		7		67		
	\$ 3,809		\$ 3,339		\$ 2,697		\$ 2,425		\$ 2,433		

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 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, 2006, 2005, and 2004.

(Dollars in thousands)	2006 Balance	Rate	2005 Balance	Rate	2004 Balance	Rate
Savings, money market and NOW accounts	\$ 184,042	1.43	% \$ 195,300	0.84	% \$ 151,277	0.51 %
Time certificates of deposit	\$ 98,118	3.65	% \$ 87,713	2.55	% \$ 58,966	1.72 %
Non-interest bearing demand	\$ 132,150	N/A	\$ 124,175	N/A	\$ 97,210	N/A
Total deposits	\$ 414,310		\$ 407,188		\$ 307,453	

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, 2006.

(In Thousands)

Three months or less	\$ 26,332
Over 3 months through 6 months	22,283
Over 6 through 12 months	7,588
Over 12 months	3,980
	\$ 60,183

Table J**FINANCIAL RATIOS**

The following table sets forth certain financial ratios for the years ended December 31, 2006, 2005, and 2004.

	2006	2005	2004	
Net Income:				
To average assets	1.47	% 1.33	% 1.07	%
To average shareholders equity	15.17	% 15.63	% 13.10	%
Dividends declared per share to net income per share	N/A	N/A	7.87	%
Average shareholders equity to average assets	9.69	% 8.49	% 8.15	%

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.

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.

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 \$100,000 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.

Various requirements and restrictions under the laws of the State of California and the United States affect the operations of the Bank. State and federal statutes and regulations relate to many aspects of the Bank's operations, including standards for safety and soundness, reserves against deposits, interest rates payable on deposits, loans, investments, mergers and acquisitions, borrowings, dividends, locations of branch offices, fair lending requirements, Community Reinvestment Act activities, and loans to affiliates.

PAYMENT OF DIVIDENDS

THE COMPANY

Our shareholders are entitled to receive dividends when and as declared by our Board of Directors, out of funds legally available, subject to the dividends preference, if any, on preferred shares that may be outstanding, and also subject to the restrictions of the California Corporations Code. At December 31, 2006, we had no outstanding shares of preferred stock.

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

THE BANK

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

In addition to the regulations concerning minimum uniform capital adequacy requirements described below, the FDIC has established guidelines regarding the maintenance of an adequate allowance for credit losses. Therefore, the future payment of cash dividends by the Bank will generally depend, in addition to regulatory constraints, upon the Bank's earnings during any 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, 2006 follow:

	REQUIREMENT		ACTUAL				
	ADEQUATELY CAPITALIZED		FOR THE BANK TO BE WELL CAPITALIZED	BANK		COMPANY	
Total risk-based capital ratio	8.00	%	10.00	% 11.77	%	12.02	%
Tier 1 risk-based capital ratio	4.00	%	6.00	% 10.72	%	10.97	%
Tier 1 leverage capital ratio	4.00	%	5.00	% 8.24	%	8.41	%

USA PATRIOT ACT

In the wake of the tragic events of September 11th, 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.

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.

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 March 2001.

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.

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.

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

Recent Accounting Pronouncements

Fair Value Measurements

In September 2006, the FASB issued Statement No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, SFAS 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The provisions of SFAS 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The provisions should be applied prospectively, except for certain specifically identified financial instruments. Management does not expect the adoption of SFAS 157 to have a material impact to the Bank's financial position or result of operations.

Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued Financial Accounting Standards Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition.

The Company presently recognizes income tax positions based on management's estimate of whether it is reasonably possible that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*.

The provisions of FIN 48 will be effective for the Company on January 1, 2007 and are to be applied to all tax positions upon initial application of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption.

The cumulative effect of applying the provisions of FIN 48, if any, will be reported as an adjustment to the opening balance of retained earnings for the fiscal year of adoption. Management does not expect the adoption of FIN 48 to have a material impact on the Company's financial position or results of operations.

Accounting for Purchases of Life Insurance

In September 2006, the FASB ratified the consensuses reached by the Emerging Issues Task Force (the Task Force) on Issue No. 06-5 (EITF 06-5), *Accounting for the Purchases of Life Insurance - Determining the Amount that Could be Realized in Accordance with FASB Technical Bulletin No.85-4 (FTB 85-4)*. FTB 85-4 indicates that the amount of the asset included in the balance sheet for life insurance contracts within its scope should be the amount that could be realized under the insurance contract as of the date of the statement of financial position. Questions arose in applying the guidance in FTB 85-4 to whether the amount that could be realized should consider 1) any additional amounts included in the contractual terms of the insurance policy other than the cash surrender value and 2) the contractual ability to surrender all of the individual-life policies (or certificates in a group policy) at the same time. EITF 06-5 determined that the amount that could be realized should 1) consider any additional amounts included in the contractual terms of the policy and 2) assume the surrender of an individual-life by individual-life policy (or certificate by certificate in a group policy). Any amount that is ultimately realized by the policy holder upon the assumed surrender of the final policy (or final certificate in a group policy) shall be included in the amount that could be realized. An entity should apply the provisions of EITF 06-5 through either a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or a change in accounting principle through retrospective application to all prior periods. The provisions of EITF 06-5 are effective for fiscal years beginning after December 15, 2006. Management has not yet completed its evaluation of the impact that EITF 06-5 will have.

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

In September 2006, the FASB ratified the consensuses reached by the Task Force on Issue No. 06-4 (EITF 06-4), *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. A question arose when an employer enters into an endorsement split-dollar life insurance arrangement related to whether the employer should recognize a liability for the future benefits or premiums to be provided to the employee. EITF 06-4 indicates that an employer should recognize a liability for future benefits and that a liability for the benefit obligation has not been settled through the purchase of an endorsement type policy. An entity should apply the provisions of EITF 06-4 either through a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or a change in accounting principle through retrospective application to all prior periods. The provisions of EITF 06-4 are effective for fiscal years beginning after December 15, 2007. Management has not yet completed its evaluation of the impact that EITF 06-4 will have.

Consideration of the Effects of Prior Year Misstatements

In September, 2006, the Securities and Exchange Commission published Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. The interpretations in this Staff Accounting Bulletin was issued to address diversity in practice in quantifying financial statement misstatements and the potential under current practice to build up improper amounts on the balance sheet. This guidance will apply to the first fiscal year ending after November 15, 2006 or December 31, 2006 for the Company. The adoption of SAB 108 did not have a material impact on the Company's financial position or results of operations and no cumulative adjustment was required.

Other

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

ITEM 1A - RISK FACTORS

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 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.

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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.

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, if completed, 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.

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.

ITEM 3 - LEGAL PROCEEDINGS.

Neither the Company nor the Bank is a party to, nor are any of their properties the subject of, any material pending legal proceedings other than ordinary, routine litigation incidental to the Company's and the Bank's businesses, nor are any of such proceedings known to be contemplated by government authority.

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.

No matters were submitted to our shareholders during the fourth quarter of the year ended December 31, 2006.

PART II

ITEM 5 - MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Our common stock is listed for trading on the Nasdaq Capital Market under the ticket symbol CVCY. As of February 28, 2007, we had approximately 385 shareholders of record.

The following table shows the high and low sales prices for the common stock for each quarter as reported by NASDAQ. The prices have been adjusted to reflect a two-for-one stock split on October 31, 2005.

Common Stock Prices

	Qtr 1 2006	Qtr 2 2006	Qtr 3 2006	Qtr 4 2006	Qtr 1 2005	Qtr 2 2005	Qtr 3 2005	Qtr 4 2005
High	\$ 19.25	\$ 16.69	\$ 16.74	\$ 15.64	\$ 13.13	\$ 16.36	\$ 14.98	\$ 16.00
Low	\$ 14.11	\$ 14.75	\$ 14.50	\$ 14.50	\$ 11.25	\$ 11.06	\$ 11.00	\$ 13.95

On October 31, 2005, we effected a two-for-one stock split. We paid \$0.05 per share cash dividends in 2004. As a result of the borrowing from a major bank, during the time the borrowing remains outstanding, which is expected to be until December 2007, we do not anticipate paying dividends to our shareholders. The Bank does not anticipate paying any dividends to the Company except for dividends that are necessary to meet the ordinary and usual operating expenses of the Company provided that 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 7 in the audited Consolidated Financial Statements in Item 8 of this Annual Report.

ISSUER PURCHASES OF EQUITY SECURITIES

A summary of the repurchase activity for the Company's year ending December 31, 2006 follows.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under Current Plan
10/01/2006 - 10/31/2006				\$ 1,000,000
11/01/2006 - 11/30/2006	20,000	\$ 15.07	20,000	\$ 698,600
12/01/2006 - 12/31/2006	6,200	\$ 15.10	6,200	\$ 605,000
Total	26,200	\$ 15.08	26,200	

- (1) The Company approved a stock repurchase program effective October 23, 2006 and ending June 30, 2007 with the intent to purchase shares for an aggregate amount of \$1,000,000. For the year ended December 31, 2006, the Company repurchased 26,200 shares at a cost of \$395,000.
- (2) All share repurchases were effected in accordance with the safe harbor provisions of Rule 10b-18 of the Securities Exchange Act.

Equity Compensation Plan Information

The following chart sets forth information for the year ended December 31, 2006, 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	899,834	\$ 6.45	549,446
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	899,834	\$ 6.45	549,446

PERFORMANCE GRAPH

Source : SNL Financial LC, Charlottesville, VA © 2007

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ITEM 6 SELECTED CONSOLIDATED FINANCIAL DATA

Statements of Income	Years Ended December 31, (in thousands, except per share amounts)				
	2006	2005	2004	2003	2002
Total interest income	\$ 30,932	\$ 26,070	\$ 16,799	\$ 14,970	\$ 14,536
Total interest expense	6,559	4,139	1,978	2,290	2,728
Net interest income before provision for credit losses	24,373	21,931	14,821	12,680	11,808
Provision for credit losses	800	510			
Net interest income after provision for credit losses	23,573	21,421	14,821	12,680	11,808
Non-interest income	5,177	3,760	3,937	4,546	4,212
	28,750	25,181	18,758	17,226	16,020
Non-interest expense	18,541	15,793	13,119	12,355	11,988
Income before provision for income taxes	10,209	9,388	5,639	4,871	4,032
Provision for income taxes	3,298	3,344	1,944	1,499	1,248
Net income	\$ 6,911	\$ 6,044	\$ 3,695	\$ 3,372	\$ 2,784
Basic earnings per share	\$ 1.16	\$ 1.03	\$ 0.71	\$ 0.65	\$ 0.54
Diluted earnings per share	\$ 1.07	\$ 0.94	\$ 0.64	\$ 0.60	\$ 0.51
Cash dividends declared per common share	\$ 0.00	\$ 0.00	\$ 0.05	\$ 0.05	\$ 0.03

	December 31, (in thousands)				
	2006	2005	2004	2003	2002
Balances at end of year:					
Investment securities, Federal funds sold and deposits in other banks	\$ 128,463	\$ 136,340	\$ 127,895	\$ 107,300	\$ 95,901
Net loans	318,853	298,463	206,582	183,849	156,293
Total deposits	440,627	430,989	326,186	290,565	246,337
Total assets	500,059	483,677	368,147	327,930	283,006
Shareholders' equity	49,778	41,523	29,606	26,720	24,099
Earning assets	453,211	440,646	338,032	292,494	251,895
Average balances:					
Investment securities, Federal funds sold and deposits in other banks	\$ 125,702	\$ 135,679	\$ 115,069	\$ 101,222	\$ 74,111
Net loans	300,591	274,348	192,658	172,310	146,264
Total deposits	414,310	407,188	307,453	270,159	212,629
Total assets	470,221	455,680	346,217	306,384	248,948
Shareholders' equity	45,564	38,691	28,203	25,484	22,604
Earning assets	431,368	414,257	311,456	275,846	222,067

Data from 2005 forward reflects the impact of the merger with Bank of Madera County.

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). The Company's market area includes the central valley area from Sacramento, California to Bakersfield, California.

After the close of business on December 31, 2004, the Company completed the merger with Bank of Madera County (BMC). The Madera and Oakhurst branches of BMC were merged into the Bank. For details of the merger, refer to Note 2 to the Company's audited Consolidated Financial Statements in Item 8 of the Annual Report.

During 2006, the Company focused on assuring competitive products and services to our clients were made available while adjusting to the many new laws and regulations that affect the banking industry. 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 Financial Drive in Fresno and opened a limited service branch there, bringing the total number of branches to 12.

ECONOMIC CONDITIONS

Fresno County's economy has been relatively stable for the past three to four years, but during 2006, the local economy has shown signs of slowing. Most industries in the County are either stable or contracting very modestly. Fresno County's unemployment rate has historically been one of the highest rates in California and the nation; however in the fourth quarter of 2006, the County reported the lowest single digit rate in 27 years. Agriculture and agricultural related businesses remain a critical part of the County's economy. The County's agricultural production is widely diversified, producing cotton, nuts, vegetables, fruit, cattle, and dairy products. Due to low land costs, relative to the rest of the state, Fresno's economy has been significantly affected by the real estate construction segment in the past five years. However, during 2006, growth in the residential housing market stagnated as housing starts and appreciation in median home prices decreased compared to 2005.

Fresno County also offers lower living costs compared with metropolitan areas to the North and South of the County. Fresno County's home appreciation has averaged 20% annually over the four year period prior to 2006. In 2006 home appreciation was approximately 3%. While affordability has declined as a result, the area is still considered more affordable than other places in California.

STOCK SPLIT

On September 21, 2005 the Company's Board of Directors approved a two-for-one stock split for shareholders of record at the close of business on October 5, 2005 and effective on October 31, 2005. All share and per share data in the consolidated financial statements and the following management's discussion and analysis have been retroactively restated to give effect to the stock split.

OVERVIEW

We are pleased to report continued growth in consolidated earnings and total assets during 2006. Diluted earnings per share (EPS) for the year ended December 31, 2006 was \$1.07 compared to \$0.94 and \$0.64 for years ended December 31, 2005 and 2004, respectively. Net income for 2006 was \$6,911,000 compared to \$6,044,000 and \$3,695,000 for the years ended December 31, 2005 and 2004, respectively. Total assets at December 31, 2006 were \$500,059,000 compared to \$483,677,000 at December 31, 2005.

Return on average equity for 2006 was 15.17% compared to 15.63% and 13.10% for 2005 and 2004, respectively. Return on average assets for 2006 was 1.47% compared to 1.33% and 1.07% for 2005 and 2004, respectively. Total equity was \$49,778,000 at December 31, 2006 compared to \$41,523,000 at December 31, 2005.

Total loans continued to grow during 2006. Average total loans increased \$26,219,000 or 9.44% in 2006 compared to 2005. Asset quality continues to be strong. In 2006, we recorded a provision for credit losses of \$800,000 compared to \$510,000 for 2005 and none in 2004. The Company had no non-accrual loans at December 31, 2006 compared to two non-accrual loans totaling \$616,000 at December 31, 2005. Net charge-offs for 2006 were \$330,000 compared to \$619,000 for 2005 and net recoveries of \$272,000 for 2004. Refer to "Asset Quality" below for further information. We had no other real estate owned at either December 31, 2006 or 2005.

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.

Return to Our Stockholders.

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Our return to our stockholders is measured in the form of return on average equity (ROE). Our net income for the year ended December 31, 2006 increased \$867,000 compared to increases of \$2,349,000 and \$323,000 for 2005 and 2004, respectively. Net income increased mainly due to an increase in net interest income provided by the increase in interest rates and the additional loan volume from the 2005 BMC merger and our own organic growth, and increases in non-interest income. This increase was partially offset by an increase in interest expenses, addition to the provision for credit losses, and operating expenses. Basic EPS increased to \$1.16 for 2006 compared to \$1.03 and \$0.71 for years ended 2005 and 2004, respectively. Diluted EPS increased to \$1.07 for the year ended 2006 compared to \$0.94 and \$0.64 for years ended 2005 and 2004, respectively. The increase in EPS was due primarily to the increase in net income, partially offset by the increase in average shares outstanding as a result of the merger and the exercise of stock options. Our ROE was 15.17% for the year ended 2006 compared to 15.63% and 13.10% for the years ended 2005 and 2004, respectively. The decrease in ROE for 2006 is primarily due to the increase in capital from the exercise of stock options and current year earnings.

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 2006 increased to 1.47% compared to 1.33% and 1.07% for the years ended December 31, 2005 and 2004, respectively. The 2006 increase in ROA is due to the increase in net income relative to our increase in average assets. ROA for our peer group was 1.11% at September 30, 2006. Peer group information from SNL Financial data includes all bank holding companies in California with assets from \$300M to \$500M and not subchapter S.

Development of Core Earnings

Over the past several years, we have focused on not only improving net income, but improving the consistency of our revenue streams in order to create more predictable future earnings and reduce the effect of changes in our operating environment on our net income. Specifically, we have focused on net interest income through a variety of processes, including increases in average interest earning assets as a result of the 2005 merger, loan generation and retention and improved net interest margin by focusing on core deposit growth and managing the cost of funds. As a result, our net interest income before provision for credit losses increased \$2,442,000 or 11.13% to \$24,373,000 for the year ended 2006 compared to \$21,931,000 and \$14,821,000 for the years ended 2005 and 2004, respectively. Our net interest margin also improved 33 basis points to 5.79% for the year ended 2006 compared to 5.46% and 4.91% for the years ended 2005 and 2004, respectively.

Our non-interest income is generally made up of service charges and fees on deposit accounts, fee income from loan placements, and gain on sale from investment securities. Non-interest income in 2006 increased \$1,168,000 or 29.13% to \$5,177,000 compared to \$4,009,000 and \$4,084,000 in 2005 and 2004, respectively. Customer service charges increased slightly to \$2,532,000 in 2006 compared to \$2,414,000 and \$2,340,000 in 2005 and 2004, respectively, mainly due to an increase in the number of transaction accounts. Non-interest income in 2006 also included tax-exempt proceeds from a life insurance policy of \$625,000, gains from the sale of real estate of \$265,000, realized gains from the sale of investments of \$123,000 and loan placement fees of \$350,000. During 2005, non-interest income included gains from the sale of investments of \$92,000 compared to \$483,000 in 2004 and loan placement fees of \$390,000 in 2005 compared to \$330,000 for 2004. 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 no non-performing loans as of December 31, 2006, compared to two non-accrual loans totaling \$616,000 as of December 31, 2005. 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. There were no non-performing loans at December 31, 2006 and 0.20% of gross loans were non-performing at December 31, 2005. The Company did not have any other real estate owned at December 31, 2006 or 2005.

Asset Growth

As revenues from both net interest income and non-interest income are a function of asset size, the continued growth in assets has a direct impact in increasing net income and therefore ROE and ROA. The majority of our assets are loans and investment securities, and the majority of our liabilities are deposits, and therefore the ability to generate deposits as a funding source for loans and investments is fundamental to our asset growth. Total assets increased 3.39% during 2006 to \$500,059,000 as of December 31, 2006 from \$483,677,000 as of December 31, 2005. Total gross loans increased 6.91% to \$322,662,000 as of December 31, 2006, compared to \$301,802,000 at December 31, 2005. Total investment securities decreased 1.58% to \$103,922,000 as of December 31, 2006 compared to \$105,592,000 as loan growth exceeded deposit growth. Total deposits increased 2.24% to \$440,627,000 as of December 31, 2006 compared to \$430,989,000 as of December 31, 2005. We continue to under perform in our loan to deposit ratio compared to our peers. Our loan to deposit ratio at December 31, 2006 was 73.2% compared to 70.0% at December 31, 2005. The loan to deposit ratio of our peers was 92.61% at September 30, 2006.

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 gain from sale of securities) deteriorated slightly to 62.28% for 2006 compared to 61.20% for 2005 and 72.00% for 2004. The deterioration in the efficiency ratio in 2006 is due to the increase in operating expenses exceeding the increase in revenues. The Company's net interest income before provision for credit losses plus non-interest income increased 13.84% to \$29,427,000 in 2006 compared to \$25,848,000 in 2005 and \$18,426,000 in 2004, while operating expenses increased 15.85% in 2006, 19.25% in 2005, and 7.37% in 2004. The increase in operating expenses in 2006 can be partially attributed to the opening of two new full service branches and the relocation of our administrative offices, including a limited service branch.

RESULTS OF OPERATIONS

Net Income:

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Net income increased to \$6,911,000 in 2006 compared to \$6,044,000 and \$3,695,000 in 2005 and 2004, respectively. Basic earnings per share were \$1.16, \$1.03, and \$0.71 for 2006, 2005 and 2004, respectively. Diluted earnings per share were \$1.07, \$0.94, and \$0.64 for 2006, 2005 and 2004, respectively. ROE was 15.17% for 2006 compared to 15.63% for 2005 and 13.10% for 2004. ROA for 2006 was 1.47% compared to 1.33% for 2005 and 1.07% for 2004.

The increase in net income and profitability for 2006 compared to 2005 was mainly due to the increases in net interest income and non-interest income and was partially offset by increases in the provision for credit losses and non-interest expenses. Net interest income increased due to an increase in average interest earning assets provided by our organic growth, the 2005 merger and the positive effect of our asset sensitive position expanding our net interest margin in response to the 17 increases in the Federal funds interest rate since June 30, 2004. Non interest-income in 2006 included tax-exempt proceeds from a life insurance policy, gains from the sale of real estate, and realized gains from the sale of investments. Non-interest expenses increased in 2006 primarily due to salaries and benefits, and equipment and occupancy expenses that were all affected by our continued organic expansion and the 2005 merger.

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.

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CENTRAL VALLEY COMMUNITY BANCORP

SCHEDULE OF AVERAGE BALANCES AND AVERAGE YIELDS AND RATES

(Dollars in thousands)

(Unaudited)	FOR THE YEAR ENDED DECEMBER 31, 2006			FOR THE YEAR ENDED DECEMBER 31, 2005		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
ASSETS						
Interest-earning deposits in other banks	\$ 634	\$ 22	3.47	% \$ 2,136	\$ 59	2.76 %
Securities						
Taxable securities	74,915	3,191	4.26	% 86,857	3,002	3.46 %
Non-taxable securities (1)	26,749	1,556	5.82	% 25,096	1,806	7.20 %
Total investment securities	101,664	4,747	4.67	% 111,953	4,808	4.29 %
Federal funds sold	23,404	1,165	4.98	% 21,590	702	3.25 %
Total	125,702	5,934	4.72	% 135,679	5,569	4.10 %
Loans (2) (3)	303,867	25,527	8.40	% 276,957	21,115	7.63 %
Federal Home Loan Bank stock	1,799	89	4.95	% 1,621	68	4.19 %
Total interest-earning assets	431,368	\$ 31,550	7.31	% 414,257	\$ 26,752	6.46 %
Allowance for credit losses	(3,483))		(3,507))	
Non-accrual loans	207			898		
Cash and due from banks	17,404			19,365		
Bank premises and equipment	3,369			3,004		
Other non-earning assets	21,356			21,663		
Total average assets	\$ 470,221			\$ 455,680		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities:						
Savings and NOW accounts	\$ 78,410	162	0.21	% \$ 83,781	149	0.18 %
Money market accounts	105,632	2,467	2.34	% 111,519	1,500	1.35 %
Time certificates of deposit, under \$100,000	53,208	1,499	2.82	% 50,841	1,017	2.00 %
Time certificates of deposit, \$100,000 and over	44,910	2,082	4.64	% 36,872	1,220	3.31 %
Total interest-bearing deposits	282,160	6,210	2.20	% 283,013	3,886	1.37 %
Other borrowed funds	6,774	349	5.15	% 6,725	253	3.76 %
Total interest-bearing liabilities	288,934	\$ 6,559	2.27	% 289,738	\$ 4,139	1.43 %
Non-interest bearing demand deposits	132,150			124,175		
Other liabilities	3,573			3,076		
Shareholders' equity	45,564			38,691		
Total average liabilities and shareholders' equity	\$ 470,221			\$ 455,680		
Interest income and rate earned on average earning assets						
		\$ 31,550	7.31 %		\$ 26,752	6.46 %
Interest expense and interest cost related to average interest-bearing liabilities						
		6,559	2.27 %		4,139	1.43 %
Net interest income and net interest margin (4)		\$ 24,991	5.79 %		\$ 22,613	5.46 %

(1) Calculated on a fully tax equivalent basis, which includes Federal tax benefits relating to income earned on municipal bonds totaling \$529 and \$614 in 2006 and 2005, respectively.

(2) Loan interest income includes loan fees of \$798 in 2006 and \$961 in 2005.

(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.

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Interest and fee income from loans increased 20.90% in 2006 compared to 2005. Interest and fee income increased 59.64% in 2005 compared to 2004. As stated above, the combination of the increased volume of loans from the 2005 merger, our organic growth from the focus on building relationships, and the 17 interest rate increases that have occurred since June 30, 2004, were the major components of the \$4,412,000 and \$7,888,000 increases in 2006 and 2005, respectively. Average total loans for 2006 were \$304,074,000 compared to \$277,855,000 and \$195,223,000 for the same periods of 2005 and 2004. The yield on loans for 2006 was 8.40% compared to 7.63% and 6.78% for 2005 and 2004, respectively.

Interest income from total investments, (total investments include investment securities, Federal funds, interest bearing deposits with other banks, and other securities) not on a fully tax equivalent basis, increased \$450,000 in 2006 compared to 2005 mainly due to the 100 basis point interest rate increase that occurred during 2006 which was partially offset by a 7.35% decrease in the average balances of these investments. In 2005, total investment income increased \$1,383,000 from 2004. We sold \$16,436,000 and \$15,395,000 in investment securities in 2006 and 2005, respectively, due to funding several new loans and some portfolio restructuring. The realized gain from sales of available for sale investments is discussed in non-interest income below. Due to our low loan to deposit ratio, a significant contributor to interest income is the investment portfolio, which represents 22.18%, 22.59% and 24.10% of net interest income before provision for credit losses for 2006, 2005 and 2004, respectively.

In an effort to increase yields, without accepting unreasonable risk, a significant portion of the investment purchases have been in high quality mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs). At December 31, 2006, we held \$45,528,000 or 43.80% of the total market value of the investment portfolio in MBS and CMOs with an average yield of 5.00%. 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, 2006, the average life of the investment portfolio was 4.2 years and the market value reflected a pre-tax loss of \$195,000.

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, 2006, an immediate rate increase of 200 basis points would result in an estimated decrease in the market value of the investment portfolio by approximately \$6,914,000. Conversely, with an immediate rate decrease of 200 basis points, the estimated increase in the market value of the investment portfolio is \$6,726,000. 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 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 2006 increased \$4,862,000, to \$30,932,000 compared to \$26,070,000 in 2005 and \$16,799,000 in 2004. The 18.65% increase in 2006 was due to the 4.13% increase in the average balance of interest earning assets, combined with the 85 basis point increase in the yield on those assets. Average interest-earning assets increased to \$431,368,000 for 2006 compared to \$414,257,000 for 2005, and \$311,456,000 for 2004. The yield on interest earning assets increased to 7.31% for 2006 compared to 6.46% and 5.55% for 2005 and 2004, respectively. The \$17,111,000 increase in average earning assets in 2006 was the result of our organic growth. The \$102,801,000 increase in average earning assets in 2005 was the result of our own organic growth and the approximate \$45,779,000 in loans and \$19,250,000 in investments as the result of the merger with BMC.

Interest expense on deposits in 2006 increased \$2,324,000 or 59.80% to \$6,210,000 compared to \$3,886,000 and \$1,793,000 in 2005 and 2004, respectively. The increase in 2006 compared to 2005 was due to the repricing of interest bearing deposits, which increased 83 basis points to 2.20% in 2006 from 1.37% in 2005, as a result of the increases in the Federal funds interest rate. This was partially offset by the \$853,000 decrease in volume of average interest bearing deposits from 2005 to 2006. The increase in interest expense in 2005 compared to 2004 was due to the repricing of interest bearing deposits, which increased 52 basis points to 1.37% in 2005 from .85% in 2004, as a result of the increases in the Federal funds interest rate and the \$72,770,000 increase in volume of average interest bearing deposits from 2004 to 2005. Average interest-bearing deposits were \$282,160,000 for 2006 compared to \$283,013,000 and \$210,243,000 for 2005 and 2004, respectively. Average deposits in 2006 were relatively flat compared to 2005. The increase in 2005 was the result of our own internal growth and the addition of approximately \$44,596,000 in interest-bearing deposits as the result of the merger with BMC.

Average other borrowings increased slightly to \$6,774,000 with an effective rate of 5.15% for 2006 compared to \$6,725,000 with an effective rate of 3.76% for 2005. In 2004, the average other borrowings were \$7,311,000 with an effective rate of 2.53%. Included in other borrowings are advances from the Federal Home Loan Bank (FHLB) and a loan from a major bank, in late 2004, primarily to provide additional capital for the Bank in conjunction with the 2005 merger with BMC. We borrowed funds from the Federal Home Loan Bank during a period of relatively low interest rates. The effective rate of the FHLB advances was 3.97% for 2006 compared to 2.36 % for 2005 and 2.53% for 2004.

In partial offset to the increase in the cost of interest bearing deposits and other borrowings, the increase in non-interest bearing demand deposits has made a positive contribution to the overall cost of funds. Average demand deposits increased 6.42% to \$132,150,000 in 2006 compared to \$124,175,000 for 2005 and \$97,210,000 for 2004. The increases in 2006 and 2005 were due primarily to organic growth and the merger with BMC which added approximately \$19,173,000 in non-interest bearing deposits to our portfolio in 2005. The cost of all of our interest bearing liabilities increased 84 basis points to 2.27% for 2006 compared to 1.43% for 2005 and 0.91% for 2004. Average transaction accounts (including interest bearing checking, money market accounts and non-interest bearing demand deposits) decreased slightly by 0.26% to \$292,840,000 for 2006 compared to \$293,609,000 for 2005 and \$229,249,000 for 2004.

Net Interest Income before Provision for Credit Losses

Net interest income before provision for credit losses for 2006 increased \$2,442,000 or 11.13% to \$24,373,000 compared to \$21,931,000 for 2005 and \$14,821,000 for 2004. The increases in 2006 compared to 2005 and in 2005 compared to 2004 were primarily due to increases in the net interest margin, combined with increases in average interest earning assets. Average interest earning assets and net interest margin, respectively, were \$431,368,000 and 5.79% in 2006, \$414,257,000 and 5.46% in 2005, and \$311,456,000 and 4.91% in 2004. For a discussion of the repricing of our assets and liabilities, see Quantitative and Qualitative Disclosure about Market Risk in Item 7A of this Annual Report.

Provision for Credit Losses

We provide for possible 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 is then 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.

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.

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

Loan Type(Dollars in Thousands)	December 31, 2006 Amount	Percent of Loans in Each Category to Total Loans	December 31, 2005 Amount	Percent of Loans in Each Category to Total Loans
Commercial & Industrial	\$ 1,656	24.2	% \$ 1,325	27.5 %
Real Estate	1,210	46.3	% 1,138	41.0 %
Real Estate - construction, land development and other land loans	294	15.0	% 378	15.4 %
Equity Lines of Credit	171	6.8	% 175	7.8 %
Agricultural	227	5.3	% 198	5.8 %
Consumer & Installment	193	2.3	% 120	2.5 %
Other	1	0.1	% 1	0.0 %
Non-specific reserve	57		4	
	\$ 3,809		\$ 3,339	

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

The provisions for credit losses in 2006 and 2005 were \$800,000 and \$510,000, respectively. There was no provision in 2004. The increases in 2006 and 2005 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. We did not have any non-performing loans as of December 31, 2006. Non-performing loans as of December 31, 2005 totaled \$616,000 and were comprised of one real estate secured loan for \$591,000 and one commercial loan for \$25,000. The Company did not have any other real estate owned at December 31, 2006 or 2005.

For 2006 and 2005 we had a net charge off ratio to average loans of 0.109% and 0.223%, respectively. For 2004, we had a net recovery ratio of 0.139%. The potential for a future net recovery position is not likely as we have been very successful in collection of those loans charged off in prior years.

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 \$800,000 in 2006 and \$510,000 in 2005, was \$23,573,000 for 2006 compared to \$21,421,000 and \$14,821,000 for 2005 and 2004, respectively.

Non-Interest Income

Non-interest income is comprised of customer service charges, loan placement fees, gain on sales of investments and other income. Non-interest income was \$5,177,000 in 2006 compared to \$4,009,000 and \$4,084,000 in 2005 and 2004, respectively. The \$1,168,000 increase in non-interest income comparing 2006 to 2005 was primarily due to increases in service charges, the tax-exempt proceeds from a life insurance policy of \$625,000, gains from the sale of real estate of \$265,000 and equipment of \$192,000, and realized gains from the sale of investments of \$123,000. The decrease of \$75,000 comparing 2005 to 2004 was primarily due to the decrease in gain realized on sale of investment securities of \$391,000.

Customer service charges increased \$118,000 to \$2,532,000 in 2006 compared to \$2,414,000 in 2005 and \$2,340,000 in 2004. The increase in both years is mainly due to an increase in the activity level as the average number of transaction accounts has increased and the increase in fees generated by the overdraft protection program.

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 \$40,000 in 2006 to \$350,000 compared to \$390,000 in 2005 and increased \$60,000 in 2005 to \$390,000 compared to \$330,000 for 2004. The decrease in 2006 is primarily due to a slowdown in the housing market in California and the recent increases in mortgage rates and fewer refinancing opportunities. The increase in 2005 was primarily due to the relative strength of normal home sales due to moving up or relocating as Fresno and Madera counties reflected affordable housing compared to other parts of California.

Appreciation in cash surrender value of bank owned life insurance (BOLI) increased \$38,000 mainly due to \$505,000 in BOLI purchased in 2006. The Bank purchased the additional insurance in connection with new split-dollar life insurance policies related to salary continuation benefits for three key executives. Salary continuation and the related BOLI are used as a retention tool for directors and key executives of the Bank.

The Bank holds stock from the Federal Home Loan Bank in relationship with the borrowing capacity and generally receives quarterly dividends. We currently hold \$1,891,000 in FHLB stock compared to \$1,659,000 at December 31, 2005. Dividends in 2006 increased to \$89,000 compared to \$68,000 in 2005 and \$41,000 in 2004.

Other income increased to \$1,013,000 in 2006 compared to \$829,000 and \$689,000 in 2005 and 2004, respectively. The \$184,000 increase in 2006 compared to 2005 and the \$140,000 increase comparing 2005 to 2004 are primarily due to increases in merchant fees from bankcards, debit card interchange fees and fees from investment services provided by a third party.

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 \$2,499,000 to \$18,541,000 in 2006 compared to \$16,042,000 in 2005, which was an increase of \$2,776,000 in 2005 compared to \$13,266,000 in 2004.

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 62.28% for 2006 compared to 61.20% for 2005 and 72.00% for 2004. The slight deterioration in the efficiency ratio in 2006 is due to the increase in operating expenses exceeding the increase in revenues.

Salaries and employee benefits increased \$1,693,000 or 18.45% to \$10,871,000 in 2006 compared to \$9,178,000 in 2005 and \$7,539,000 in 2004. The increase in salaries and employee benefits in 2006 compared to 2005 is primarily due to normal cost increases for salaries and benefits and incentive based compensation due to increased loan and deposit production, and profitability. In 2006 we also made changes to certain executive salary continuation agreements and recorded an expense related to the change of \$518,000. The increase in salaries and employee benefits in 2005 compared to 2004 includes the additional personnel costs from the merger with BMC. Commissions paid for loan placements in 2006 decreased \$37,000 compared to 2005. Commissions paid were \$162,000 for 2006 compared to \$199,000 in 2005 and \$150,000 in 2004.

The Company has three share based compensation plans. In 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS 123(R)), using the modified prospective application transition method. Prior to January 1, 2006, the Company accounted for these plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations (APB 25). No stock-based compensation cost is reflected in net income prior to January 1, 2006, as all options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of the grant. As a result of adopting SFAS 123(R), the Company's income before provision for income taxes and net income for the year ended December 31, 2006 are \$163,000 and \$142,000, respectively, lower than if it had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for the year ended December 31, 2006 would have been \$1.18 and \$1.09, respectively, without the adoption of SFAS 123(R) compared to \$1.16 and \$1.07, respectively, as reported. Results for prior periods have not been restated.

In February 2005 the Company accelerated the vesting of 186,000 options previously granted to certain directors and executive officers. No stock-based compensation is reflected in net income for the year ended December 31, 2005, as a result of the acceleration of the vesting as it is expected that generally all of the directors and executive management whose options were accelerated will remain with the Company through the original vesting period.

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 simplified method described in SEC Staff Accounting Bulletin No. 107 was used to determine the expected term of the Bank's options in 2006 and 2005.

There were no significant changes in evaluation methods for types of awards or terms made by the Company subsequent to the adoption on FAS No. 123(R) and no cumulative effect adjustments were made to the financial statements.

As of December 31, 2006, there was \$392,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the 1992 and 2000 Plans. The cost is expected to be recognized over a weighted average period of 3.5 years. See Notes 1 and 11 to the audited Consolidated Financial Statements.

Occupancy and equipment expense increased \$288,000 to \$2,421,000 in 2006 compared to \$2,133,000 in 2005 and \$1,621,000 in 2004. The 13.50% increase in occupancy expense in 2006 compared to 2005 was due mainly to the addition of the three newly opened branches during 2006 and the consolidation of the Company's administrative offices, normal increases in rent on existing leaseholds, and other occupancy related expenses. The 31.59% increase in occupancy expense in 2005 compared to 2004 was due mainly to the addition of the two branches resulting from the merger with BMC.

Other non-interest expenses increased \$518,000 or 10.95% to \$5,249,000 in 2006 compared to \$4,731,000 2005 and \$4,106,000 in 2004. The increase in 2006 was attributable primarily to personnel recruitment fees, leasehold termination expenses in connection with the relocation of our administrative offices into a single facility, and consulting expenses. Contributing to the 2005 increase in other non-interest expense was an additional \$100,000 write down to the Company's investment in CATEX Holding Corporation, formerly known as Diversified Capital Holdings, the parent company of a title and escrow insurance company that was sold in July 2005. To date, the Company has written down a total of \$250,000 of the original \$500,000 investment. The Company has received \$225,000 from the sale and anticipates full recovery of the remaining balance of \$25,000.

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

For the Years Ended December 31, (Dollars in thousands)	Other Expense 2006	% Average Assets	Other Expense 2005	% Average Assets
Advertising	\$ 452	0.10	% \$ 412	0.09 %
Audit/accounting	317	0.07	% 334	0.07 %
Data/item processing	816	0.17	% 811	0.18 %
ATM/debit card expenses	296	0.06	% 255	0.06 %
Director fees & related expenses	265	0.06	% 218	0.05 %
Donations	119	0.03	% 114	0.03 %
Education/training	68	0.01	% 81	0.02 %
General Insurance	124	0.03	% 120	0.03 %
Legal fees	300	0.06	% 192	0.04 %
Postage	164	0.03	% 156	0.03 %
Regulatory assessments	112	0.02	% 164	0.04 %
Stationery/supplies	247	0.05	% 207	0.05 %
Telephone	144	0.03	% 123	0.03 %
Operating losses	49	0.01	% 44	0.01 %
Other	1,776	0.38	% 1,500	0.33 %
Total other non-interest expense	\$ 5,249		\$ 4,731	

Provision for Income Taxes

Our effective income tax rate was 32.3% for 2006 compared to 35.6% for 2005 and 34.5% for 2004. The provision for income taxes totaled \$3,298,000, \$3,344,000, and \$1,944,000 in 2006, 2005, and 2004 respectively. The decrease in the effective tax rate for 2006 is due primarily to the tax exempt life insurance proceeds of \$625,000 received in 2006.

FINANCIAL CONDITION

Summary of Changes in Consolidated Balance Sheets

December 31, 2006 compared to December 31, 2005

The demand for our banking products has led to continued increases in loans and deposits during 2006. As of December 31, 2006, total assets were \$500,059,000, an increase of 3.39%, or \$16,382,000, compared to \$483,677,000 as of December 31, 2005. Total gross loans increased 6.91%, or \$20,860,000, to \$322,662,000 as of December 31, 2006 compared to \$301,802,000 as of December 31, 2005. Total deposits increased 2.24%, or \$9,638,000, to \$440,627,000 as of December 31, 2006 compared to \$430,989,000 as of December 31, 2005. Shareholders equity increased 19.88%, or \$8,255,000, to \$49,778,000 as of December 31, 2006 compared to \$41,523,000 as of December 31, 2005.

Investments

Our investment portfolio consists primarily of agency securities, mortgage backed securities, municipal securities, and overnight investments in the Federal funds market and are all classified as available-for-sale. As of December 31, 2006, investment securities with a fair value of \$35,612,000 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 volume of our investment portfolio is generally considered higher than our peers due mostly to our relatively low loan to deposit ratio. Our loan to deposit ratio at December 31, 2006 was 73.2% compared to 70.0% at December 31, 2005. The loan to deposit ratio of our peers was 92.61% at September 30, 2006. The total investment portfolio decreased 5.78% from \$136,340,000 at December 31, 2005 to \$128,463,000 at December 31, 2006 as a portion of the portfolio was used to provide liquidity to fund loan growth during 2006. The market value of the portfolio reflected an unrealized loss of \$195,000 at December 31, 2006 compared to an unrealized loss of \$845,000 at December 31, 2005.

Management periodically evaluates each investment security 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 and that the noted decline in fair value is considered temporary and due only to interest rate fluctuations.

See Note 3 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 to \$322,662,000 as of December 31, 2006 compared to \$301,802,000 as of December 31, 2005.

The following table sets forth information concerning the composition of our loan portfolio at the dates indicated:

Loan Type (Dollars in thousands)	December 31, 2006	% of Total loans	December 31, 2005	% of Total loans
Commercial & industrial	\$ 78,441	24.2	% \$ 82,978	27.5
Real estate	149,586	46.3	% 124,043	41.0
Real estate - construction, land development and other land loans	48,424	15.0	% 46,523	15.4
Equity lines of credit	21,858	6.8	% 23,604	7.8
Agricultural	17,102	5.3	% 17,547	5.8
Consumer and installment	7,549	2.3	% 7,539	2.5
Other	454	0.1	% 160	0.0
	323,414	100.0	% 302,394	100.0
Deferred loan fees, net	(752)		(592)	
Total loans	\$ 322,662		\$ 301,802	

As of December 31, 2006, a concentration of loans existed in loans collateralized by real estate (real estate, real estate construction, land development and other land loans, and equity lines of credit) comprising 67.98% of total loans. This level of concentration is consistent with December 31, 2005. Although management believes the loans within this concentration have no more than the normal risk of collectibility, a substantial decline in the performance of the economy in general or a decline in real estate values in the 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.

At December 31, 2006 and 2005, we had no OREO, repossessed assets or restructured loans. At December 31, 2006, we had no non-accrual loans compared to two non-accrual loans totaling \$616,000 at December 31, 2005.

A summary of non-accrual, restructured, and past due loans at December 31, 2006 and 2005 is set forth below. The Company had no restructured loans and no accruing loans past due more than 90 days at December 31, 2006 and 2005. Management is not aware of any potential problem loans, which were current and accruing at December 31, 2006, 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, 2006	December 31, 2005
Non-accrual Loans		
Commercial and Industrial	\$	\$ 25
Real Estate		591
Total non-accrual		616
Accruing loans past due 90 days or more		
Restructured loans		
Total non-performing loans	\$	\$ 616
Nonperforming loans to total loans		% 0.20 %
Ratio of non-performing loans to allowance for credit losses		% 18.5 %
Loans considered to be impaired	\$	\$ 616
Related allowance for credit losses on impaired loans	\$	\$

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, 2006, we had no impaired loans. 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. 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.

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.

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 allowance for credit losses has seven components: the general valuation allowance, criticized and classified allowance, the specific valuation allowance, large borrower risk allowance, pool loan allowance, qualitative (Q) factor allowance and the model risk allowance. Each of these components is determined based upon estimates that can and do change when the actual events occur.

- General valuation allowances (GVA): This element relates to assets with no well-defined deficiency or weakness (e.g. assets classified pass) and takes into consideration losses that are imbedded within the portfolio but have not yet been recognized. Generally, borrowers are impacted by events well in advance of a lender's knowledge that may ultimately result in loan default and eventual loss. An example of such a loss-causing event would be the loss of a major tenant in the case of commercial real estate loan. General valuation allowances are determined through consideration of past loss experience.

- GVA is calculated by applying loss factors to outstanding loans, in each case based on the internal risk grade of pass of such loans and commercial leases. Changes in risk grades affect the amount of the allowance. Loss factors are based on our historical loss experience and may be adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. The calculated reserve has a minimum seventy basis points of total GVA loan types, or expected net charge offs based on historical data, whichever is higher.

- Loss factors are developed in the following ways:

- pass graded loss factors for commercial, financial, and industrial loans along with real estate construction (participated, commercial or consumer) derived from a migration model that tracks historical losses over a period (usually the last thirty-six calendar months) which we believe captures the inherent losses in the loan portfolio;

- pass graded loss factors for commercial real estate loans are based on the average annual net charge-off rate over a period reflective of a full economic cycle (usually the past eighty-four months).

We believe that an economic cycle is a period in which both upturns and downturns in the economy have been reflected.

- Criticized and classified allowance (CCA): At the time of credit analysis and risk determination, credits, which have been determined to contain a weakness higher than management's overall risk appetite, are graded as criticized or classified. Once validated that the credit is not impaired, a risk of loss is calculated and applied. In addition, determination of commitments outstanding on classified loans is determined.

- The CCA identifies credits that have a risk level of special mention or worse, however not inclusive of Impaired Assets. The calculation uses the credit's expected default frequency (EDF) as estimated by Moody's risk for private companies. In each case use of the loan maturity defines if the one or five year default component is employed. Default is defined by Moody's as a statistical probability that the credit will either miss or delay interest and/or principal payment, bankruptcy or receivership will occur, or exchange security where the exchange has the apparent purpose of helping the borrower avoid default. If the EDF has not been calculated, the Bank maintains an allocation equal to the sum of:

100% of those loans classified loss

50% of those loans classified doubtful

15% of those loans classified substandard

5% of those loans classified special mention

- Pool loan allowance (PLA): Our residential and consumer loans and leases are relatively homogeneous with no single loan individually significant in terms of its size or potential risk of loss. Therefore, we review our residential and consumer portfolios by analyzing their performance as a pool of loans. Generally, borrowers become impacted by events well in advance of a lender's knowledge that may ultimately result in loan default and eventual loss. Examples of such loss-causing events would be borrower job loss, divorce or medical crisis in the case of single family residential and consumer loans. The calculated reserve has a minimum one hundred basis points of total PLA

loan types, or expected net charge offs based on historical data, which ever is higher. Risk grade is not a component of this computation.

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- Loss factors are developed in the following ways:
 - Pooled loan loss factors (not individually graded loans) are based on expected net charge-offs for one year, based on historical loss data. Pooled loans are loans that are homogeneous in nature, such as consumer installment, home equity, residential mortgage loans, credit cards, and consumer leases.
 - Large borrower risk allowance (LBA): We have a number of borrowers with large loan balances which may create an additional risk if one or two of these borrowers were to unexpectedly default. Therefore an additional allowance for this risk is analyzed and applied.
 - LBA identifies those credits with outstanding balances exceeding the house lending limit. The calculated reserve has a minimum of, the greater of, fifty basis points of total LBA, or the expected net charge offs based on historical data.
 - Q factor allowances (QFA): The methodology applied in all other allowance sections does not account for both quantitative and qualitative factors and documentation. Any methodology falls subject to some uncertainties. All loans and commercial leases contain, in management s judgment, factors where loss recognition exists due to effects of the national and local economies, trends in nature and volume, changes in mix, consumer credit score migration, loan administration, concentrations, changes in internal lending policies, and collection practices to mention just a few.
 - QFA is subjective by definition. The factors reflect management s overall estimate of the additional rate of loss over the next four quarters that differ from either the historical loss experience or other valuations. The factors ever evolve and expectation of change from quarter to quarter is expected, both in inclusion and in value. As multiple factors exist which may be evaluated in connection with this allowance, topics noted below are examples only:
 - general economic and business conditions affecting our key lending areas;
 - credit quality trends (including trends in nonperforming loans expected to result from existing conditions);
 - collateral values;
 - loan volumes and concentrations;
 - seasoning of the loan portfolio;
 - specific industry conditions within portfolio segments;
 - recent loss experience in particular segments of the portfolio;
 - duration of the current economic cycle;
 - government regulation;
 - bank regulatory examination results; and
 - findings of our internal and external credit reviewers.

- Each factor is calculated on a scale of negative four to positive four, with the latter having the greatest risk level. Zero, results in no increase or decrease to the required reserve level as computed in this section.

Model risk allowance (MRA): The allowance methodologies noted above are by definition imprecise. Any methodology is subject to some uncertainties. Estimating future losses inherent in a loan portfolio will vary with each method. Therefore, management applies a model risk component to determine a loss provision. This allowance is also used to reserve for potential losses which might occur through customer overdrafts, and to establish a minimum floor by which the provision for credit loss would not decline below one percent of total gross loans.

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

(Dollars in thousands)	For the Years Ended December 31,			
	2006		2005	
Balance, beginning of the year	\$	3,339	\$	2,697
Addition from merger with BMC				751
Provision charged to operations		800		510
Losses charged to the allowance		(721))	(787)
Recoveries on loans previously charged off		391		168
Balance, end of year	\$	3,809	\$	3,339
Ratio of non-performing loans to allowance for credit losses		0.0	%	18.5
Allowance for credit losses to total loans		1.18	%	1.11
			%	%

As of December 31, 2006 the balance in the allowance for credit losses was \$3,809,000 compared to \$3,339,000 as of December 31, 2005. The increase resulted from the additional provision of \$800,000, partially offset by the net charge-offs totaling \$330,000. The balance of commitments to extend credit on undisbursed construction and other loans and letters of credit was \$134,549,000 as of December 31, 2006 compared to \$133,956,000 as of December 31, 2005. 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, our 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, 2006 the allowance was 1.18% of total gross loans compared to 1.11% as of December 31, 2005. 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. There were no non-performing loans as of December 31, 2006. The allowance for credit losses as a percentage of non-performing loans was 542% as of December 31, 2005. Management believes the allowance at December 31, 2006 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

Total deposits increased \$9,638,000 or 2.24% to \$440,627,000 as of December 31, 2006 compared to \$430,989,000 as of December 31, 2005. Interest bearing deposits increased \$12,460,000 or 4.48% to \$290,445,000 as of December 31, 2006 compared to \$277,985,000 as of December 31, 2005. Non-interest bearing deposits decreased \$2,822,000 or 1.84% to \$150,182,000 as of December 31, 2006 compared to \$153,004,000 as of December 31, 2005. During 2006 deposit growth was difficult to achieve; however, we were able to achieve positive growth in part due to the opening of two new retail banking offices.

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The composition of the deposits and average interest rates paid at December 31, 2006 and 2005 is summarized in the table below.

(Dollars in thousands)	December 31, 2006	Percent of Total Deposits	Effective Rate	December 31, 2005	Percent of Total Deposits	Effective Rate	
NOW Accounts	\$ 56,177	12.8	% 0.10	% \$ 56,991	13.2	% 0.10	%
MMA Accounts	109,069	24.7	% 2.34	% 108,024	25.1	% 1.35	%
Time Deposits	104,170	23.6	% 3.65	% 88,581	20.5	% 2.55	%
Savings Deposits	21,029	4.8	% 0.45	% 24,389	5.7	% 0.34	%
Total Interest-bearing	290,445	65.9	% 2.20	% 277,985	64.5	% 1.37	%
Non-interest bearing	150,182	34.1	%	153,004	35.5	%	
Total deposits	\$ 440,627	100.0	%	\$ 430,989	100.0	%	

Short-term borrowings totaled \$3,250,000 as of December 31, 2006 compared to \$3,250,000 as of December 31, 2005. Short-term borrowings include \$1,250,000 in principal payments coming due in 2007 on the loan with a major bank (described below) and \$2,000,000 in FHLB advances maturing in the next twelve months. We maintain a line of credit with the FHLB collateralized by government securities. Refer to Liquidity below for further discussion of FHLB advances.

There was no long-term debt as of December 31, 2006 and \$3,250,000 in long-term debt as of December 31, 2005.

On December 17, 2004, the Company entered into a non-revolving loan agreement with a major bank under which the Company borrowed \$2,500,000 and contributed \$2,000,000 of additional capital to the Bank. The loan bears interest indexed to prime or LIBOR, at the Company's election. The outstanding balance at December 31, 2006 was \$1,250,000. The purpose of the borrowing was to ensure the Bank's capital ratios remain at or above well capitalized after the effective date of the merger with BMC. Refer to Note 7 to the audited Consolidated Financial Statements.

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 \$49,778,000 as of December 31, 2006 compared to \$41,523,000 as of December 31, 2005. The increase in stockholders' equity is primarily a result of net income of \$6,911,000 for 2006 and proceeds from the exercise of stock options.

During October 2006, the Bank declared and paid a cash dividend to the Company of \$1,000,000 in connection with a stock repurchase agreement approved by the Company's Board of Directors. During the period the Company's borrowings remains outstanding, which is expected to be until December 2007, the Bank does not anticipate paying any additional dividends to the Company except for dividends that are necessary to meet the ordinary and usual operating expenses of the Company. The Bank would not pay any dividend that would cause it to be deemed not well capitalized under applicable banking laws and regulations.

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

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The following table presents the Company's and the Bank's capital ratios as of December 31, 2006 and 2005.

(Dollars in thousands)	December 31, 2006		December 31, 2005		
	Amount	Ratio	Amount	Ratio	
<u>Tier 1 Leverage Ratio</u>					
Central Valley Community Bancorp and Subsidiary	\$ 39,864	8.41	% \$ 31,767	6.84	%
Minimum regulatory requirement	18,967	4.00	% 18,572	4.00	%
Central Valley Community Bank	39,045	8.24	% 32,493	7.00	%
Minimum requirement for Well-Capitalized institution	23,703	5.00	% 23,204	5.00	%
Minimum regulatory requirement	18,963	4.00	% 18,563	4.00	%
<u>Tier 1 Risk-Based Capital Ratio</u>					
Central Valley Community Bancorp and Subsidiary	39,864	10.97	% 31,767	9.26	%
Minimum regulatory requirement	14,536	4.00	% 13,719	4.00	%
Central Valley Community Bank	39,045	10.72	% 32,493	9.48	%
Minimum requirement for Well-Capitalized institution	21,852	6.00	% 20,572	6.00	%
Minimum regulatory requirement	14,568	4.00	% 13,715	4.00	%
<u>Total Risk-Based Capital Ratio</u>					
Central Valley Community Bancorp and Subsidiary	43,673	12.02	% 35,106	10.24	%
Minimum regulatory requirement	29,073	8.00	% 27,437	8.00	%
Central Valley Community Bank	42,854	11.77	% 35,832	10.45	%
Minimum requirement for Well-Capitalized institution	36,419	10.00	% 34,287	10.00	%
Minimum regulatory requirement	29,135	8.00	% 27,429	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 paydowns 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.

As a means of augmenting our liquidity, we have established Federal funds lines with correspondent banks. At December 31, 2006 our available borrowing capacity includes approximately \$18,000,000 in Federal funds lines with our correspondent banks and \$14,334,000 in unused FHLB advances. We believe our liquidity sources to be stable and adequate. At December 31, 2006, we were not aware of any information that was reasonably likely to have a material effect on our liquidity position.

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The following table reflects the Company's credit lines, balances outstanding, and pledged collateral at December 31, 2006 and 2005:

(In thousands) Credit Lines	December 31, 2006	Balance Outstanding at December 31, 2006	December 31, 2005	Balance Outstanding at December 31, 2005
Unsecured Credit Lines (interest rate varies with market)	\$18,000	\$	\$14,100	\$
Federal Home Loan Bank (interest rate at prevailing interest rate)	Collateral pledged \$16,848 Fair Value of Collateral \$16,758	\$2,000	Collateral pledged \$6,680 Fair Value of Collateral \$6,598	\$4,000
Federal Reserve Bank (interest rate at prevailing discount interest rate)	Collateral pledged \$2,271 Fair Value of Collateral \$2,200	\$	Collateral pledged \$3,350 Fair Value of Collateral \$3,252	\$

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 \$134,549,000 as of December 31, 2006 compared to \$133,956,000 as of December 31, 2005. For a more detailed discussion of these financial instruments, see Note 10 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 10 to the audited Consolidated Financial Statements in Item 8 of this Annual Report.

CONTRACTUAL OBLIGATIONS

The following summarizes the Company's long-term contractual obligations at December 31, 2006:

(In thousands)	Less than 1 year	1 - 3 years	3 - 5 years	Thereafter	Total
Time deposits	\$ 93,946	\$ 8,186	\$ 2,038	\$	\$ 104,170
FHLB Advances	2,000				2,000
Other long-term debt	1,250				1,250
Deferred Compensation Liability (1)	1,355	61			1,416
Salary Continuation Liability (1)	566	292	275	1,152	2,285
Obligations reflected on Consolidated Balance Sheet	\$ 99,117	\$ 8,539	\$ 2,313	\$ 1,152	\$ 111,121
Operating lease obligations	\$ 933	\$ 2,091	\$ 1,870	\$ 8,506	\$ 13,400
Obligations not reflected on Consolidated Balance Sheet	\$ 933	\$ 2,091	\$ 1,870	\$ 8,506	\$ 13,400

(1) These amounts represent the current accrual for payments to participants under the Company's deferred compensation and salary continuation plans. See Note 13 to the audited 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. 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, 2006, 89% 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, 2006, 90.2% of our time deposits mature within one year or less. As of December 31, 2006, \$2,000,000 of our short term debt was fixed rate which matures on February 12, 2007, and \$1,250,000 of short-term debt which reprices on a quarterly basis.

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

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

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

Simulation of earnings is the primary tool used to measure the sensitivity of earnings to interest rate changes. Earnings simulations are produced using a software model that is based on actual cash flows and repricing characteristics for all of our financial instruments and 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.

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Approximately 88% of our loan portfolio is tied to adjustable rate indices and 53% of our loan portfolio reprices within 90 days. As of December 31, 2006, we had 95 commercial and real estate loans totaling \$44,481,000 with floors ranging from 1% to 8% and ceilings ranging from 9% to 25%. In the current rate environment, the number of loans affected by floors and ceilings is minimal.

The following table shows the effects of changes in projected net interest income for the twelve months ending December 31, 2007 under the interest rate shock scenarios stated. The table was prepared as of December 31, 2006, at which time prime interest rate was 8.25%.

SENSITIVITY ANALYSIS OF IMPACT ON INTEREST INCOME OF RATE CHANGES

HYPOTHETICAL CHANGE IN RATES

(Dollars in thousands)	PROJECTED NET INTEREST INCOME	\$ CHANGE FROM RATES AT DEC. 31, 2006	% CHANGE FROM RATES AT DEC. 31, 2006	
UP 300 bp	\$ 28,982	\$ 2,981	11.47	%
UP 200 bp	27,477	1,476	5.68	%
UP 100 bp	26,240	239	0.92	%
UNCHANGED	26,001			
DOWN 100 bp	25,542	(459)	-1.76	%
DOWN 200 bp	24,440	(1,561)	-6.00	%
DOWN 300 bp	23,042	(2,959)	-11.38	%

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 2005. The outcome of the sensitivity Analysis conducted for 2005 was essentially the same as 2006.

CRITICAL ACCOUNTING POLICIES

The Securities and Exchange Commission (SEC) 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.

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.

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 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 would be expected to decline and the average life of the MBS and CMOs would be expected to extend. 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 paydowns inherent in the total investment portfolio.

Goodwill

Business combinations involving the Company's acquisition of the equity interests or net assets of another enterprise or the assumption of net liabilities in an acquisition of branches constituting a business may give rise to goodwill. Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed in transactions accounted for under the purchase method of accounting. The value of goodwill is ultimately derived from the Company's ability to generate net earnings after the acquisition. A decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed for impairment at a reporting unit level at least annually. 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

Under SFAS No.123(R), Share Based Payment compensation expense is recognized for options granted prior to the adoption date in an amount equal to the fair value of the unvested amounts over their remaining vesting period, based on the grant date fair value estimated in accordance with SFAS No. 123, Accounting for Stock Based Compensation and compensation expense for all share based payments granted after adoption based on the grant date fair values estimated in accordance with SFAS No. 123(R) . The estimates of the grant date fair values are based on an option pricing model that uses assumptions based 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.

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, 2006, 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* for further discussion.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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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, 2006 and 2005 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, 2006. 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, 2006 and 2005 and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

/s/ Perry-Smith LLP

Sacramento, California

March 14, 2007

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**CONSOLIDATED BALANCE SHEETS****December 31, 2006 and 2005****(In thousands, except share amounts)**

	2006	2005
ASSETS		
Cash and due from banks	\$ 23,898	\$ 22,165
Federal funds sold	24,218	29,830
Total cash and cash equivalents	48,116	51,995
Interest bearing deposits in other banks	323	918
Available-for-sale investment securities (Notes 3 and 7)	103,922	105,592
Loans, less allowance for credit losses of \$3,809 in 2006 and \$3,339 in 2005 (Notes 4, 9 and 14)	318,853	298,463
Bank premises and equipment, net (Notes 5 and 9)	4,655	2,912
Bank owned life insurance (Note 13)	6,146	6,725
Federal Home Loan Bank stock	1,891	1,659
Goodwill	8,934	8,955
Intangible assets	1,071	1,286
Accrued interest receivable and other assets (Note 8)	6,148	5,172
Total assets	\$ 500,059	\$ 483,677
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits:		
Non-interest bearing	\$ 150,182	\$ 153,004
Interest bearing (Note 6)	290,445	277,985
Total deposits	440,627	430,989
Short-term borrowings (Note 7)	3,250	3,250
Long-term debt (Note 7)		3,250
Accrued interest payable and other liabilities (Note 13)	6,404	4,665
Total liabilities	450,281	442,154
Commitments and contingencies (Note 9)		
Shareholders' equity (Note 10):		
Preferred stock, no par value; 10,000,000 shares authorized, no shares issued or outstanding		
Common stock, no par value; 80,000,000 shares authorized, 6,037,656 and 5,891,820 shares issued and outstanding in 2006 and 2005, respectively	14,007	13,053
Retained earnings	35,888	28,977
Accumulated other comprehensive loss, net of taxes (Notes 3 and 15)	(117)	(507)
Total shareholders' equity	49,778	41,523
Total liabilities and shareholders' equity	\$ 500,059	\$ 483,677

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

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**CONSOLIDATED STATEMENTS OF INCOME****For the Years Ended December 31, 2006, 2005 and 2004****(In thousands, except per share amounts)**

	2006	2005	2004
Interest income:			
Interest and fees on loans	\$ 25,527	\$ 21,115	\$ 13,227
Interest on Federal funds sold	1,165	702	234
Interest and dividends on investment securities:			
Taxable	3,213	3,061	2,499
Exempt from Federal income taxes	1,027	1,192	839
Total interest income	30,932	26,070	16,799
Interest expense:			
Interest on deposits (Note 6)	6,210	3,886	1,793
Other (Note 7)	349	253	185
Total interest expense	6,559	4,139	1,978
Net interest income before provision for credit losses	24,373	21,931	14,821
Provision for credit losses (Note 4)	800	510	
Net interest income after provision for credit losses	23,573	21,421	14,821
Non-interest income:			
Service charges	2,532	2,414	2,340
Loan placement fees	350	390	330
Appreciation in cash surrender value of bank owned life insurance (Note 13)	253	215	200
Gain from bank owned life insurance (Note 13)	625		
Net realized gains on sales and calls of investment securities (Note 3)	123	92	483
Federal Home Loan Bank stock dividends	89	68	41
Gain on sale and disposal of equipment	192	1	1
Other income	1,013	829	689
Total non-interest income	5,177	4,009	4,084

	2006	2005	2004
Non-interest expenses:			
Salaries and employee benefits (Notes 4 and 13)	\$ 10,871	\$ 9,178	\$ 7,539
Occupancy and equipment (Notes 5 and 9)	2,421	2,133	1,621
Other expenses (Notes 9 and 12)	5,249	4,731	4,106
Total non-interest expenses	18,541	16,042	13,266
Income before provision for income taxes	10,209	9,388	5,639
Provision for income taxes (Note 8)	3,298	3,344	1,944
Net income	\$ 6,911	\$ 6,044	\$ 3,695
Basic earnings per share (Note 10)	\$ 1.16	\$ 1.03	\$ 0.71
Diluted earnings per share (Note 10)	\$ 1.07	\$ 0.94	\$ 0.64

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

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY****For the Years Ended December 31, 2006, 2005 and 2004****(In thousands, except share and per share amounts)**

	Common Stock Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss) (Net of Taxes)	Total Shareholders Equity	Total Comprehensive Income
Balance, January 1, 2004	5,197,854	\$ 6,096	\$ 19,501	\$ 1,123	\$ 26,720	
Comprehensive income (Note 15):						
Net income			3,695		3,695	\$ 3,695
Other comprehensive loss, net of tax:						
Net change in unrealized gains on available-for-sale investment securities				(793)	(793)	(793)
Total comprehensive income						\$ 2,902
Cash dividend - \$.05 per share (Note 10)						
			(263)		(263)	
Stock options exercised and related tax benefit (Note 11)	77,880	460			460	
Repurchase and retirement of common stock (Note 10)	(18,000)	(213)			(213)	
Balance, December 31, 2004	5,257,734	6,343	22,933	330	29,606	
Comprehensive income (Note 15):						
Net income			6,044		6,044	\$ 6,044
Other comprehensive loss, net of tax:						
Net change in unrealized gains on available-for-sale investment securities				(837)	(837)	(837)
Total comprehensive income						\$ 5,207
Stock issued for acquisition (Note 2)						
	522,106	6,079			6,079	
Stock options exercised and related tax benefit (Note 11)	111,980	631			631	
Balance, December 31, 2005	5,891,820	13,053	28,977	(507)	41,523	

	Common Stock Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss) (Net of Taxes)	Total Shareholders Equity	Total Comprehensive Income
Balance, December 31, 2005	5,891,820	\$ 13,053	\$ 28,977	\$ (507)	\$ 41,523	
Comprehensive income (Note 15):						
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 (Note 10)	(26,200)	(395)			(395)	
Stock-based compensation expense		163			163	
Stock options exercised and related tax benefit (Note 11)	172,036	1,186			1,186	
Balance, December 31, 2006	6,037,656	\$ 14,007	\$ 35,888	\$ (117)	\$ 49,778	

	2006	2005	2004
Disclosure of reclassification amount, net of taxes (Note 15):			
Unrealized holding gains (losses) arising during the year	\$ 464	\$ (782)	\$ (474)
Less reclassification adjustment for net gains included in net income	(74)	55	319
Net change in unrealized gains (losses) on available-for-sale investment securities	\$ 390	\$ (837)	\$ (793)

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

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Years Ended December 31, 2006, 2005 and 2004****(In thousands)**

	2006	2005	2004
Cash flows from operating activities:			
Net income	\$ 6,911	\$ 6,044	\$ 3,695
Adjustments to reconcile net income to net cash provided by operating activities:			
Net increase (decrease) in deferred loan fees	160	94	(150)
Depreciation, accretion and amortization, net	1,619	2,368	2,106
Stock-based compensation	163		
Tax benefit from exercise of stock options	(451)	(173)	(143)
Provision for loan losses	800	510	
Net realized gains on sales and calls of available-for-sale investment securities	(123)	(92)	(483)
Net gain on sale and disposal of equipment	(192)	(1)	(1)
Increase in bank owned life insurance, net of expenses	(248)	(210)	(196)
FHLB stock dividends	(89)	(68)	(41)
Net (increase) decrease in accrued interest receivable and other assets	(398)	1,889	(2,307)
Net increase in accrued interest payable and other liabilities	2,190	546	354
Provision for deferred income taxes	(838)	(147)	(409)
Net cash provided by operating activities	9,504	10,760	2,425
Cash flows from investing activities:			
Cash and cash equivalents acquired in acquisition	21	13,844	
Purchases of available-for-sale investment securities	(30,657)	(50,046)	(40,781)
Proceeds from sales or calls of available-for-sale investment securities	16,559	15,487	4,775
Proceeds from maturity of available-for-sale investment securities	1,000		4,500
Proceeds from principal repayments of available-for-sale investment securities	15,085	25,463	26,488
Net decrease (increase) in interest bearing deposits in other banks	595	1,687	(2,105)
Net FHLB stock purchases	(143)		(807)
Net increase in loans	(21,350)	(47,458)	(22,583)
Purchases of premises and equipment	(2,987)	(781)	(539)
Proceeds from sale of equipment	488		5
Proceeds from bank owned life insurance	1,332		
Purchases of bank owned life insurance	(505)	(440)	
Net cash used in investing activities	(20,562)	(42,244)	(31,047)

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	2006	2005	2004
Cash flows from financing activities:			
Net (decrease) increase in demand, interest-bearing and savings deposits	\$ (5,951)	\$ 32,000	\$ 38,466
Net increase (decrease) in time deposits	15,589	9,034	(2,845)
Proceeds from borrowings from Federal Home Loan Bank	9,788		6,000
Repayments to Federal Home Loan Bank	(11,788)	(2,000)	(7,000)
Repayment of borrowings from other financial institutions	(1,250)		
Proceeds from borrowings from other financial institutions			2,500
Cash paid for dividends			(263)
Share repurchase and retirement	(395)		(213)
Proceeds from exercise of stock options	735	458	317
Tax benefit from exercise of stock options	451	173	143
Net cash provided by financing activities	7,179	39,665	37,105
(Decrease) increase in cash and cash equivalents	(3,879)	8,181	8,483
Cash and cash equivalents at beginning of year	51,995	43,814	35,331
Cash and cash equivalents at end of year	\$ 48,116	\$ 51,995	\$ 43,814
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest expense	\$ 6,362	\$ 3,947	\$ 2,000
Income taxes	\$ 3,400	\$ 3,223	\$ 2,409
Non-cash investing activities:			
Net change in unrealized gain (loss) on available-for-sale investment securities	\$ 650	\$ (1,407)	\$ (1,090)
Non-cash financing activities:			
Tax benefit from stock options exercised	\$ 451	\$ 173	\$ 143
Supplemental Schedule Related to Acquisition:			
Acquisition of Bank of Madera County:			
Deposits	\$	\$ 63,769	
Other liabilities		439	
Loans, net		(45,028)	
Goodwill and intangibles	21	(10,455)	
Premises and equipment		(390)	
Federal Home Loan Bank stock		(172)	
Other assets		(398)	
Stock issued		6,079	
Cash and cash equivalents acquired, net of cash paid to Bank of Madera County shareholders and option holders	\$ 21	\$ 13,844	

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

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.

The Bank operates 12 branches in Clovis, Fresno, west and northeast Fresno County, Madera County, 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 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 since 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.

On September 21, 2005, the Company's Board of Directors approved a two-for-one stock split for shareholders of record at the close of business on October 5, 2005 and effective on October 31, 2005. All share and per share data in the consolidated financial statements have been retroactively restated to give effect to the stock split.

Certain reclassifications have been made to prior years' balances to conform to classifications used in 2006.

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 (Clovest) and Clovis Securities Corporation (an inactive company), are included in the consolidated financial statements. The operating results of Clovest were not significant. All significant intercompany accounts and transactions have been eliminated in consolidation.

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, 2006 and 2005, all of the Company's investments were classified as available-for-sale and 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.

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. At December 31, 2006 and 2005, 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.

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, 2006 and 2005, respectively, reflects management's estimate of potential losses in the portfolio.

Bank Premises and Equipment

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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. Goodwill of \$8,934,000 represents the excess of the cost of the Bank of Madera County 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 2006 or 2005.

Intangible Assets

The intangible assets represent the estimated fair value of the core deposit relationships acquired in the acquisition of Bank of Madera County of \$1,071,000, net of \$429,000 in amortization at December 31, 2006. The core deposit intangible is being amortized by the straight-line method over an estimated life of seven years. 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. There were no such events or circumstances in 2006. Amortization expense recognized in 2006 and 2005 was \$215,000 and \$214,000, respectively.

Income Taxes

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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 basis. 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.

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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 11.

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS 123(R)), using the modified prospective application transition method, which requires recognizing expense for options granted prior to the adoption date equal to fair value of the unvested amounts over their remaining vesting period, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, *Accounting for Stock Based Compensation*, and compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair values estimated in accordance with the provisions of SFAS 123(R). The Company applied the alternative transition method in calculating its pool of excess tax benefits available to absorb future tax deficiencies as provided by FSP FAS 123(R)-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*. There were 15,000 options granted in 2006 and 156,300 granted in 2005. Results for prior periods have not been restated. Prior to January 1, 2006, the Company accounted for these plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations (APB 25). No stock-based compensation cost is reflected in net income prior to January 1, 2006, as all options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of the grant.

As a result of adopting SFAS 123(R), the Company's income before provision for income taxes and net income for the year ended December 31, 2006 are \$163,000 and \$142,000, respectively, lower than if it had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for the year ended December 31, 2006 would have been \$1.18 and \$1.09, respectively, without the adoption of SFAS 123(R) compared to \$1.16 and \$1.07, respectively, as reported.

SFAS 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as a cash flow from financing in the statement of cash flows. Excess tax benefits for the year ended December 31, 2006 was \$451,000.

In February 2005 the Company accelerated the vesting of 186,000 options previously granted to certain directors and executive officers as reflected in the table below. No stock-based compensation is reflected in net income for the year ended December 31, 2005, as a result of the acceleration of the vesting as it is expected that generally all of the directors and executive management whose options were accelerated will remain with the Company through the original vesting period.

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The following table illustrates the pro forma effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to options granted under the Company's stock option plans in all periods presented.

(In thousands)	Years Ended December 31,	
	2005	2004
Net earnings as reported	\$ 6,044	\$ 3,695
Deduct: Total stock-based compensation expense determined under the fair value based method for all awards, net of related tax effects	478	250
Pro forma net income	\$ 5,566	\$ 3,445
Basic earnings per share as reported	\$ 1.03	\$ 0.71
Basic earnings per share pro forma	\$ 0.95	\$ 0.66
Diluted earnings per share as reported	\$ 0.94	\$ 0.64
Diluted earnings per share pro forma	\$ 0.87	\$ 0.60

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 simplified method described in SEC Staff Accounting Bulletin No. 107 was used to determine the expected term of the Bank's options in 2006 and 2005.

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

	2006	2005	2004
Dividend yield	.5	% .5	% .5
Expected volatility	15.65	% 50.29	% 66.27
Risk-free interest rate	5.05	% 4.16	% 4.17
Expected option life	6.5 years	6.5 years	10 years

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Impact of New Financial Accounting Standards

Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, SFAS 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The provisions of SFAS 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The provisions should be applied prospectively, except for certain specifically identified financial instruments. Management does not expect the adoption of SFAS 157 to have a material impact to the Company's financial position or result of operations.

Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued Financial Accounting Standards Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition.

The Company presently recognizes income tax positions based on management's estimate of whether it is reasonably possible that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*.

The provisions of FIN 48 will be effective for the Company on January 1, 2007 and are to be applied to all tax positions upon initial application of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption.

The cumulative effect of applying the provisions of FIN 48, if any, will be reported as an adjustment to the opening balance of retained earnings for the fiscal year of adoption. Management does not expect the adoption of FIN 48 to have a material impact on the Company's financial position or results of operations.

Accounting for Purchases of Life Insurance

In September 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force (the Task Force) on Issue No. 06-5 (EITF 06-5), *Accounting for the Purchases of Life Insurance - Determining the Amount that Could be Realized in Accordance with FASB Technical Bulletin No. 85-4 (FTB 85-4)*. FTB 85-4 indicates that the amount of the asset included in the balance sheet for life insurance contracts within its scope should be the amount that could be realized under the insurance contract as of the date of the statement of financial position. Questions arose in applying the guidance in FTB 85-4 to whether the amount that could be realized should consider 1) any additional amounts included in the contractual terms of the insurance policy other than the cash surrender value and 2) the contractual ability to surrender all

of the individual-life policies (or certificates in a group policy) at the same time. EITF 06-5 determined that the amount that could be realized should 1) consider any additional amounts included in the contractual terms of the policy and 2) assume the surrender of an individual-life by individual-life policy (or certificate by certificate in a group policy). Any amount that is ultimately realized by the policy holder upon the assumed surrender of the final policy (or final certificate in a group policy) shall be included in the amount that could be realized. An entity should apply the provisions of EITF 06-5 through either a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or a change in accounting principle through retrospective application to all prior periods. The provisions of EITF 06-5 are effective for fiscal years beginning after December 15, 2006. Management has not yet completed its evaluation of the impact that EITF 06-5 will have.

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

In September 2006, the FASB ratified the consensus reached by the Task Force on Issue No. 06-4 (EITF 06-4), *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. A question arose when an employer enters into an endorsement split-dollar life insurance arrangement related to whether the employer should recognize a liability for the future benefits or premiums to be provided to the employee. EITF 06-4 indicates that an employer should recognize a liability for future benefits and that a liability for the benefit obligation has not been settled through the purchase of an endorsement type policy. An entity should apply the provisions of EITF 06-4 either through a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or a change in accounting principle through retrospective application to all prior periods. The provisions of EITF 06-4 are effective for fiscal years beginning after December 15, 2007. Management has not yet completed its evaluation of the impact that EITF 06-4 will have.

Consideration of the Effects of Prior Year Misstatements

In September, 2006, the Securities and Exchange Commission published Staff Accounting Bulletin No. 108 (SAB 108), *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. The interpretations in this Staff Accounting Bulletin were issued to address diversity in practice in quantifying financial statement misstatements and the potential under current practice to build up improper amounts on the balance sheet. This guidance will apply to the first fiscal year ending after November 15, 2006, or December 31, 2006 for the Company. The adoption of SAB 108 did not have a material impact on the Company's financial position or results of operations and no cumulative adjustment was required.

2. MERGER OF BANK OF MADERA COUNTY INTO CENTRAL VALLEY COMMUNITY BANCORP

After the close of business on December 31, 2004, the Company and Bank of Madera County (BMC) completed their previously announced merger and BMC was merged into the Bank. The Company acquired 100% of the outstanding common shares of BMC and the results of BMC's operations have been included in the consolidated financial statements beginning January 1, 2005. Management believes that the merger allows the Bank to further accommodate a growing customer base in Madera County and provide BMC 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.

As of the date of acquisition, BMC had total assets of \$68,080,000, comprised of \$2,842,000 in cash and due from banks, \$19,250,000 in Federal funds sold, \$45,028,000 in loans (net of allowance for credit losses of \$751,000), \$390,000 in premises and equipment and \$570,000 in other assets. Total liabilities acquired amounted to \$64,208,000, including \$63,769,000 in deposits.

The total consideration paid to BMC shareholders and option holders was approximately \$14,311,000 which was comprised of \$1,911,000 in cash payments to holders of outstanding BMC stock options, \$6,200,000 in cash and 522,106, split adjusted, shares of the Company's common stock (valued at \$6,200,000 for purposes of the merger agreement). Total consideration paid to BMC shareholders was established under the terms of the merger agreement based on a value of \$26.22 per share of BMC common stock.

The excess of the purchase price over the estimated fair value of the net assets acquired, as adjusted, was \$8,934,000, which was recorded as goodwill, is not subject to amortization, and is not expected to be deductible for tax purposes. In addition, assets acquired also included a core deposit intangible of \$1,500,000 which is being amortized using a straight-line method.

The accompanying consolidated financial statements include the accounts of BMC since January 1, 2005. The following supplemental pro forma information discloses selected financial information for the periods indicated as though the BMC merger had been completed as of the beginning of each of the periods being reported. Dollars are in thousands except per share data. 2004 pro forma net income includes non-recurring merger expenses for legal, accounting and other professional fees, net of tax, totaling \$602,000.

	Years Ended December 31,	
	2005	2004
Revenue	\$ 29,830	\$ 24,475
Net income	\$ 6,044	\$ 3,153
Diluted earnings per share	\$ 0.94	\$ 0.50

3. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2006 and 2005 consisted of the following:

(In thousands)	2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	\$ 28,643	\$ 34	\$ (358)	\$ 28,319
Obligations of states and political subdivisions	26,210	373	(168)	26,415
U.S. Government agencies collateralized by mortgage obligations	45,561	204	(237)	45,528
Other securities	3,703		(43)	3,660
	\$ 104,117	\$ 611	\$ (806)	\$ 103,922

(In thousands)	2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	\$ 23,314	\$	\$ (658)	\$ 22,656
Obligations of states and political subdivisions	31,036	371	(473)	30,934
U.S. Government agencies collateralized by mortgage obligations	48,479	237	(285)	48,431
Other securities	3,608		(37)	3,571
	\$ 106,437	\$ 608	\$ (1,453)	\$ 105,592

Investment securities with unrealized losses at December 31, 2006 and 2005 are summarized and classified according to the duration of the loss period as follows:

(In thousands)	2006				Total Fair Value	Unrealized Losses
	Less than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses		
Debt securities:						
U.S. Government agencies	\$ 6,603	\$ (9)	\$ 16,628	\$ (349)	\$ 23,231	\$ (358)
Obligations of states and political sub-divisions	3,413	(24)	7,937	(144)	11,350	(168)
U.S. Government agencies collateralized by mortgage obligations	9,567	(55)	15,711	(182)	25,278	(237)
Other securities	1,457	(43)			1,457	(43)
	\$ 21,040	\$ (131)	\$ 40,276	\$ (675)	\$ 61,316	\$ (806)

(In thousands)	2005		12 Months or More		Total Fair Value	Unrealized Losses
	Less than 12 Months Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
Debt securities:						
U.S. Government agencies	\$ 2,939	\$ (55)	\$ 19,717	\$ (603)	\$ 22,656	\$ (658)
Obligations of states and political sub-divisions	13,646	(270)	4,181	(203)	17,827	(473)
U.S. Government agencies collateralized by mortgage obligations	19,473	(161)	9,887	(124)	29,360	(285)
Other securities	1,463	(37)			1,463	(37)
	\$ 37,521	\$ (523)	\$ 33,785	\$ (930)	\$ 71,306	\$ (1,453)

U.S. Government Agencies

At December 31, 2006, the Company held 14 U.S. Government agency securities of which four were in a loss position for less than twelve months and nine were 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 direct obligations of U.S. government agencies were caused by interest rate increases. 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, 2006.

Obligations of States and Political Subdivision

At December 31, 2006, the Company held 58 obligations of states and political subdivision securities of which seven were in a loss position for less than twelve months and 12 were 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 obligations of states and political subdivision securities were caused by interest rate increases. 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, 2006.

U.S. Government Agencies Collateralized by Mortgage Obligations

At December 31, 2006, the Company held 61 U.S. Government agency securities collateralized by mortgage obligation securities of which nine were in a loss position for less than twelve months and 14 were 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 increases. 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, 2006.

Other Securities

At December 31, 2006, the Company's other securities consists of investment of \$1,500,000 in marketable equity securities and \$2,203,000 in equity securities carried at cost. The equity securities carried at cost are investments in two different money market funds. No evaluation of impairment is considered necessary for these securities. The Company's investments in marketable equity securities consist primarily of an investment in a CRA Qualified Investment Fund. The Company has evaluated this investment for impairment. The unrealized losses on the Company's investment in marketable equity securities were caused by interest rate increases. 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, 2006.

Net unrealized losses on available-for-sale investment securities totaling \$195,000 and \$845,000 are recorded net of \$78,000 and \$338,000 in tax benefit as accumulated other comprehensive income within shareholders' equity at December 31, 2006 and 2005, respectively.

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. Proceeds and gross realized gains from sales or calls of available-for-sale investment securities totaled \$15,487,000 and \$92,000, respectively, for the year ended December 31, 2005. Proceeds and gross realized gains from sales or calls of available-for-sale investment securities totaled \$4,775,000 and \$483,000 respectively, for the year ended December 31, 2004.

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The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2006 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.

(In thousands)	Amortized Cost	Estimated Fair Value
Within one year	\$ 10,448	\$ 10,357
After one year through five years	19,872	19,620
After five years through ten years	12,993	13,007
After ten years	11,540	11,750
	54,853	54,734
Investment securities not due at a single maturity date:		
U.S. Government agencies collateralized by mortgage obligations	45,561	45,528
Other securities	3,703	3,660
	\$ 104,117	\$ 103,922

Investment securities with amortized costs totaling \$35,624,000 and \$27,877,000 and fair values totaling \$35,612,000 and \$27,800,000 were pledged to secure public deposits, other contractual obligations, short-term borrowings and long-term debt at December 31, 2006 and 2005, respectively.

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES

Outstanding loans are summarized as follows:

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(In thousands)	December 31,	
	2006	2005
Commercial	\$ 78,441	\$ 82,978
Real estate	149,586	124,043
Real estate construction, land development and other land loans	48,424	46,523
Equity lines of credit	21,858	23,604
Agricultural	17,102	17,547
Installment	7,549	7,539
Other	454	160
	323,414	302,394
Deferred loan fees, net	(752)	(592)
Allowance for credit losses	(3,809)	(3,339)
	\$ 318,853	\$ 298,463

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At December 31, 2006 and 2005, loans originated under Small Business Administration (SBA) programs totaling \$30,745,000 and \$27,760,000, respectively, were included in the real estate and commercial categories.

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Salaries and employee benefits totaling \$388,000, \$495,000 and \$354,000 have been deferred as loan origination costs for the years ended December 31, 2006, 2005 and 2004, respectively.

Changes in the allowance for credit losses were as follows:

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(In thousands)	Years Ended December 31,		
	2006	2005	2004
Balance, beginning of year	\$ 3,339	\$ 2,697	\$ 2,425
Provision charged to operations	800	510	
Losses charged to the allowance	(721)	(787)	(24)
Recoveries	391	168	296
Allowance acquired in merger of Bank of Madera County		751	
Balance, end of year	\$ 3,809	\$ 3,339	\$ 2,697

There were no loans considered to be impaired at December 31, 2006 or 2004. There were two loans considered to be impaired at December 31, 2005 totaling \$616,000. There was no required valuation allowance for these impaired loans. The average investment in impaired loans during 2006, 2005 and 2004 was \$155,000, \$776,000 and \$36,000, respectively. No interest income was recognized for impaired loans in 2006, 2005 or 2004.

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

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following:

(In thousands)	December 31,	
	2006	2005
Land	\$ 579	\$ 250
Buildings and improvements	1,000	1,161
Furniture, fixtures and equipment	5,642	4,693
Leasehold improvements	2,435	1,718
	9,656	7,822
Less accumulated depreciation and amortization	(5,001)	(4,910)
	\$ 4,655	\$ 2,912

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Depreciation and amortization included in occupancy and equipment expense totaled \$948,000, \$982,000 and \$796,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

6. DEPOSITS

Interest-bearing deposits consisted of the following:

(In thousands)	December 31,	
	2006	2005
Savings	\$ 21,029	\$ 24,389
Money market	109,069	108,024
NOW accounts	56,177	56,991
Time, \$100,000 or more	60,183	48,670
Time, under \$100,000	43,987	39,911
	\$ 290,445	\$ 277,985

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

Year Ending	
December 31,	
2007	\$ 93,946
2008	5,208
2009	2,978
2010	1,488
2011	550
	\$ 104,170

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

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(In thousands)	Years Ended December 31,		
	2006	2005	2004
Savings	\$ 106	\$ 89	\$ 67
Money market	2,467	1,500	660
NOW accounts	56	60	51
Time certificates of deposit	3,581	2,237	1,015
	\$ 6,210	\$ 3,886	\$ 1,793

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7. 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, 2006 and 2005 consisted of the following:

2006 Amount	Rate (Dollars in thousands)	Maturity Date (Dollars in thousands)	2005 Amount	Rate	Maturity Date
\$ 2,000	2.66 %	February 12, 2007	\$ 2,000	2.10 %	February 13, 2006
2,000			2,000	2.66 %	February 12, 2007
(2,000)	Less short-term portion		4,000		
			(2,000)	Less short-term portion	
\$	Long-term debt		\$ 2,000	Long-term debt	

FHLB advances are secured by investment securities with amortized costs totaling \$16,848,000 and \$6,680,000 and market values totaling \$16,758,000 and \$6,598,000 at December 31, 2006 and 2005, respectively. The Bank's credit limit varies according to the amount and composition of the investment and loan portfolios pledged as collateral.

Other Short-Term Debt

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The Company has a note payable to a financial institution with a balance of \$1,250,000 at December 31, 2006. The note bears a variable interest rate of LIBOR plus 2.5% (7.87% as of December 31, 2006). Payment terms call for interest only payments based on the financial institution's prime rate or LIBOR at the Company's discretion. Payments are due on March 31, June 30, and September 30, 2007. The remaining principal and accrued interest is due when the note matures on December 31, 2007. The note is secured by 20% of the issued and outstanding stock of the Bank with the value of pledged stock to be not less than 200% of the outstanding principal balance.

Lines of Credit

The Bank had unsecured lines of credit with its correspondent banks which, in the aggregate, amounted to \$18,000,000 and \$14,100,000 at December 31, 2006 and 2005, 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, 2006 and 2005 which bears interest at the prevailing discount rate collateralized by investment securities with amortized costs totaling \$2,271,000 and \$3,350,000 and market values totaling \$2,200,000 and \$3,252,000, respectively. At December 31, 2006 and 2005, the Bank had no outstanding borrowings under these lines of credit.

8. INCOME TAXES

The provision for income taxes for the years ended December 31, 2006, 2005 and 2004 consisted of the following:

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(In thousands)	Federal	State	Total
2006			
Current	\$ 3,135	\$ 1,001	\$ 4,136
Deferred	(680)	(158)	(838)
Provision for income taxes	\$ 2,455	\$ 843	\$ 3,298
2005			
Current	\$ 2,512	\$ 979	\$ 3,491
Deferred	(72)	(75)	(147)
Provision for income taxes	\$ 2,440	\$ 904	\$ 3,344
2004			
Current	\$ 1,719	\$ 634	\$ 2,353
Deferred	(313)	(96)	(409)
	\$ 1,406	\$ 538	\$ 1,944

Deferred tax assets (liabilities) consisted of the following:

(In thousands)	December 31, 2006	2005
Deferred tax assets:		
Allowance for credit losses	\$ 1,407	\$ 768
Other reserves	134	122
Bank premises and equipment	272	271
Deferred compensation	1,735	1,199
Future benefit of state tax	321	300
Unrealized loss on available-for-sale investment securities	78	338
State net operating loss	13	80
Total deferred tax assets	3,960	3,078
Deferred tax liabilities:		
Other accruals	(242)	(118)
Loan origination costs	(224)	
Future liability of State deferred tax asset	(210)	(157)
Core deposit intangible	(480)	(577)
Total deferred tax liabilities	(1,156)	(852)
Net deferred tax assets	\$ 2,804	\$ 2,226

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, 2006, 2005 and 2004 consisted of the following:

	2006		2005		2004	
Federal income tax, at statutory rate	34.0	%	34.0	%	34.0	%
State franchise tax, net of Federal tax effect	7.2	%	7.1	%	7.1	%
Tax exempt investment security income, net	(3.2))%	(4.2))%	(4.9))%
Bank owned life insurance, net	(3.5))%	(0.9))%	(1.4))%
Other	(2.2))%	(0.4))%	(0.3))%
Effective tax rate	32.3	%	35.6	%	34.5	%

9. 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 \$724,000, \$518,000 and \$359,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

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

Year Ending

December 31,

2007	\$ 933
2008	1,011
2009	1,080
2010	957
2011	913
Thereafter	8,506
	\$ 13,400

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, 2006 and 2005 was \$2,699,000 and \$1,385,000, respectively.

Correspondent Banking Agreements

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The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. Uninsured deposits totaled \$2,075,000 at December 31, 2006.

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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:

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(In thousands)	December 31, 2006	2005
Commitments to extend credit	\$ 133,937	\$ 133,876
Standby letters of credit	\$ 612	\$ 80

Commitments to extend credit consist primarily of unfunded single-family residential and commercial real estate construction loans and commercial revolving lines of credit. 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, 2006 and 2005. The Company recognizes these fees as revenue over the term of the commitment or when the commitment is used.

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At December 31, 2006, commercial loan commitments represent approximately 49% of total commitments and are generally secured by collateral other than real estate or unsecured. Real estate loan commitments represent 39% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 80%. Consumer loan commitments represent the remaining 12% of total commitments and are generally unsecured. In addition, the majority of the Bank's loan commitments have variable interest rates.

Concentrations of Credit Risk

At December 31, 2006, in management's judgment, a concentration of loans existed in commercial loans and real-estate-related loans. At that date, approximately 92.2% of the Bank's loans were commercial and real-estate-related, representing 24.2% and 68.0% of total loans, respectively.

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At December 31, 2005, in management's judgment, a concentration of loans existed in commercial loans and real-estate-related loans. At that date, approximately 91.7% of the Bank's loans were commercial and real-estate-related, representing 27.5% and 64.2% of total loans, respectively.

Although management believes the loans within these concentrations have no more than the normal risk of collectibility, a substantial decline in the performance of the economy in general or a 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 of the Company.

Contingencies

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

10. SHAREHOLDERS' EQUITY

Regulatory Capital

The Company and the Bank are subject to certain regulatory requirements administered by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (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 and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Each of these components is defined in the regulations. Management believes that the Company and the Bank meet all their capital adequacy requirements as of December 31, 2006.

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In addition, the most recent notification from the FDIC categorized the Bank as well capitalized 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 below. There are no conditions or events since that notification that management believes have changed the Bank's category.

	2006			2005		
	Amount	Ratio		Amount	Ratio	
	(Dollars in thousands)					
<u>Tier 1 Leverage Ratio</u>						
Central Valley Community Bancorp and Subsidiary	\$ 39,864	8.41	%	\$ 31,767	6.84	%
Minimum regulatory requirement	\$ 18,967	4.00	%	\$ 18,572	4.00	%
Central Valley Community Bank	\$ 39,045	8.24	%	\$ 32,493	7.00	%
Minimum requirement for Well-Capitalized institution	\$ 23,703	5.00	%	\$ 23,204	5.00	%
Minimum regulatory requirement	\$ 18,963	4.00	%	\$ 18,563	4.00	%
<u>Tier 1 Risk-Based Capital Ratio</u>						
Central Valley Community Bancorp and Subsidiary	\$ 39,864	10.97	%	\$ 31,767	9.26	%
Minimum regulatory requirement	\$ 14,536	4.00	%	\$ 13,719	4.00	%
Central Valley Community Bank	\$ 39,045	10.72	%	\$ 32,493	9.48	%
Minimum requirement for Well-Capitalized institution	\$ 21,852	6.00	%	\$ 20,572	6.00	%
Minimum regulatory requirement	\$ 14,568	4.00	%	\$ 13,715	4.00	%
<u>Total Risk-Based Capital Ratio</u>						
Central Valley Community Bancorp and Subsidiary	\$ 43,673	12.02	%	\$ 35,106	10.24	%
Minimum regulatory requirement	\$ 29,073	8.00	%	\$ 27,437	8.00	%
Central Valley Community Bank	\$ 42,854	11.77	%	\$ 35,832	10.45	%
Minimum requirement for Well-Capitalized institution	\$ 36,419	10.00	%	\$ 34,287	10.00	%
Minimum regulatory requirement	\$ 29,135	8.00	%	\$ 27,429	8.00	%

Dividends

The Company did not pay any cash dividends in 2006 or 2005.

On May 19, 2004, the Board of Directors declared a \$.05 per share cash dividend for shareholders of record as of June 4, 2004, paid on or about June 30, 2004.

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, 2006, retained earnings of \$16,199,000 were free of such restrictions.

Share Repurchase Plan

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During 2004, the Company approved a stock repurchase plan authorizing the purchase of shares of the Company's common stock up to a total cost of approximately \$500,000, or approximately 2% of its outstanding shares of common stock. As of December 31, 2004, the Company repurchased 18,000 shares at an average price of \$11.83 for a total cost of \$213,000. On October 20, 2004, the Company's Board of Directors suspended the stock repurchase program.

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During 2006, the Company 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. As of December 31, 2006, the Company had repurchased 26,200 shares at an average price of \$15.08 for a total cost of \$395,000.

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Earnings Per Share

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

	For the Years Ended December 31,		
	2006	2005	2004
	(In thousands, except share and per share amounts)		
Basic Earnings Per Share:			
Net income	\$ 6,911	\$ 6,044	\$ 3,695