CENTRAL VALLEY COMMUNITY BANCORP
Form 10-K
March 19, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from to

Commission file number: 000-31977

CENTRAL VALLEY COMMUNITY BANCORP

(Exact name of registrant as specified in its charter)

CALIFORNIA	**77-0539125**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7100 N. Financial Dr. Fresno CA	**93720**

(Address of principal executive offices)	(Zip Code)

559-298-1775

(Registrant s telephone number, including area code)

[None]

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

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

None	**NASDAQ Capital Market**
[Common Stock, $ par value per share]	[Exchange]

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

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

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

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

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

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

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

Common Stock, No Par Value	**Outstanding at March 5, 2009**
[Common Stock, No par value per share]	7,642,280 shares

DOCUMENTS INCORPORATED BY REFERENCE

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

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ADDITIONAL INFORMATION; INQUIRIES

Under the Securities Exchange Act of 1934, Sections 13 and 15 (d), periodic and current reports much 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, 2008 may be obtained without charge upon written request to Dave Kinross, Chief Financial Officer, at the Company s administrative offices, 7100 N. Financial Dr., Fresno, CA 93720.

Inquiries regarding Central Valley Community Bancorp s accounting, internal controls or auditing concerns should be directed to Steven D. McDonald, chairman of the Board of Directors Audit Committee, at steve.mcdonald@cvcb.com 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, 2008, we had one banking subsidiary, the Bank. Our principal business is to provide, through our banking subsidiary, financial services in our primary market area in California. We serve Fresno County, Madera County, Sacramento County, San Joaquin, and Stanislaus County and their surrounding areas through the Bank. We do not currently conduct any operations other than through the Bank. Unless the context otherwise requires, references to us refer to the Company and the Bank on a consolidated basis. At December 31, 2008, we had consolidated total assets of approximately $752,713,000. See Items 7 and 8, Management s Discussion and Analysis or Plan of Operation and Financial Statements**.**

After the close of business on November 12, 2008, Service 1st Bancorp (Service 1st) was merged with and into the Company, and Service 1st Bank (S1 Bank) was merged with and into the Bank. S1 Bank had three branches in Stockton, Tracy, and Lodi which continue to be operated by the Bank.

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

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

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

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

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

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

As of March 11, 2009, we had a total of 207 employees and 190 full time equivalent employees, including the employees of the Bank.

The Bank

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

The Bank operates 15 full-service banking offices in Clovis, Fresno, Kerman, Madera, Oakhurst, Sacramento, Tracy, Stockton, Lodi, and Prather, one limited-service banking office in Fresno, and a loan production office in Modesto, California. The Oakhurst and Madera branches were added through the Bank of Madera County merger in 2005. The Tracy, Stockton and Lodi offices were added through the merger with Service 1st Bank in November of 2008. The Bank has a Real Estate Division and an SBA Lending Division located at our corporate headquarters in Fresno. All real estate related transactions are conducted and processed through the Real Estate Division, including interim construction loans for single family residences and commercial buildings. All types of permanent single family residential loans are also offered. Our total market share of deposits in Fresno and Madera counties remained consistent at 4.15% in 2008 compared to 4.16% in 2007 based on FDIC deposit market share information published as of June 30, 2008.

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

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

In 2008, the Bank relocated the office located in a Save Mart Supermarket to a new larger stand alone facility. In November of 2008, The Company acquired Service 1st and its banking subsidiary, S1 Bank, adding three branches located in Tracy, Stockton and Lodi, California.

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Branch expansions provide the Company with opportunities to expand its loan and deposit base; however, based on past experience, management expects these new offices will initially have a negative impact on earnings until the volume of business grows to cover fixed overhead expenses. The Bank anticipates additional future branch openings to meet the growing service needs of its customers, although none are planned during 2009.

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

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

Since August of 1995 the Bank has been a party to an agreement with Investment Centers of America, pursuant to which Investment Centers of America provides Bank customers with access to investment services. In connection with entering into this agreement, the Bank adopted a policy intended to comply with FDIC Regulation Section 337.4, which outlines the guidelines under which an insured non-member bank may be affiliated with a company that directly engages in the sale, distribution, or underwriting of stocks, bonds, debentures, notes, or other securities.

The Bank s operating policy since its inception has emphasized serving the banking needs of individuals and the business and professional communities in the central valley area of California. At December 31, 2008, we had total loans of $484,238,000. Total commercial and industrial loans outstanding were $129,563,000; total agricultural land and production loans outstanding were $32,408,000, total real estate construction, land development and other land loans outstanding were $57,923,000; total other real estate loans outstanding were $215,832,000, total equity loans and lines of credit were $32,874,000 and total consumer installment loans outstanding were $15,856,000. We accept real estate, listed securities, savings and time deposits, automobiles, inventory, machinery and equipment as collateral for loans.

No individual or single group of related accounts is considered material in relation to the Bank s assets or deposits, or in relation to the overall business of the Company. However, at December 31, 2008 approximately 63.3% of our loan portfolio held for investment consisted of real estate-related loans, including construction loans, equity loans and lines of credit and commercial loans secured by real estate and 33.4% consisted of commercial loans. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations. We believe that these concentrations are mitigated by the diversification of our loan portfolio among commercial, commercial and residential construction, commercial mortgage, home equity, and consumer loans. In addition, our business activities currently are mainly concentrated in Fresno, Madera and San Joaquin County, California. Consequently, our results of operations and financial condition are dependent upon the general trends in this part of the California economy and, in particular, the residential and commercial real estate markets. In addition, our concentration of operations in this area of California exposes us to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires and floods in this region or as a result of energy shortages in California.

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

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

Branch	Monday Thursday	Friday	Saturday
Clovis Main	9:00 a.m. to 4:00 p.m. Drive Up 8:00 a.m. to 5:30 p.m.	9:00 a.m. to 6:00 p.m. Drive Up 8:00 a.m. to 6:00 p.m.	None
Foothill	9:00 a.m. to 5:00 p.m.	9:00 a.m. to 6:00 p.m.	9:00 a.m. to 1:00 p.m.
Herndon & Fowler	9:00 a.m. to 5:00 p.m. Drive Up 8:30 a.m. to 5:30 p.m.	9:00 a.m. to 6:00 p.m. Drive Up 8:30 a.m. to 6:00 p.m.	9:00 a.m. to 2:00 p.m. Drive Up 9:00 a.m. to 2:00 p.m.
Fig Garden Village	9:00 a.m. to 5:00 p.m.	9:00 a.m. to 6:00 p.m.	10:00 a.m. to 2:00 p.m.
Kerman	9:00 a.m. to 5:00 p.m. Drive Up 8:30 a.m. to 5:00 p.m.	9:00 a.m. to 6:00 p.m. Drive Up 8:30 a.m. to 6:00 p.m.	None
Lodi	9:00 a.m. to 5:00 p.m.	9:00 a.m. to 6:00 p.m.	None
River Park	9:00 a.m. to 5:00 p.m. Drive Up 9:00 a.m. to 5:00 p.m.	9:00 a.m. to 6:00 p.m. Drive Up 9:00 a.m. to 6:00 p.m.	10:00 a.m. to 2:00 p.m. Drive Up 10:00 a.m. to 2:00 p.m.
Sacramento Private Banking	9:00 a.m. to 5:00 p.m.	9:00 a.m. to 5:00 p.m.	None
Stockton	9:00 a.m. to 5:00 p.m.	9:00 a.m. to 6:00 p.m.	None
Tracy	9:00 a.m. to 5:00 p.m.	9:00 a.m. to 6:00 p.m.	None
Oakhurst	8:30 a.m. to 5:00 p.m.	8:30 a.m. to 6:00 p.m.	None
Madera	8:30 a.m. to 5:00 p.m.	8:30 a.m. to 6:00 p.m.	None
Sunnyside	9:00 a.m. to 5:00 p.m.	9:00 a.m. to 6:00 p.m.	10:00 a.m. to 2:00 p.m.

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

Automated teller machines operate at 15 branch locations. All but one operates 24 hours per day, seven days per week. No automated teller machines are currently located at the Sacramento office. Our Real Estate, Small Business Administration (SBA) Departments and Modesto loan-production office maintain business hours of 8:00 A.M. to 5:00 P.M., Monday through Friday, and extended hours are available upon customer request.

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

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In Fresno and Madera Counties, in addition to our 11 full-service and one limited-service branch locations, serving the Bank s primary service areas, as of December 31, 2008 there were 181 operating banking and credit union offices in our primary service area, which consists of the cities of Clovis, Fresno, Kerman, Oakhurst, Madera, and Prather, California. Prather does not contain any banking offices other than our office. The June 2008 FDIC Summary of Deposits report indicated the Company had 4.05% of the total deposits held by all depositories in Fresno County and 4.98% in Madera County. In San Joaquin County, in addition to our three full service branch locations acquired from Service 1st, as of December 31, 2008 there were 121 operating banking and credit union offices. The FDIC Summary of Deposits as of June 2008 report indicated Service 1st s had 2.90% of total deposits held by all depositories in San Joaquin County. In Sacramento County, in addition to our one branch, as of December 31, 2008 there were 239 operating banking and credit union offices in our primary service area. Business activity in our primary service area is oriented toward light industry, small business and agriculture.

The banking business in California generally, and our primary service area specifically, is highly competitive with respect to both loans and deposits, and is dominated by a relatively small number of major banks with many offices operating over a wide geographic area. Among the advantages such major banks have over us is their ability to finance wide-ranging advertising campaigns and to allocate their investment assets, including loans, to regions of higher yield and demand. Major banks offer certain services such as international banking and trust services which are not offered directly but which usually can be offered indirectly through correspondent institutions. In addition, by virtue of their greater total capitalization, such banks have substantially higher lending limits than we do. Legal lending limits to an individual customer are limited to a percentage of our total capital accounts. As of December 31, 2008, the Bank s legal loan limits to individual customers were $8,778,000 for unsecured loans and $14,630,000 for unsecured and secured loans combined. For borrowers desiring loans in excess of the Bank s lending limits, the Bank makes, and may in the future make, such loans on a participation basis with other community banks taking the amount of loans in excess of the Bank s lending limits. In other cases, the Bank may refer such borrowers to larger banks or other lending institutions.

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

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

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

Statistical Disclosure

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

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

Table A sets forth our average consolidated balance sheets for the years ended December 31, 2008, 2007 and 2006 and an analysis of interest rates and the interest rate differential for the years then ended. Table B sets forth the changes in interest income and interest expense in 2008 and 2007 resulting from changes in volume and changes in rates.

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Investment Portfolio

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

Loan Portfolio

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

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

Table F shows the composition of nonaccrual, past due and restructured loans at December 31, 2008, 2007, 2006, 2005, and 2004. Set forth in the text accompanying Table F is a discussion of the Company s policy for placing loans on nonaccrual status.

Summary of Loan Loss Experience

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

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

Deposits

Table H sets forth the average amount of and the average rate paid on major deposit categories for the years ended December 31, 2008, 2007, and 2006.

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

Return on Equity and Assets

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

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

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

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

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

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

(3) Average loans do not include nonaccrual loans.

(4) Net interest margin is computed by dividing net interest income by total average interest-earning assets.

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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.

	Years Ended December 31,					
	2008 Compared to 2007			2007 Compared to 2006		
(In thousands)	Volume	Rate	Net	Volume	Rate	Net
Increase (decrease) due to changes in:						
Interest income:						
Interest-earning deposits in other banks	$ 34	$	$ 34	$ (15)	$ (2)	$ (17)
Investment securities:						
Taxable	786	670	1,456	(238)	397	159
Non-taxable (1)	284	77	361	(164)	(59)	(223)
Total investment securities	1,070	747	1,817	(402)	338	(64)
Federal funds sold	143	(475)	(332)	(580)	(2)	(582)
Loans	3,880	(5,997)	(2,117)	2,292	(71)	2,221
FHLB Stock	12	4	16	9	4	13
Total earning assets (1)	5,139	(5,721)	(582)	1,304	267	1,571
Interest expense:						
Deposits:						
Savings, NOW and MMA	246	(935)	(689)	(152)	589	437
Certificates of deposit under $100,000	(101)	74	(27)	(95)	708	613
Certificates of deposit $100,000 and over	(76)	(762)	(838)	697	(63)	634
Total interest-bearing deposits	69	(1,623)	(1,554)	450	1,234	1,684
Other borrowed funds	813	(39)	(774)	(248)	63	(185)
Total interest bearing liabilities	882	(1,662)	780	202	1,297	1,499
Net interest income (1)	$ 4,257	$ (4,059)	$ 198	$ 1,102	$ (1,030)	$ 72

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

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Table C

INVESTMENT PORTFOLIO

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

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

Held-to-Maturity (In thousands)	**Book Value at December 31, 2008**	**2007**	**2006**
Other debt securities	$ 7,040	$	$

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Table C (Continued)

INVESTMENT PORTFOLIO

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

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

(Dollars in thousands)	In one year or less		After one through five years		After five through ten years		After ten years		Total	
Held-to-Maturity Securities	**Amount**	**Yield(1)**	**Amount**	**Yield(1)**	**Amount**	**Yield(1)**	**Amount**	**Yield(1)**	**Amount**	**Yield(1)**
Other debt securities	$		$		$		$ 7,040	6.00%	$ 7,040	6.00%

(1) Not computed on a tax equivalent basis.

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

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Table D

LOAN PORTFOLIO

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

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

(1)Includes nonaccrual loans of:

2008	2007	2006	2005	2004
$ 15,750	$ 179	$	$ 616	$

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Table E

LOAN MATURITIES AND SENSITIVITY TO CHANGES IN INTEREST RATES

The following table presents information concerning loan maturities and sensitivity to changes in interest rates of the indicated categories of our loan portfolio, as well as loans in those categories maturing after one year that have fixed or floating interest rates at December 31, 2008.

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

Table F

COMPOSITION OF NONACCRUAL, PAST DUE AND RESTRUCTURED LOANS

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

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

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

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Loans are placed on nonaccrual status and any accrued but unpaid interest income is reversed and charged against income when the payment of interest or principal is 90 days or more past due. Loans in the nonaccrual category are treated as nonaccrual loans even though we may ultimately recover all or a portion of the interest due. These loans return to accrual status when the loan becomes contractually current and future collectibility of amounts due is reasonably assured. As of December 31, 2008, we had nonaccrual loans totaling $15,750,000 and interest foregone on nonaccrual loans totaled $371,000 for the year then ended. We had nonaccrual loans totaling $179,000 at December 31, 2007 and interest foregone on nonaccrual loans totaled $8,000 for the year then ended. See Note 3 of the Company s audited Consolidated Financial Statements in Item 8 of this Annual Report.

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

The Company had two loans at December 31, 2008 totaling $1,703,000 that were considered to be troubled debt restructurings. Both loans are included in the nonaccrual loans above. There are no outstanding commitments to lend additional funds on either of these loans. At December 31, 2007, 2006, 2005, and 2004 the Company had no restructured loans. See Note 5 of the Company s audited Consolidated Financial Statements in Item 8 of this Annual Report concerning our recorded investment in loans for which impairment has been recognized. Impaired loans are identified from internal credit review reports, past due reports, overdraft listings, and regulatory reports of examination. Borrowers experiencing problems such as operating losses, marginal working capital, inadequate cash flow or business interruptions which jeopardize collection of the loan are also reviewed for possible impairment classification.

When a loan is classified as impaired, the net fair value (i.e., the measure of the impaired loan) is computed based on the present value of expected future cash flows discounted at the loan s effective interest rate. Alternatively, if the loan is collateral dependent, impairment is measured based on the fair value or market price of the collateral less costs to sell. If the net fair value of the impaired loan is less than the recorded investment in the loan, then the resulting impairment amount is recognized through the allowance for credit losses with a corresponding charge to the provision for credit losses. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (including both principal and interest) in accordance with the contractual terms of the loan agreement.

Other than as discussed above, as of December 31, 2008, we had no loans where known information about possible credit problems of borrowers caused management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as impaired loans.

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Table G

SUMMARY OF LOAN LOSS EXPERIENCE

The following table summarizes loan loss experience as of and for the years ended December 31, 2008, 2007, 2006, 2005, and 2004.

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

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

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

In 2008, the Bank added $1,290,000 to the allowance for credit losses. The increase in 2008 resulted from management s overall assessment of the probable losses within the loan portfolio at December 31, 2008, the growth in loans and considering the level of net charge-offs during the year of $740,000. For 2007, the Bank added $480,000 to the allowance for credit losses. The increase in 2007 was due in part to the growth in loans and the result of our assessment of probable losses within the loan portfolio. In 2006, the Bank added $800,000 to the allowance for credit losses. The increase in 2006 is due in part to the increase in the volume of outstanding loans and our assessment of the overall adequacy of the allowance for credit losses after the first quarter charge off of one commercial relationship which resulted in a net charge off of $348,000. For 2005, we added $510,000 to the allowance for credit losses. The main reason for the provision in 2005 was two commercial loans that were charged off in the fourth quarter. The loans were to related borrowers whose business suffered a major event in the fourth quarter which affected their ability to continue their business. We made no additions to the allowance for credit losses in 2004 due mainly to decreased levels of risk-rated loans and increased recoveries on previously charged-off loans.

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

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

Loans are charged to the allowance for credit losses when the loans are deemed uncollectible. It is the policy of management to make additions to the allowance so that it remains adequate to cover all probable loan charge-offs that exist in the portfolio at that time

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Table H

DEPOSITS

We have no known foreign deposits. The following table sets forth the average amount of and the average rate paid on certain deposit categories which were in excess of 10% of average total deposits for the years ended December 31, 2008, 2007, and 2006.

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

Table I

TIME DEPOSITS

The following table sets forth the maturity of time certificates of deposit and other time deposits of $100,000 or more at December 31, 2008.

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

Table J

FINANCIAL RATIOS

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

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

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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.

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

The Board of Governors has cease and desist powers over parent bank holding companies and non-banking subsidiaries where actions of a parent bank holding company or its non-financial institution subsidiaries represent an unsafe or unsound practice or violation of law. The Board of Governors has the authority to regulate debt obligations (other than commercial paper) issued by bank holding companies by imposing interest ceilings and reserve requirements on such debt obligations.

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

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

REGULATION OF THE BANK

Banks are extensively regulated under both federal and state law. The Bank, as a California state-chartered bank, is subject to primary supervision, regulation and periodic examination by the DFI and the FDIC. The Bank is not a member of the Federal Reserve System, but is nevertheless subject to certain regulations of the Board of Governors.

If, as a result of an examination of a bank, the FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the Bank s operations are unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, various remedies are available to the FDIC. Such remedies include the power to enjoin unsafe or unsound practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the growth of the Bank, to assess civil monetary penalties, to remove officers and directors, and ultimately to terminate the Bank s deposit insurance, which for a California chartered bank would result in a revocation of the Bank s charter. The DFI has many of the same remedial powers.

The Bank is a member of the FDIC, which currently insures customer deposits in each member bank to a maximum of $250,000 per depositor. For this protection, the Bank is subject to the rules and regulations of the FDIC, and, as is the case with all insured banks, may be required to pay a semi-annual statutory assessment. The Bank is participating in the FDIC Transaction Account Guarantee Program. Under this program, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account and the Bank is assessed an annual fee of 10 basis points for all deposit amounts exceeding the existing deposit insurance limit of $250,000.

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

PAYMENT OF DIVIDENDS

THE COMPANY

Our shareholders are entitled to receive dividends when and as declared by our Board of Directors, out of funds legally available, subject to the dividends preference, if any, on preferred shares that may be outstanding, and also subject to the restrictions of the California Corporations Code. At December 31, 2008, we had no outstanding shares of preferred stock. See Note 19 of the Company s audited Consolidated Financial Statements in Item 8 of this Annual Report concerning preferred stock issued through the Capital Purchase Program (CPP) subsequent to December 31, 2008. Dividends on common stock in 2009 will also be limited without the prior approval of the United States Treasury due to the Company s participation in the CPP.

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

THE BANK

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

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

CAPITAL STANDARDS

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

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

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

A bank that does not achieve and maintain the required capital levels may be issued a capital directive by the FDIC to ensure the maintenance of required capital levels. As discussed above, the Company and the Bank are required to maintain certain levels of capital. The regulatory capital guidelines as well as the actual capitalization for the Bank and the Company on a consolidated basis as of December 31, 2008 are as follows:

REQUIREMENT		ACTUAL	
ADEQUATELY CAPITALIZED	FOR THE BANK TO BE WELL CAPITALIZED	BANK	COMPANY

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

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USA PATRIOT ACT

On October 26, 2001, the President signed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001. The USA PATRIOT Act also made significant changes to the Bank Secrecy Act. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and of identifying customers when establishing new relationships and standards in their dealings with foreign financial institutions and foreign customers. For example, the enhanced due diligence policies, procedures, and controls generally require financial institutions to take reasonable steps:

• To conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transaction;

• To ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions;

• To ascertain for any foreign bank, the shares of which are not publicly traded, the identity of the owners of the foreign bank, and the nature and extent of the ownership interest of each such owner; and

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

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

• The development of internal policies, procedures, and controls;

• The designation of a compliance officer;

• An ongoing employee training program; and

• An independent audit function to test the programs.

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

FINANCIAL SERVICES MODERNIZATION LEGISLATION

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

The major provisions of the Gramm-Leach-Bliley Act are:

FINANCIAL HOLDING COMPANIES AND FINANCIAL ACTIVITIES. Title I establishes a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms, and other financial service providers by revising and expanding the BHC Act framework to permit a holding company system to engage in a full range of financial activities through qualification as a new entity known as a financial holding company.

Final regulations adopted by the FDIC in January 2001, in the form of amendments to Part 362 of the FDIC rules and regulations, provide the framework for subsidiaries of state nonmember banks to engage in financial activities that the Gramm-Leach-Bliley Act permits national banks to conduct through a financial subsidiary.

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

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

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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 October 2006.

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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.

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

Recent Accounting Pronouncements

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

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

Accounting for Business Combinations

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

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

The Hierarchy of Generally Accepted Accounting Principles

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

Employers Disclosures about Postretirement Benefit Plan Assets

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

Other

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

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ITEM 1A - RISK FACTORS

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

Our profitability depends significantly on economic conditions.

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

We rely on the small to medium sized business market.

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

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

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

Our loan customers may not repay their loans according to the terms of these loans, and the collateral securing the payment of these loans may be insufficient to assure repayment. We may experience significant credit losses that could have a material adverse effect on our operating results. We make various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the size of the allowance, we rely on our experience and our evaluation of economic conditions. If our assumptions prove to be incorrect, our current allowance may not be sufficient to cover future loan losses and adjustments may be necessary to allow for different economic conditions or adverse developments in our loan portfolio. Significant additions to our allowance would materially decrease our net income.

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

Fluctuations in interest rates could reduce our profitability.

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

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

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

Our asset/liability management strategy, which is designed to address the risk from changes in market interest rates and the shape of the yield curve, may not prevent changes in interest rates from having a material adverse effect on our results of operations and financial condition.

Competition with other financial institutions could adversely affect our profitability.

We face vigorous competition from banks and other financial institutions, including savings institutions, finance companies and credit unions. A number of these banks and other financial institutions have substantially greater resources and lending limits, larger branch systems and a wider array of banking services. To a limited extent, we also compete with other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies and insurance companies. This competition may reduce or limit our margins on banking services, reduce our market share and adversely affect our results of operations and financial condition. Additionally, we face competition primarily from other banks in attracting, developing and retaining qualified banking professionals.

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

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

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

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

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

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

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

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

ITEM 2 - DESCRIPTION OF PROPERTY.

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.

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ITEM 3 - LEGAL PROCEEDINGS.

Regent Hotel Litigation

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

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

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

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

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

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

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

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

Votes for: 4,645,155 **Votes against: 24,266** **Abstentions and broker non-votes: 4,100**

PART II

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

Our common stock is listed for trading on the Nasdaq Capital Market under the ticket symbol CVCY. As of March 5, 2009, we had approximately 704 shareholders of record.

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

Common Stock Prices

	Qtr 1 2008	Qtr 2 2008	Qtr 3 2008	Qtr 4 2008	Qtr 1 2007	Qtr 2 2007	Qtr 3 2007	Qtr 4 2007
High	$ 13.24	$ 10.99	$ 10.25	$ 8.98	$ 15.50	$ 15.22	$ 14.95	$ 13.03
Low	$ 9.60	$ 9.40	$ 7.30	$ 4.59	$ 13.81	$ 13.80	$ 11.70	$ 10.25

We paid $0.10 per common share cash dividends in 2008 and 2007. The Company s primary source of income with which to pay cash dividends is dividends from the Bank. The Bank would not pay any dividend that would cause it to be deemed not well capitalized under applicable banking laws and regulations. See Note 12 in the audited Consolidated Financial Statements in Item 8 of this Annual Report.

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ISSUER PURCHASES OF EQUITY SECURITIES

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

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

Equity Compensation Plan Information

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

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

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

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PERFORMANCE GRAPH

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ITEM 6 SELECTED CONSOLIDATED FINANCIAL DATA

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

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

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

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ITEM 7 MANAGEMENT S DISCUSSION AND ANALYUSIS 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 sim expressions, the Company intends to identify forward-looking statements. Such statements are not guarantees of performance and are subject to certain risks, uncertainties and assumptions, including those described in this Annual Report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected, projected, intended, committed or believed. The future results and shareholder values of the Company may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results and values are beyond the Company s ability to control or predict. For those statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

INTRODUCTION

Central Valley Community Bancorp (NASDAQ: CVCY) (the Company) was incorporated on February 7, 2000. The formation of the holding company offered the Company more flexibility in meeting the long-term needs of customers, shareholders, and the communities it serves. The Company currently has one bank subsidiary, Central Valley Community Bank (the Bank) and one business trust subsidiary, Service 1st Capital Trust 1. The Bank of Madera County (BMC) was merged with and into the Bank on January 1, 2005. BMC had two branches in Madera County which continue to be operated by the Bank. After the close of business on November 12, 2008, Service 1st Bancorp (Service 1st) was merged with and into the Company, and Service 1st Bank (S1 Bank) was merged with and into the Bank. S1 Bank had three branches in Stockton, Tracy, and Lodi which continue to be operated by the Bank. Service 1st Capital Trust 1 (the Trust) is a business trust formed for the purpose of issuing trust preferred securities. The Company succeeded to all the rights and obligations of the Trust in connection with the acquisition of Service 1st. The Trust is a subsidiary of the Company. The Company s market area includes the central valley area from Sacramento, California to Bakersfield, California.

During 2008, the Company focused on assuring that competitive products and services were made available to our clients while adjusting to the many new laws and regulations that affect the banking industry. During 2008 the Company acquired Service 1st Bancorp and its banking subsidiary adding three strategically located branches and we relocated our Herndon and Fowler branch from an in-store location to a new larger facility. During 2007, the Bank opened a loan production office in Modesto, California, and relocated our Kerman branch to a new larger facility. During 2006, the Bank opened two full service retail offices in the Fresno one in the downtown area and one in the Sunnyside area of Fresno, respectively. Also in 2006, the Company consolidated its administrative offices into a single stand location in Fresno and opened a limited service branch there. With the acquisition of S1 Bank in 2008, the Bank now operates 15 full-service branches, one limited service branch and one loan production office.

ECONOMIC CONDITIONS

The economy in California s Central Valley has been negatively impacted by the economic recession that began in 2007 and the related real estate market and the slowdown in residential construction. The recession has impacted most industries in our market area. During 2008, housing values throughout the nation and especially in the Central Valley have decreased dramatically, which in turn has negatively affected the personal net worth of much of the population. However, housing in the Central Valley continues to be relatively more affordable than the major metropolitan areas in California.

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

OVERVIEW

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

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

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

Key Factors in Evaluating Financial Condition and Operating Performance

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

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

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

Return to Our Stockholders

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

Return on Average Assets

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

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Development of Core Earnings

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

Our non-interest income is generally made up of service charges and fees on deposit accounts, fee income from loan placements, appreciation in cash surrender value of bank owned life insurance, and other income. Non-interest income in 2008 increased $672,000 or 14.9% to $5,190,000 compared to $4,518,000 in 2007 and $5,177,000 in 2006. Customer service charges increased $491,000 or 17.2% to $3,350,000 in 2008 compared to $2,859,000 and $2,532,000 in 2007 and 2006, respectively, mainly due to an increase in fee rates and in the number of transaction accounts. Non-interest income in 2006 included tax-exempt proceeds from a life insurance policy of $625,000, and net pre-tax gains from the sale of real estate and equipment of $192,000. Further detail on non-interest income is provided below.

Asset Quality

For all banks and bank holding companies, asset quality has a significant impact on the overall financial condition and results of operations. Asset quality is measured in terms of percentage of total loans and total assets, and is a key element in estimating the future earnings of a company. We had non-performing loans totaling $15,750,000 or 3.25% of gross loans as of December 31, 2008 and $179,000 or 0.05% of gross loans as of December 31, 2007. We did not have any other non performing assets at December 31, 2008 or 2007. Of the non-performing loans at December 31, 2008, $14,340,000 related to the loan portfolio acquired from Service 1st. Management maintains certain loans that have been brought current by the borrower (less than 30 days delinquent) on non-accrual status until such time as management has determined that the loans are likely to remain current in future periods. The Company did not have any other real estate owned at December 31, 2008 or 2007.

Asset Growth

As revenues from both net interest income and non-interest income are a function of asset size, the continued growth in assets has a direct impact in increasing net income and therefore ROE and ROA. The majority of our assets are loans and investment securities, and the majority of our liabilities are deposits, and therefore the ability to generate deposits as a funding source for loans and investments is fundamental to our asset growth. The acquisition of Service 1st on November 12, 2008 contributed to the growth our asset size in 2008. Total assets increased 55.6% during 2008 to $752,713,000 as of December 31, 2008 from $483,685,000 as of December 31, 2007. Total gross loans increased 42.0% to $484,238,000 as of December 31, 2008, compared to $341,128,000 at December 31, 2007. Total investment securities and Federal funds sold increased 96.4% to $194,215,000 as of December 31, 2008 compared to $98,909,000 as of December 31, 2007. Total deposits increased 57.8% to

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

Operating Efficiency

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

Liquidity

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

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RESULTS OF OPERATIONS

Net Income

Net income was $5,139,000 in 2008 compared to $6,280,000 and $6,911,000 in 2007 and 2006, respectively. Basic earnings per share were $0.83, $1.05, and $1.16 for 2008, 2007 and 2006, respectively. Diluted earnings per share were $0.79, $0.99, and $1.07 for 2008, 2007 and 2006, respectively. ROE was 8.82% for 2008 compared to 12.13% for 2007 and 15.17% for 2005. ROA for 2008 was 0.95% compared to 1.32% for 2007 and 1.47% for 2006.

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

Interest Income and Expense

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

The following table sets forth a summary of average balances with corresponding interest income and interest expense as well as average yield and cost information for the periods presented. Average balances are derived from daily balances, and non-accrual loans are not included as interest earning assets for purposes of this table. For 2008, average balances reflect the acquisition of Service 1st for 13.4% of the year.

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CENTRAL VALLEY COMMUNITY BANCORP

SCHEDULE OF AVERAGE BALANCES AND AVERAGE YIELDS AND RATES

(Dollars in thousands)

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

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

(2) Loan interest income includes loan fees of $720 in 2008 and $873 in 2007.

(3) Average loans do not include non-accrual loans.

(4) Net interest margin is computed by dividing net interest income by total average interest-earning assets.

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

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

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

A component of the Company s strategic plan has been to use its investment portfolio to offset, in part, its interest rate risk relating to variable rate loans. At December 31, 2008, an immediate rate increase of 200 basis points would result in an estimated decrease in the market value of the investment portfolio by approximately $18,250,000. Conversely, with an immediate rate decrease of 200 basis points, the estimated increase in the market value of the investment portfolio is $14,936,000. The modeling environment assumes management would take no action during an immediate shock of 200 basis points. The likelihood of immediate changes of 200 basis points is contrary to expectation, as evidenced by the changes in interest rates in the past year, which were in 25, 50 and 75 basis point increments. However, the Company uses those increments to measure its interest rate risk in accordance with regulatory requirements and to measure the possible future risk in the investment portfolio. For further discussion of the Company s market risk, refer to Item 7A - Quantitative and Qualitative Disclosures about Market Risk.

Management s review of all investments before purchase includes an analysis of how the security will perform under several interest rate scenarios to monitor whether investments are consistent with our investment policy. The policy addresses issues of average life, duration, and concentration guidelines, prohibited investments, impairment, and prohibited practices.

Total interest income in 2008 decreased $721,000, to $31,845,000 compared to $32,566,000 in 2007 and $30,932,000 in 2006. Although average interest earning assets increased $55,850,000 or 12.8% to $492,414,000 for 2008 compared to $436,564,000 for 2007 and $431,368,000 for 2006, the yield on those assets decreased 98 basis points from 2007 to 2008, resulting in a 3.1% decrease in total interest income. The increases in average earning assets in 2008 and 2007 were the result of our own organic growth and the acquisition of Service 1st in November 2008. The yield on interest earning assets was 6.69% for 2008 compared to 7.59% for 2007 and 7.31% for 2006. .

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

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Average other borrowings increased to $32,526,000 with an effective rate of 2.89% for 2008 compared to $2,759,000 with an effective rate of 5.94% for 2007. In 2006, the average other borrowings were $6,774,000 with an effective rate of 5.15%. Included in other borrowings are the junior subordinated deferrable interest debentures acquired from Service 1st, advances on lines of credit and advances from the Federal Home Loan Bank (FHLB). We borrowed funds from the Federal Home Loan Bank in 2008 as part of leverage strategy employed whereby we purchased investment securities. The effective rate of the FHLB advances was 3.08% for 2008 compared to 4.87% for 2007 and 3.97% for 2006. Other borrowings in 2007 and 2006 included a loan from a major bank, which we paid in full during 2007.

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

Net Interest Income before Provision for Credit Losses

As a result of the activity discussed above, net interest income before provision for credit losses for 2008 increased slightly by $59,000 or 0.24% to $24,567,000 compared to $24,508,000 for 2007 and $24,373,000 for 2006. The increase in 2008 was mainly due to an increase in average total interest earning assets of 12.8%, offset by an increase in interest bearing liabilities of 21.3% and a decrease in the yield on total interest earning assets of 98 basis points compared to 2007, while the cost of total interest-bearing liabilities decreased only 71 basis points. The increase in 2007 was primarily due to an increase in average interest earning assets and the yields earned on those assets, offset by the change in mix of interest bearing liabilities and the increase in rates paid on those liabilities. Average interest earning assets and net interest margin, respectively, were $492,414,000 and 5.13% in 2008, $436,564,000 and 5.74% in 2007, and $431,368,000 and 5.79% in 2006. For a discussion of the repricing of our assets and liabilities, refer to Item 7A Quantitative and Qualitative Disclosure about Market Risk.

Provision for Credit Losses

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

The establishment of an adequate credit allowance is based on both an accurate risk rating system and loan portfolio management tools. The Board has established initial responsibility for the accuracy of credit risk grades with the individual credit officer. The grading on loans that exceed the credit officers lending limits are submitted to the Chief Credit Administrator (CCA), who reviews the grades for accuracy and makes recommendations to Credit Review who gives final approval. The risk grading and reserve allocation is analyzed annually by a third party credit reviewer and by various regulatory agencies.

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.

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

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

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

The provisions for credit losses in 2008, 2007 and 2006 were $1,290,000, $480,000, and $800,000, respectively. These provisions are primarily the result of our assessment of the overall adequacy of the allowance for credit losses considering a number of factors as discussed in the Allowance for Credit Losses section below. Non-performing loans were $15,750,000 and $179,000 at December 31, 2008 and 2007, respectively. Non-performing loans acquired from Service 1st represented $14,340,000 of the total balance at December 31, 2008, which includes a $3,486,000 loan that is secured by a $3,500,000 escrow fund held at another bank for the benefit of the Company and therefore management has not provided an allowance against this loan. We did not have any non-performing loans as of December 31, 2006. The Company did not have any other real estate owned at December 31, 2008 or 2007.

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

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

Net Interest Income After Provision for Credit Losses

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

Non-Interest Income

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

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

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

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

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

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

Non-Interest Expenses

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

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

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

The Company has three share based compensation plans under which compensation expense is recognized based on the estimated fair value of the awards at the date of the grant.

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

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

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

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The Company bases the fair value of the options previously granted on the date of grant using a Black-Scholes option pricing model that uses assumptions based on expected option life, the level of estimated forfeitures, expected stock volatility and the risk-free interest rate. Stock volatility is based on the historical volatility of the Company s stock. The risk-free rate is based on the U.S. Treasury yield curve and the expected term of the options. The expected term of the options represents the period that the Company s options are expected to be outstanding.

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

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

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

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

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

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

Provision for Income Taxes

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

FINANCIAL CONDITION

Summary of Changes in Consolidated Balance Sheets

December 31, 2008 compared to December 31, 2007

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

Investments

Our investment portfolio consists primarily of agency securities, mortgage backed securities, municipal securities, mortgage backed and corporate debt securities, and overnight investments in the Federal funds market and are classified at the date of acquisition as available for sale or held to maturity. As of December 31, 2008, investment securities with a fair value of $112,262,000 were held as collateral for public funds, treasury, tax, and for other purposes. Our investment policies are established by the Board of Directors and implemented by our Investment/Asset Liability Committee. They are designed primarily to provide and maintain liquidity, to enable us to meet our pledging requirements for public money and borrowing arrangements, to generate a favorable return on investments without incurring undue interest rate and credit risk, and to complement our lending activities.

The level of our investment portfolio is generally considered higher than our peers due primarily to a comparatively low loan to deposit ratio. Our loan to deposit ratio at December 31, 2008 was 76.3% compared to 84.7% at December 31, 2007. The loan to deposit ratio of our peers was 97.1% at September 30, 2008. The total investment portfolio increased 96.4% or $95,306,000 to $194,215,000 at December 31, 2008 from $98,909,000 at December 31, 2007 primarily due to the investment securities acquired in the acquisition of Service 1st. The market value of the portfolio reflected an unrealized gain of $313,000 at December 31, 2008 compared to $234,000 at December 31, 2007.

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

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

Loans

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

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

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

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

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

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

Non-Performing Assets

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

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

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

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

Composition of Non-accrual, Past Due and Restructured Loans

(Dollars in thousands)	December 31, 2008	December 31, 2007
Non-accrual loans		
Commercial and industrial	$ 1,125	$ 100
Real estate	5,159	79
Real estate construction and land development	7,635	
Consumer	80	
Other	48	
Restructured loans (non-accruing)	1,703	
Total non-accrual	15,750	179
Accruing loans past due 90 days or more		
Total non-performing loans	$ 15,750	$ 179
Nonperforming loans to total loans	3.25%	0.05%
Ratio of non-performing loans to allowance for credit losses	218.05%	4.61%
Loans considered to be impaired	$ 15,750	$ 179
Related allowance for credit losses on impaired loans	$ 125	$

We measure our impaired loans by using the fair value of the collateral if the loan is collateral-dependent and the present value of the expected future cash flows discounted at the loan s effective interest rate if the loan is not collateral-dependent. As of December 31, 2008 and 2007, we had impaired loans totaling $15,750,000 and $179,000, respectively. We place loans on non-accrual status that are delinquent 90 days or more or when a reasonable doubt exists as to the collectibility of interest and principal under the original contractual terms. Management maintains certain loans that have been brought current by the borrower (less than 30 days delinquent) on non-accrual status until such time as management has determined that the loans are likely to remain current in future periods. Foregone interest on nonaccrual loans totaled $371,000 and $8,000 for 2008 and 2007, respectively. There was no foregone interest on nonaccrual loans in 2006.

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

Classified Assets

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

Allowance for Credit Losses

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

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

The allowance for credit losses is maintained to cover losses inherent in the loan portfolio. The responsibility for the review of our assets and the determination of the adequacy lies with management and our Audit Committee. They delegate the authority to the Chief Credit Officer (CCA) to determine the loss reserve ratio for each type of asset and reviews, at least quarterly, the adequacy of the allowance based on an evaluation of the portfolio, past experience, prevailing market conditions, amount of government guarantees, concentration in loan types and other relevant factors.

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

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

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

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

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

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

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

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

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

The allowance for credit losses as a percentage of non-performing loans was 45.9% and 2,171.5% as of December 31, 2008 and 2007, respectively. Included in non-performing loans as of December 31, 2008, is a loan for $3,486,000 which is secured by a $3,500,000 escrow fund held at another bank for the benefit of the Company and therefore management has not provided allowance against this loan. Management believes the allowance at December 31, 2008 is adequate based upon its ongoing analysis of the loan portfolio, historical loss trends and other factors. However, no assurance can be given that the Company may not sustain charge-offs which are in excess of the allowance in any given period.

Deposits and Borrowings

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

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

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

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

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

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

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

Capital Resources

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

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

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

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

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

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

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, 2008 and 2007:

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

LIQUIDITY

Liquidity management involves our ability to meet cash flow requirements arising from fluctuations in deposit levels and demands of daily operations, which include funding of securities purchases, providing for customers credit needs and ongoing repayment of borrowings. Our liquidity is actively managed on a daily basis and reviewed periodically by our management and Director s Asset/Liability Committees. This process is intended to ensure the maintenance of sufficient funds to meet our needs, including adequate cash flow for off-balance sheet commitments.

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

As a means of augmenting our liquidity, we have established Federal funds lines with correspondent banks. At December 31, 2008 our available borrowing capacity includes approximately $39,000,000 in Federal funds lines with our correspondent banks and $19,207,000 in unused FHLB advances. The Bank is also eligible to issue certain debt that is backed by the full faith and credit of the United States, up to a limit of $9,424,000, under the FDIC s Temporary Liquidity Guarantee Program. We believe our liquidity sources to be stable and adequate. At December 31, 2008, we were not aware of any information that was reasonably likely to have a material effect on our liquidity position. The following table reflects the Company s credit lines, balances outstanding, and pledged collateral at December 31, 2008 and 2007:

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

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

OFF-BALANCE SHEET ITEMS

In the ordinary course of business, the Company is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received. The balance of commitments to extend credit on undisbursed construction and other loans and letters of credit was $160,450,000 as of December 31, 2008 compared to $135,638,000 as of December 31, 2007. For a more detailed discussion of these financial instruments, see Note 11 to the audited Consolidated Financial Statements in Item 8 of this Annual Report.

In the ordinary course of business, the Company is party to various operating leases. For a more detailed discussion of these financial instruments, see Note 11 to the audited Consolidated Financial Statements in Item 8 of this Annual Report.

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CONTRACTUAL OBLIGATIONS

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

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

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

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We realize income principally from the differential or spread between the interest earned on loans, investments, other interest-earning assets and the interest incurred on deposits and borrowings. The volumes and yields on loans, deposits and borrowings are affected by market interest rates. As of December 31, 2008, 83.1% of our loan portfolio was tied to adjustable-rate indices. The majority of these adjustable-rate loans are tied to prime and reprice within 90 days. The majority of our time deposits have a fixed rate of interest. As of December 31, 2008, 90.7% of our time deposits mature within one year or less. As of December 31, 2008, $6,368,000 of our short term debt and $19,000,000 of our long-term debt was fixed rate. Our long-term debt has maturities through 2013.

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

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

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

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Simulation of earnings is the primary tool used to measure the sensitivity of earnings to interest rate changes. Earnings simulations are produced using a software model that is based on actual cash flows and repricing characteristics for all of our financial instruments and incorporate market-based assumptions regarding the impact of changing interest rates on current volumes of applicable financial instruments.

Interest rate simulations provide us with an estimate of both the dollar amount and percentage change in NII under various rate scenarios. All assets and liabilities are normally subjected to up to 300 basis point increases and decreases in interest rates in 100 basis point increments. Under each interest rate scenario, we project our net interest income. From these results, we can then develop alternatives in dealing with the tolerance thresholds.

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

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

Sensitivity Analysis of Impact on Interest Income of Rate Changes

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

Assumptions are inherently uncertain, and, consequently, the model cannot precisely measure net interest income or precisely predict the impact of changes in interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes, as well as changes in market conditions and management strategies which might moderate the negative consequences of interest rate deviations. In the model above, the simulation shows that the Company is neutral over the one-year horizon. If interest rates increase or decline, there will be similar positive and negative impact to net interest income.

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

CRITICAL ACCOUNTING POLICIES

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

Our accounting policies are integral to understanding the results reported. Our significant accounting policies are described in detail in Note 1 in the audited Consolidated Financial Statements in Item 8 of this Annual Report. Not all of the significant accounting policies presented in Note 1 of the audited consolidated financial statements require management to make difficult, subjective or complex judgments or estimates.

Use of Estimates

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

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

Accounting Principles Generally Accepted in the United States of America

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

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

Allowance for Credit Losses

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

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

Impairment of Investment Securities

An investment security is impaired if its estimated fair value is less than its amortized cost. Investment securities that are in an unrealized loss position are evaluated for other-than-temporary impairment on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value below amortized cost is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline, the financial condition of the issuer, rating agency changes related to the issuer s securities and the intent and ability of the Bank to retain its investment in the issues for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term other than temporary is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

Amortization of Premiums on Investments

We invest in Collateralized Mortgage Obligations (CMO) and Mortgage Backed Securities, (MBS) as part of the overall strategy to increase our net interest margin. CMOs and MBS by their nature react to changes in interest rates. In a normal declining rate environment, prepayments from MBS and CMOs would be expected to increase and the expected life of the investment would be expected to shorten. Conversely, if interest rates increase, prepayments normally would be expected to decline and the average life of the MBS and CMOs would be expected to extend. However, in the current economic environment, prepayments may not behave according to historical norms. Premium amortization of these investments affects our net interest income. Our management monitors the prepayment speed of these investments and adjusts premium amortization based on several factors. These factors include the type of investment, the investment structure, interest rates, interest rates on new mortgage loans, expectation of interest rate changes, current economic conditions, level of principal remaining on the bond, the bond coupon rate, the bond origination date, and volume of available bonds in market. The calculation of premium amortization is by nature inexact, and represents management s best estimate of principal pay downs inherent in the total investment portfolio.

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Goodwill

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

Share-Based Compensation

The Company recognizes compensation expense in an amount equal to the fair value of all share-based payments which consist of stock options granted to directors and employees. The fair value of each option is estimated on the date of grant and amortized over the service period using a Black-Scholes based option valuation model that requires the use of assumptions to estimate the grant date fair value. The estimates are based on assumptions on the expected option life, the level of estimated forfeitures, expected stock volatility and the risk-free interest rate. The calculation of the fair value of share based payments is by nature inexact, and represents management s best estimate of the grant date fair value of the share based payments. See Note 1 to the audited Consolidated Financial Statements in Item 8 of this Annual Report.

Accounting for Income Taxes

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

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. On the balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

The provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) have been applied to all tax positions of the Company since January 1, 2007. Only tax positions that met the more-likely-than-not recognition threshold on January 1, 2007 were recognized or continue to be recognized. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest expense and penalties associated with unrecognized tax benefits are classified as income tax expense in the consolidated statement of income.

INFLATION

The impact of inflation on a financial institution differs significantly from that exerted on other industries primarily because the assets and liabilities of financial institutions consist largely of monetary items. However, financial institutions are affected by inflation in part through non-interest expenses, such as salaries and occupancy expenses, and to some extent by changes in interest rates.

At December 31, 2008, we do not believe that inflation will have a material impact on our consolidated financial position or results of operations. However, if inflation concerns cause short term rates to rise in the near future, we may benefit by immediate repricing of a majority of our loan portfolio. Refer to Market Risk section for further discussion.

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ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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CENTRAL VALLEY COMMUNITY BANCORP

AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008 AND 2007

AND FOR THE YEARS ENDED

DECEMBER 31, 2008, 2007 AND 2006

AND

REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

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

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

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

Sacramento, California

March 12, 2009

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2007

(In thousands, except share amounts)

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

Common stock, no par value; 80,000,000 shares authorized, 7,642,280 and 5,975,316 shares issued and outstanding in 2008 and 2007, respectively				
Retained earnings		44,708		40,483
Accumulated other comprehensive income, net of taxes		188		140
Total shareholders equity		75,375		54,194
Total liabilities and shareholders equity	$	752,713	$	483,685

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

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

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

(In thousands, except per share amounts)

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

(Continued)

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(Continued)

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

(In thousands, except per share amounts)

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

The accompanying notes are an integral

part of these consolidated financial statements.

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

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

(In thousands, except share and per share amounts)

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

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Continued)

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

(In thousands, except share and per share amounts)

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss) (Net of Taxes)	Total Shareholders Equity	Total Comprehensive Income
Balance, December 31, 2007	5,975,316	$ 13,571	$ 40,483	$ 140	$ 54,194	
Comprehensive income:						
Net income			5,139		5,139	$ 5,139
Other comprehensive income, net of tax:						
Net change in unrealized gain on available- for-sale investment securities				48	48	48
Total comprehensive income						$ 5,187
Cash dividend payment ($0.10 per share)			(598)		(598)	
Repurchase and retirement of common stock	(5,436)	(56)			(56)	
Stock issued for acquisition	1,628,397	16,600			16,600	
Stock-based compensation expense		100			100	
Stock options exercised and related tax benefit	44,003	264			264	
Cumulative effect of adopting Emerging Issues Task Force (EITF) 06-04			(316)		(316)	
Balance, December 31, 2008	7,642,280	$ 30,479	$ 44,708	$ 188	$ 75,375	

	2008	2007	2006
Disclosure of reclassification amount, net of taxes:			
Unrealized holding (losses) gains arising during the year	$ 147	$ 295	$ 464
Less reclassification adjustment for net gains included in net income	(99)	(38)	(74)
Net change in unrealized gains (losses) on available-for-sale investment securities	$ 48	$ 257	$ 390

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

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(In thousands)

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

(Continued)

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

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

(In thousands)

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

(Continued)

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

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

(In thousands)

	2008	2007	2006
Supplemental Schedule Related to Acquisitions:			
Acquisition of Bank of Madera County:			
Goodwill and intangibles	$	$	$