CENTRAL VALLEY COMMUNITY BANCORP
Form 10KSB
March 24, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

(Mark One)

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

For the Fiscal Year Ended DECEMBER 31, 2004

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

(Name of small business issuer in its charter)

California	**77-0539125**
	(I.R.S. Employer Identification No.)

(State or other jurisdiction of incorporation or organization)

600 Pollasky Avenue, Clovis, California	**93612**
(Address of principal executive offices)	(Zip code)

Issuer s telephone number **(559) 298-1775**

Securities registered under Section 12(b) of the Exchange Act: **NONE**

Securities registered under Section 12(g) of the Exchange Act: **Common Stock, No Par Value**
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 ý No o

Check if no disclosure of delinquent filers in response to Item 405 of Regulation S-B is contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. ý

State issuer s revenues for its most recent fiscal year: $ 20,736,000

State the aggregate market value of the voting and non-voting common equity held by nonaffiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of March 18, 2005: $45,117,932.

State the number of shares of Common Stock outstanding as of March 18, 2005: 2,890,930

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement which will be filed within 120 days after December 31, 2004, in connection with the solicitation of proxies for its 2005 Annual Meeting of Shareholders, are incorporated by reference in Items 9, 10, 11 and 12 of part III hereof. The portions of such documents that are not incorporated by reference shall not be deemed to be filed with the Commission as part of this Form 10-KSB.

Transitional Small Business Disclosure Format (Check one): Yes o No ý

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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, 2004, the Company had one banking subsidiary, the Bank. The Company s principal business is to provide, through its banking subsidiary, financial services in its primary market area in California. The Company serves Fresno County, Sacramento County and the surrounding area through the Bank. The Company does not currently conduct any operations other than through the Bank. Unless the context otherwise requires, references to the Company refer to the Company and the Bank on a consolidated basis. At December 31, 2004, the Company had consolidated total assets of approximately $368,147,000. See Items 6 and 7, Management s Discussion and Analysis or Plan of Operation and Financial Statements**.**

During 2004, 2003 and 2002, the Company approved stock repurchase plans authorizing the purchase of shares up to a total cost of $500,000, or approximately 2%, 2% and 3%, respectively, of its common stock, in each year. As of December 31, 2004, 2003 and 2002, the Company repurchased 9,000, 5,463 and 40,812 shares at a total cost of $213,000, $81,000 and $483,000, respectively. On October 20, 2004, the Company announced the suspension of the 2004 stock repurchase plan.

As of March 15, 2005, the Company had a total of 153 employees and 127 full time equivalent employees, including the employees of the Bank.

On July 19, 2004, the Company entered into a merger agreement with Bank of Madera County which resulted in the addition of the Bank of Madera County branches in Oakhurst and Madera, California merging into Central Valley Community Bank December 31, 2004. The merger was not effective until after the close of business on December 31, 2004. Consequently, the assets acquired, liabilities assumed and the operating results for Bank of Madera County are not reflected in the financial information in this Form 10-KSB. Pro forma financial information related to the acquisition is not included in this Form 10-KSB as the Bank of Madera County acquisition did not meet the significant subsidiary test. Unless expressly stated otherwise in this report, none of the information in this report for the period to and including December 31, 2004, reflects the financial or operating impact of the merger of Bank of Madera County and Bank.

Forward-Looking Statements

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 on Form 10-KSB the words anticipate, estimate, expect, project, intend, commit, and similar expressions, the Company intends to identify forward-looking statements. Such statements are not guarantees of performance and are subject to certain risks, uncertainties and assumptions, including those described in this Annual Report on Form 10-KSB. 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.

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 seven full-service banking offices in Clovis, Fresno, Kerman, Sacramento, and Prather, California. One of the offices is in a Save Mart Supermarket and offers extended banking hours, including Saturday hours, for the convenience of the Bank s customers. The Bank established a Real Estate Division in 1995 in a freestanding facility in downtown Clovis. 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. No new offices or locations were completed in 2004. According to the June 30, 2004 FDIC data, the six (6) branches in Fresno County (Clovis, Fresno, Kerman, and Prather branches) have a 5.3% combined deposit market share of all banks and 3.3% of all depositories including credit unions, thrifts, and savings banks.

During 2002, the Bank relocated its River Park and Fig Garden Village offices in Fresno, California to new expanded sites. Also in 2002, the Bank opened two new full service offices in step with its strategic plans to expand its market areas to the entire central valley area of California. An office in the Sacramento area was opened in the first half of 2002 and in the second half of 2002, a new office located in Kerman, California was opened.

The Bank anticipates additional branch openings to meet the growing service needs of its customers. The 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 opening a new full-service office in 2005 in the Fresno downtown area.

On July 19, 2004, the Company entered into a merger agreement with Bank of Madera County which resulted in the addition of the Bank of Madera County branches in Oakhurst and Madera, California merging into Central Valley Community Bank after the close of business December 31, 2004. Refer to Management s Discussion and Analysis for further discussion of the merger.

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

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

The Bank s operating policy since its inception has emphasized serving the banking needs of individuals and the business and professional communities in the central valley area of California. At December 31, 2004, the Company had total loans of $209,279,000. Total commercial and industrial loans outstanding were $57,669,000; total agricultural loans outstanding were $15,946,000, total real estate construction, land development and other land loans outstanding were $35,364,000; total other real estate loans outstanding were $94,138,000, and total consumer installment loans outstanding were $6,420,000. The Company accepts real estate, listed and unlisted 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, 2004 approximately 61.7% of the Company s loan portfolio held for investment consisted of real estate-related loans, including construction loans, real estate mortgage loans and commercial loans secured by real estate and 27.5% consisted of commercial loans. See Item 6 - Management s Discussion and Analysis or Plan of Operation. The Company believes that these concentrations are mitigated by the diversification of the loan portfolio among commercial, commercial and residential construction, commercial mortgage, home equity and consumer loans. In addition, the business activities of the Company currently are mainly concentrated in Fresno County, California. Consequently, the results of operations and financial condition of the Company 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, the concentration of the Company s operations in this area of California exposes it 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.

The Company s deposits are attracted from individual and commercial customers. A material portion of the Company s deposits has 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 the business of the Company.

In order to attract loan and deposit business from individuals and small businesses, the Company maintains the following lobby hours at its branches:

Branch	**Monday Thursday**	**Friday**	**Saturday**
Clovis Main	9:00 a.m. to 4:00 p.m.	9:00 a.m. to 6:00 p.m.	None
Clovis Main Drive Up	8:00 a.m. to 5:30 p.m.	8:00 a.m. to 6:00 p.m.	None
Foothill	9:00 a.m. to 5:00 p.m.	9:00 a.m. to 6:00 p.m.	9:00 a.m. to 1:00 p.m.
Clovis/Herndon	10:00 a.m. to 7:00 p.m.	10:00 a.m. to 7:00 p.m.	10:00 a.m. to 5:00 p.m.
Fig Garden Village	9:00 a.m. to 5:00 p.m.	9:00 a.m. to 6:00 p.m.	10:00 a.m. to 2:00 p.m.
Kerman	9:00 a.m. to 5:00 p.m.	9:00 a.m. to 6:00 p.m.	None
River Park	9:00 a.m. to 5:00 p.m.	9:00 a.m. to 6:00 p.m.	10:00 a.m. to 2:00 p.m.
River Park Drive Up	8:00 a.m. to 5:30 p.m.	9:00 a.m. to 6:00 p.m.	10:00 a.m. to 2:00 p.m.
Sacramento Private Banking	9:00 a.m. to 4:00 p.m.	9:00 a.m. to 4:00 p.m.	None

Automated teller machines operate at 7 branch locations and 1 non-branch location 24 hours per day, seven days per week. No automated teller machines are currently located at the Sacramento office. The Company s Real Estate and Small Business Administration (SBA) Departments maintain business hours of 8:00 A.M. to 5:00 P.M., Monday through Friday, and extended hours are available at customer request.

To compete effectively, the Bank relies substantially on local promotional activity, personal contacts by its officers, directors and employees, referrals by its shareholders, extended hours, personalized service and its reputation in the communities it serves.

In Fresno County, in addition to the Company s seven branch locations, serving the Bank s primary service areas, as of December 31, 2004 there were 84 operating banking offices in the Company s primary service area, which consists of the cities of Clovis, Fresno, Kerman and Prather, California, of which 63 were offices of regional and major chain banking systems and 21 were offices of other community banks. Prather does not contain any banking offices other than the Company s office. The Company s primary service area contains 36 thrift offices. and credit unions. Business activity in the Company s primary service area is oriented towards light industry, small business and agriculture. The June 2004 FDIC Summary of Deposits report indicated the Company had 5.3% of the total deposits held by banks in Fresno County.

In Sacramento County, in addition to the Company s one branch, as of December 31, 2004 there were 156 operating banking offices in the Company s primary service area of which 117 were offices of regional and major chain banking systems and 39 were offices of other community banks. The Sacramento service area contains 46 thrift offices.

The banking business in California generally, and in the Company s 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 the Company 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 by the Bank 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 the Bank. Legal lending limits to an individual customer are limited to a percentage of a bank s total capital accounts. As of December 31, 2004, the Bank s legal loan limits to individual customers were $4,905,000 for unsecured loans and $8,174,000 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 the Bank in the acquisition of deposits. Banks also compete with money market funds and other money market instruments, which are not subject to interest rate ceilings. In recent years, increased competition has also developed from specialized finance and non-finance companies that offer wholesale finance, credit card, and other consumer finance services, including on-line banking services and personal finance software. Competition for deposit and loan products remains strong, from both banking and non-banking firms, and affects the rates of those products as well as the terms on which they are offered to customers.

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

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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 the Company s 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 the Company.

Central Valley Community Realty, LLC

The Bank formed a real estate investment trust, Central Valley Community Realty, LLC (CVCR) in 2002. The trust invested in the Bank s real estate related assets. Refer to Item 6, Management s Discussion and Analysis or Plan of Operations for further discussion on CVCR.

Statistical Disclosure

This information should be read in conjunction with the 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 6 and 7 of this annual report.

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

Table A sets forth the Company s average consolidated balance sheets for the years ended December 31, 2004, 2003 and 2002 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 2004 and 2003 resulting from changes in volume and changes in rates.

Investment Portfolio

The book value of investment securities at December 31, 2004, 2003 and 2002 and the book value, maturities and weighted average yield of investment securities at December 31, 2004 are set forth in Table C.

Loan Portfolio

The composition of the loan portfolio at December 31, 2004, 2003, 2002, 2001, and 2000 is summarized in Table D.

Maturities and sensitivity to changes in interest rates in the loan portfolio at December 31, 2004 are summarized in Table E.

Table F shows the composition of non-accrual, past due and restructured loans at December 31, 2004, 2003, 2002, 2001, and 2000. Set forth in the text accompanying Table F is a discussion of the Company s policy for placing loans on non-accrual status.

Summary Of Loan Loss Experience

Table G sets forth an analysis of loan loss experience as of and for the years ended December 31, 2004, 2003, 2002, 2001, and 2000.

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, 2004, 2003, and 2002.

Table I sets forth the maturity of time certificates of deposit of $100,000 or more at December 31, 2004.

Return On Equity And Assets

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

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, 2004, 2003 and 2002. The average balances reflect daily averages except non-accrual loans, which were computed using quarterly averages.

(Dollars in thousands)	2004 Average Balance	2004 Interest Income/ Expense	2004 Average Interest Rate	2003 Average Balance	2003 Interest Income/ Expense	2003 Average Interest Rate	2002 Average Balance	2002 Interest Income/ Expense	2002 Average Interest Rate
ASSETS:									
Interest-earning deposits in other banks	$ 2,192	$ 37	1.69%	$ 500	$ 11	2.20%	$ 175	$ 5	2.86%
Securities:									
Taxable securities	77,734	2,462	3.17%	67,238	1,981	2.95%	50,974	2,629	5.16%
Non-taxable securities(1)	18,833	1,271	6.75%	15,842	1,142	7.21%	10,136	776	7.65%
Total investment securities	96,567	3,733	3.87%	83,080	3,123	3.76%	61,110	3.405	5.57%
Federal funds sold	16,310	234	1.43%	17,642	185	1.05%	12,826	195	1.52%
Total securities	112,877	3,967	3.51%	100,722	3,308	3.28%	73,936	3,600	4.87%
Loans (2)(3)	195,145	13,227	6.78%	174,057	12,039	6.92%	147,956	11,195	7.57%
Federal Home Loan Bank stock	1,200	41	3.42%	567	28	4.94%	665	29	4.36%
Total interest-earning assets (1)	311,414	$ 17,272	5.55%	275,846	$ 15,386	5.58%	222,732	$ 14,829	6.66%
Allowance for credit losses	(2,523)			(2,398)			(2,390)		
Non-accrual loans	36			651			698		
Cash and due from banks	23,567			18,364			14,988		
Bank premises and equipment	2,863			3,082			2,719		
Other non-earning assets	10,860			10,839			10,201		
Total average assets	$ 346,217			$ 306,384			$ 248,948		
LIABILITIES AND SHAREHOLDERS EQUITY:									
Deposits:									
Savings and NOW accounts	$ 67,099	$ 118	0.18%	$ 57,282	$ 115	0.20%	$ 47,936	$ 168	0.35%
Money market accounts	84,178	660	0.78%	72,720	659	0.91%	52,414	817	1.56%
Time certificates of deposit, under $100,000	37,082	550	1.48%	36,554	710	1.94%	36,099	901	2..50%
Time certificates of deposit, $100,000 and over	21,884	465	2.12%	24,239	520	2.15%	16,999	507	2.98%
Total interest-bearing deposits	210,243	1,793	0.85%	190,795	2,004	1.05%	153,448	2,393	1.56%
Other borrowed funds	7,311	185	2.53%	8,230	286	3.48%	11,277	335	2.97%
Federal funds purchased	2						18	0	1.09%
Total interest-bearing liabilities	217,556	$ 1,978	0.91%	199,025	$ 2,290	1.15%	164,743	$ 2,728	1.66%
Non-interest bearing demand deposits	97,210			79,364			59,181		
Other liabilities	3,248			2,511			2,420		
Shareholders equity	28,203			25,484			22,604		
Total average liabilities and shareholders equity	$ 346,217			$ 306,384			$ 248,948		
Interest income and rate earned on average earning assets (1)		$ 17,272	5.55%		$ 15,386	5.58%		$ 14,829	6.66%

Interest expense and interest cost related to average interest-bearing liabilities		1,978	0.91%		2,290	1.15%		2,728	1.66%
Net interest income and net interest margin(4)	$	15,294	4.91%	$	13,096	4.75%	$	12,101	5.43%

(1) Computed on a tax equivalent basis, which includes Federal tax benefits relating to income earned on municipal bonds totaling $432, $388 and $264 in 2004, 2003 and 2002, respectively.

(2) Loan interest income includes loan fees of $808 in 2004; $721 in 2003; and $755 in 2002 (dollars in thousands).

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

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

Table B

VOLUME AND RATE ANALYSIS

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

	Year Ended December 31					
	2004 Compared to 2003			2003 Compared to 2002		
(In Thousands)	**Volume**	**Rate**	**Net**	**Volume**	**Rate**	**Net**
Increase (decrease) due to changes in:						
Interest income:						
Interest-earning deposits in other banks	$ 28	$ (2)	$ 26	$ 7	$ (1)	$ 6
Investment securities:						
Taxable	325	156	481	1,884	(2,532)	(648)
Non-taxable (1)	195	(66)	129	408	(42)	(366)
Total investment securities	520	90	610	2,292	(2,574)	(282)
Federal funds sold	(13)	62	49	(55)	45	(10)
Loans	1,384	(196)	1,188	1,639	(795)	844
FHLB Stock	18	(5)	13	(9)	8	(1)
Total earning assets(1)	1,937	(51)	1,886	3,874	(3,317)	557
Interest expense:						
Deposits:						
Savings and negotiable orders of withdrawal	20	(16)	4	637	(848)	(211)
Certificates of deposit under $100,000	10	(170)	(160)	(1,684)	1,642	(42)
Certificates of deposit $100,000 and over	(50)	(5)	(55)	(13)	(123)	(136)
Total deposits	(20)	(191)	(211)	(1,060)	671	(389)
Federal funds purchased	0	0	0	(1)	1	0
Other borrowed funds	(30)	(71)	(101)	(132)	83	(49)
Total interest bearing liabilities	(50)	(262)	(312)	(1,193)	755	(438)
Net interest income (1)	$ 1,987	$ 211	$ 2,198	$ 5,067	$ (4,072)	$ 995

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

Table C

INVESTMENT PORTFOLIO

The book value of investment securities at December 31, 2004, 2003 and 2002 is set forth in the following table. At December 31, 2004, the Bank held no investment securities from any issuer which totaled over 10% of the Company s shareholders equity.

Available for Sale		**Book Value at December 31**	
(In Thousands)	**2004**	**2003**	**2002**
U.S. Treasury securities and obligations of other U.S. government agencies and corporations	$ 22,492	$ 11,123	$ 10,619
Mortgage-backed securities	52,292	55,490	44,421
Obligations of states and political subdivisions	19,993	19,947	16,629
Corporate bonds	0	0	974
Other securities	3,644	7,632	2,348
Total Available-for-Sale Securities	$ 98,421	$ 94,192	$ 74,991

The book value, maturities and weighted average yield of investment securities at December 31, 2004 are summarized in the following table.

(Dollars in Thousands) Available for Sale	In one year or less		After one through five years		Maturing After five through ten years		After ten years		Total	
	Amount	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Yield(1)
Obligations of other U.S.Government agencies and corporations			$ 22,492	4.18%					$ 22,492	4.18%
Mortgage-backed securities	$ 3	9.64%	349	4.50%	$ 13,622	5.19%	$ 38,318	5.93%	52,292	5.72%
Obligations of states & political subdivisions			2,749	4.86%	4,767	4.08%	12,477	3.74%	19,993	3.97%
Other securities	3,644	2.38%							3,644	2.38%
Total Available for Sale	$ 3,647	2.38%	$ 25,590	4.26%	$ 18,389	4.90%	$ 50,795	5.39%	$ 98,421	4.89%

(1) Not computed on a tax equivalent basis.

Table D

LOAN PORTFOLIO

The composition of the loan portfolio at December 31, 2004, 2003, 2002, 2001 and 2000 is summarized in the table below.

(In Thousands)	2004	2003	2002	2001	2000
Commercial and industrial	$ 57,669	$ 55,506	$ 47,790	$ 51,718	$ 36,614
Real estate					
Construction, land development & other land loans	35,364	25,232	20,379	27,462	12,829
Other	94,138	90,033	78,338	41,858	33,534
Loans to finance agricultural production or other loans to farmers	15,946	10,714	3,285	1,159	941
Installment loans to individuals for household, family and other personal expenditures	6,420	5,117	5,581	5,517	7,371
Leases			3,828	5,656	4,612
Other	240	320	13	302	385
Subtotal	209,777	186,922	159,214	133,672	96,286
Deferred loan fees, net	(498)	(648)	(488)	(401)	(266)
Subtotal	209,279	186,274	158,726	133,271	96,020
Allowance for credit losses	(2,697)	(2,425)	(2,433)	(2,474)	(2,047)
Total (1)	$ 206,582	$ 183,849	$ 156,293	$ 130,797	$ 93,973

(1)Includes non-accrual loans of:

2004	2003	2002	2001	2000
	$ 634	$ 466	$ 1,109	$ 205

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 the Company s loan portfolio, as well as loans in those categories maturing after one year that have fixed or floating interest rates at December 31, 2004.

Maturity Distribution of Loans (1): (In Thousands)	**One Year or Less**	**After One Through Five Years**	**After Five Years**	**Total**
Real estate construction	$ 33,315	$ 1,444	$ 605	$ 35,364
Other real estate	74,461	4,429	15,248	94,138
Commercial, agricultural and other	66,510	6,924	421	73,855
Installment	3,690	1,311	1,419	6,420
	$ 177,976	$ 14,108	$ 17,693	$ 209,777
Sensitivity to Changes in Interest Rates:				
Loans with Fixed Interest Rates		$ 10,508	$ 16,881	$ 27,389
Loans with Floating Interest Rates		3,600	812	4,412
Total		$ 14,108	$ 17,693	$ 31,801

Table F

COMPOSITION OF NON-ACCRUAL, PAST DUE AND RESTRUCTURED LOANS

A summary of non-accrual, restructured and past due loans at December 31, 2004, 2003, 2002, 2001, and 2000 is set forth below:

(Dollars in Thousands)				December 31						
		2004		**2003**		**2002**		**2001**		**2000**
Non-accrual	$	0	$	634	$	466	$	1,109	$	205
Accruing loans past due 90 days or more		0		0		0		0		0
Restructured loans		0		0		615		627		0
	$	0	$	634	$	1,081	$	1,736	$	205
Non-accrual loans to total loans		0.0%		0.3%		0.3%		0.8%		0.2%

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

Loans are placed on non-accrual status and any accrued but unpaid interest income is reversed and charged against income when the payment of interest or principal is ninety days or more past due. Loans in the non-accrual category are treated as non-accrual loans even though the Company may ultimately recover all or a portion of the interest due. These loans return to accrual status when the loan becomes contractually current and future collectibility of amounts due is reasonably assured. There were no loans on non-accrual at December 31, 2004.

There was no interest foregone on non-accrual loans for the year ended December 31, 2004. Interest income on non-accrual loans that would have been recognized in the year ended December 31, 2003 if the loans had been current in accordance with their original terms was $27,000.

In 2002 and 2001, the Company had one (1) restructured loan in the principal amount of $615,000 and $627,000, respectively. At December 31, 2004, 2003 and 2000 the Company had no restructured loans. See Note 3 of the Notes to Consolidated Financial Statements of the Company included under Item 7 - Financial Statements for information concerning the Company s recorded investment in loans for which an impairment has been recognized. Impaired loans are identified from internal credit review reports, past due reports, overdraft listings, and regulatory reports of examination. Borrowers experiencing problems such as operating losses, marginal working capital, inadequate cash flow or business interruptions which jeopardize collection of the loan are also reviewed for possible impairment classification.

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

As of December 31, 2004, the Company had no loans where known information about possible credit problems of borrowers caused management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as impaired loans.

Table G

SUMMARY OF LOAN LOSS EXPERIENCE

The following table summarizes loan loss experience as of and for the years ended December 31, 2004, 2003, 2002, 2001 and 2000.

(Dollars in Thousands)	**2004**	**2003**	**2002**	**2001**	**2000**
Loans outstanding at December 31,	$ 209,777	$ 186,922	$ 159,214	$ 133,672	$ 96,286
Average loans outstanding during period	$ 195,181	$ 174,708	$ 148,654	$ 112,534	$ 85,968
Allowance for credit losses:					
Balance at beginning of year	$ 2,425	$ 2,433	$ 2,474	$ 2,047	$ 2,236
Deduct loans charged-off:					
Commercial and industrial	0	(172)	(289)	(342)	(146)
Real estate - construction	0	0	0	0	0
Real estate - other	0	0	0	0	(868)
Loans to finance agricultural and other loans to farmers	0	0	0	0	0
Loans to individuals for household, family and other personal expenditures	(24)	(45)	(63)	(49)	(128)
Other	0	0	0	0	0
Total loans charged-off	(24)	(217)	(352)	(391)	(1,142)
Add recoveries of loans charged off:					
Commercial and industrial	273	167	275	122	271
Real estate - construction	0	0	0	0	0
Real estate - other	0	9	0	37	0
Loans to finance agricultural and other loans to farmers	0	0	0	9	591
Loans to individuals for household, family and other personal expenditures	23	33	36	28	41
Total recoveries	296	209	311	196	903
Net recoveries (charge-offs)	272	(8)	(41)	(195)	(239)
Add provision charged to operating expense	0	0	0	622	50
Balance at end of year	$ 2,697	$ 2,425	$ 2,433	$ 2,474	$ 2,047
Allowance for credit losses as a percentage of outstanding loan balance	1.29%	1.30%	1.53%	1.85%	2.13%
Net recoveries (charge-offs) to average loans outstanding	0.15%	(0.01)%	(0.03)%	(0.17)%	(0.28)%

Managing credits identified through the risk evaluation methodology includes developing a business strategy with the customer to mitigate Company 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 allowance for credit losses is reviewed at least quarterly by the Board of Directors Audit/Compliance Committee and by the 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. The Company has 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 the Company s own internal review process. Additions are also required when, in management s judgment, the reserve does not properly reflect the potential loss exposure.

The Company made no additions to the allowance for credit losses in 2004, 2003 and 2002 due mainly to decreased levels of risk-rated loans and increased recoveries on previously charged-off loans.

The provision for credit losses was $622,000 in 2001. The 2001 provision primarily related to the Company s increase in non-accrual loans, which totaled $1,109,000 at December 31, 2001 compared to $205,000 at December 31, 2000, as well as a 30.9% increase in loan volume during 2001. The 2000 provision for credit losses of $50,000 reflected management s evaluation of deterioration primarily in one commercial borrowing relationship.

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

	2004		2003		2002		2001		2,000	
(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	$ 786	27.2%	$ 717	28.8%	$ 985	41.9%	$ 1,345	35.1%	$ 877	36.3%
Real estate construction	197	17.0%	249	13.6%	85	13.8%	141	32.3%	272	13.3%
Real estate - other	1,034	45.1%	777	48.5%	1,039	36.3%	370	23.8%	712	35.4%
Loans to finance agricultural and other loans to farmers	151	7.6%	540	5.8%	159	2.5%	380	.9%	20	1.7%
Loans to individuals for household, family and other personal expenditures and other loans	178	2.6%	85	2.3%	58	3.0%	62	3.6%	158	7.9%
Lease contracts		.4%	3	.9%		2.3%		4.1%		5.1%
Other	51	.1%	47	.2%	40	.2%		.2%	8	0.3%
Non-specific reserve	300		7		67		176			
	$ 2,697		$ 2,425		$ 2,433		$ 2,474		$ 2,047	

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 potential loan charge-offs that exist in the portfolio at that time

Table H

DEPOSITS

The Company has 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, 2004, 2003 and 2002.

	(Dollars in Thousands)								
	2004			2003			2002		
		Balance	Rate		Balance	Rate		Balance	Rate
Savings, money market and NOW accounts	$	151,277	0.51%	$	130,002	0.60%	$	100,350	.98%
Time certificates of deposit, under $100,000	$	37,082	1.48%	$	36,554	1.94%	$	36,099	2.50%
Non-interest bearing demand	$	97,210	N/A	$	79,364	N/A	$	59,181	N/A
Total deposits	$	307,453		$	270,159		$	212,629	

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, 2004.

(In Thousands)		
Three months or less	$	9,642
Over 3 months through 6 months		2,222
Over 6 through 12 months		5,484
Over 12 months		8,506
	$	25,854

Table J

FINANCIAL RATIOS

The following table sets forth certain financial ratios for the years ended December 31, 2004, 2003 and 2002.

	2004	2003	2002
Net Income:	1.07%	1.10%	1.12%
To average assets	13.10%	13.23%	12.32%
To average shareholders equity			
Dividends declared per share to net income per share	7.87%	8.40%	4.90%
Average shareholders equity to average assets	8.15%	8.32%	9.08%

SUPERVISION AND REGULATION

GENERAL

The banking and financial services businesses in which the Company engages 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 the Company cannot necessarily be predicted, but they may have a material effect on the business and earnings of the Company.

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, the Company is required to obtain the prior approval of the Board of Governors before it 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, the Company would own or control, directly or indirectly, more than 5 percent of such bank.

Under the BHC Act, the Company may not engage in any business other than managing or controlling banks or furnishing services to its subsidiaries that the Board of Governors deems to be so closely related to banking as to be a proper incident to banking. The Company is also prohibited, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5 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.

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

In addition, banking subsidiaries of bank holding companies are subject to certain restrictions imposed by federal law in dealings with their holding companies and other affiliates. Subject to certain exceptions set forth in the Federal Reserve Act and the recently enacted Regulation W, a bank can make a loan or extend credit to an affiliate, purchase or invest in the securities of an affiliate, purchase assets from an affiliate, accept securities of an affiliate as collateral security for a loan or extension of credit to any person or company, issue a guarantee, or accept letters of credit on behalf of an affiliate only if the aggregate amount of the above transactions of such subsidiary does not exceed 10 percent of such subsidiary s capital stock and surplus on a per affiliate basis or 20 percent of such subsidiary s capital stock and surplus on an aggregate affiliate basis. Such transactions must be on terms and conditions that are consistent with safe and sound banking practices. A bank and its subsidiaries generally may not purchase a low-quality asset, as that term is defined in the Federal Reserve Act, from an affiliate. Such restrictions also generally prevent a holding company and its other affiliates from borrowing from a banking subsidiary of the holding company unless the loans are secured by collateral.

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

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

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

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

REGULATION OF THE BANK

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

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

The Bank is a member of the FDIC, which currently insures customer deposits in each member bank to a maximum of $100,000 per depositor. For this protection, the Bank is subject to the rules and regulations of the FDIC, and, as is the case with all insured banks, may be required to pay a semi-annual statutory assessment.

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

PAYMENT OF DIVIDENDS

THE COMPANY

The shareholders of the Company are entitled to receive dividends when and as declared by its 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, 2004, the Company had no outstanding shares of preferred stock.

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

THE BANK

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

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

CAPITAL STANDARDS

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

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

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

A bank that does not achieve and maintain the required capital levels may be issued a capital directive by the FDIC to ensure the maintenance of required capital levels. As discussed above, the Company and the Bank are required to maintain certain levels of capital. The regulatory capital guidelines as well as the actual capitalization for the Bank and the Company on a consolidated basis as of December 31, 2004 follow:

	REQUIREMENT		ACTUAL	
	ADEQUATELY CAPITALIZED	FOR THE BANK TO BE WELL CAPITALIZED	BANK	COMPANY
Total risk-based capital ratio	8.0%	10.0%	12.9%	12.6%
Tier 1 risk-based capital ratio	4.0%	6.0%	11.8%	11.6%
Tier 1 leverage capital ratio	4.0%	5.0%	8.2%	8.0%

RECENT LEGISLATION

USA PATRIOT ACT

In the wake of the tragic events of September 11th, on October 26, 2001, the President signed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001. The USA PATRIOT Act also made significant changes to the Bank Secrecy Act. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and of identifying customers when establishing new relationships and standards in their dealings with foreign financial institutions and foreign customers. For example, the enhanced due diligence policies, procedures, and controls generally require financial institutions to take reasonable steps:

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

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

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

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

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

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

* The designation of a compliance officer;

* An ongoing employee training program; and

* An independent audit function to test the programs.

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

FINANCIAL SERVICES MODERNIZATION LEGISLATION

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

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

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

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

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

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

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

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

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

* annual notices of their privacy policies to current customers; and

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

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

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

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

COMMUNITY REINVESTMENT ACT SUNSHINE REQUIREMENTS. The federal banking agencies have adopted final regulations implementing Section 711 of Title VII of the Gramm-Leach-Bliley Act , the Sunshine Requirements. The regulations require nongovernmental entities or persons and insured depository institutions and affiliates that are parties to written agreements made in connection with the fulfillment of the institution s CRA obligations to make available to the public and the federal banking agencies a copy of each agreement. Neither the Company nor the Bank is a party to any agreement that would be the subject of reporting pursuant to the CRA Sunshine Requirements.

The Company continues to evaluate the strategic opportunities presented by the broad powers granted to bank holding companies that elect to be treated as financial holding companies. In the event that the Company determines that access to the broader powers of a financial holding company is in the best interests of the Company, its shareholders and the Bank, the Company will file the appropriate election with the Board of Governors.

The Company and the Bank intend to comply with all provisions of the Gramm-Leach-Bliley Act and all implementing regulations as they become effective.

CONSUMER PROTECTION LAWS AND REGULATIONS

The bank regulatory agencies are focusing greater attention on compliance with consumer protection laws and their implementing regulations. Examination and enforcement have become more intense in nature, and insured institutions have been advised to monitor carefully compliance with such laws and regulations. The Bank is subject to many federal consumer protection statutes and regulations, some of which are discussed below.

The Community Reinvestment Act (CRA) is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal regulatory agencies, in examining insured depository institutions, to assess a bank s record of helping meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices. The CRA further requires the agencies to take a financial institution s record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, mergers or acquisitions, or holding company formations. The agencies use the CRA assessment factors in order to provide a rating to the financial institution. The ratings range from a high of outstanding to a low of substantial noncompliance. The Bank was last examined for CRA compliance by its primary regulator, the FDIC, as of March 2001 .

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

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

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

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

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

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

SENT THIS SECTION TO RAY FOR REVIEW AND UPDATING 3/1 DUE TO RONA 3/3

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 would allow 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 would require that permission from each such consumer be acquired by a financial institution prior to sharing such information. These provisions are much more restrictive than the privacy provisions of the Financial Services Modernization Act, and would require the Bank to adopt new policies, procedures and disclosure documentation if implemented as enacted. The cost of complying with this legislation is not predictable at this time.

Congress enacted the FACT Act, (Fair and Accurate Credit Transaction Act) of 2003, which will have the effect of avoiding the sunset preemption provision of the Fair Credit Reporting Act (FCRA) that were due to expire on December 31, 2003. The President signed the FACT Act into law on December 4, 2003. In general, the FACT

Act amends the FCRA and, in addition, provides that, when the implementing regulations have been issued and become effective, the FACT Act will preempt elements of the California Financial Information Privacy Act. The FACT Act requires the Board of Governors and the Federal Trade Commission to issue final regulations within nine months of the effectiveness of the FACT Act, and that those regulations must become effective within six months of issuance. The provisions of the regulations that will implement the FACT Act, and the timing of their effect on the Bank, cannot be determined at this time.

CHECK 21 ACT

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

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

The Bank has been imaging its customers checks since 2000 and anticipates that Check 21 Act will have limited impact on the Bank. The Act provides for paperless clearing of transit items which may provide some cost savings in transportation costs.

Recent Accounting Pronouncements

Other-Than-Temporary Impairment of Securities

In June 2004, the Financial Accounting Standards Board (FASB) ratified Emerging Issues Task Force (EITF) Issue 03-1, *The Meaning of Other-than-Temporary Impairment and Its Application to Certain Investments* (EITF 03-1). EITF 03-1 includes additional guidance for evaluating and recording impairment losses on debt and equity investments, as well as disclosure requirements for investments that are deemed to be temporarily impaired. The proposed guidance indicates that an investor must have the intent and ability to hold an investment until a forecasted recovery of the fair value up to or beyond the cost of the investment in order to determine that any impairment is temporary. In September 2004, the FASB delayed the effective date of the recognition and measurement guidance of EITF 03-1, pending further deliberations. The disclosures for investments that are deemed temporarily impaired are included in Note 2 to the financial statements. Once the FASB has reached a final decision on the measurement and recognition provisions, the Company will evaluate the impact of the adoption of EITF 03-1.

Share-Based Payments

In December 2004 the FASB issued Statement Number 123 (revised 2004) (FAS 123 (R)), *Share-Based Payments*. FAS 123 (R) requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments such as stock options granted to employees. The Company is required to apply FAS 123 (R) on a modified prospective method. Under this method, the Company is required to record compensation expense (as previous awards continue to vest) for the unvested portion of previously granted awards that remain outstanding at the date of adoption. In addition, the Company may elect to adopt FAS 123 (R) by restating previously issued financial statements, basing the expense on that previously reported in their pro forma disclosures required by FAS 123. FAS 123 (R) is effective for the first reporting period beginning after June 15, 2005. To avoid the non-cash expense that would be associated with the option plan in the future, the Board of Directors in February 2005 accelerated the vesting of a substantial portion of the presently outstanding stock options.

Accounting for Loans and Debt Securities Acquired in a Transfer

In December 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 03-03, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP). This SOP addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor s initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. It also includes such loans acquired in purchase business combinations. This SOP does not apply to loans originated by the entity. This SOP limits the yield that may be accreted and requires that the excess of contractual cash flows over cash flows expected to be collected not be recognized as an adjustment of yield, loss accrual, or valuation allowance.

This SOP prohibits carrying over or creation of valuation allowances in the initial accounting for loans acquired in a transfer that are within the scope of this SOP. The prohibition of the valuation allowance carryover applies to the purchase of an individual loan, a pool of loans, a group of loans, and loans acquired in a purchase business combination.

This SOP is effective for loans acquired in fiscal years beginning after December 15, 2004. In management s opinion, the adoption of this pronouncement will not have a material impact on the Company s financial position or results of operations.

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 the business of the Company and the Bank. 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 the business of the Company and the Bank.

Other Information Concerning the Company

The Company holds no material patents, trademarks, licenses, franchises or concessions.

No expenditures were made by the Company during its last two fiscal years on material research activities relating to the development of services or the improvement of existing services.

Based upon present business activities, compliance with Federal, State and local provisions regulating discharge of materials into the environment will have no material effects upon the capital expenditures, earnings and competitive position of the Company.

The business of the Company is not seasonal except for the agricultural loans which represent 7.6% of total loans. The Company intends to continue with the same basic commercial banking activities that have characterized the Bank s operations since its inception.

Available Information

The Company is subject to certain of the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act). Therefore the Company files reports and other information with the Securities and Exchange Commission (the Commission). These reports and other information may be inspected and copied at the public reference facilities of the Commission located at 450 Fifth Street, N. W., Washington, D. C. 20549. Information regarding the Commission can be obtained by calling 1-800-SEC-0330. Such reports and other information may also be accessed electronically at the Commission s home page on the Internet at http://www.sec.gov.

ITEM 2 - DESCRIPTION OF PROPERTY.

(a) Properties

The following chart sets out the properties owned and leased by the Bank. Properties owned by the Bank are held without loans or encombrances. All of the property described as 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.

	OWNED	LEASED	TOTAL
FULL SERVICE BRANCHES			
Main Branch 600 Pollasky Avenue, Clovis, CA	1		1
Foothill Branch, Prather, CA	1		1
Kerman Branch, Kerman, CA		1	1
River Park Branch, Northeast Fresno, CA		1	1
Fig Garden Branch, Northwest Fresno, CA		1	1
Supermarket Branch, Clovis, CA		1	1
Sacramento Private Banking, Gold River, CA		1	1
OTHER FACILITIES:			
Accounting and Information Services Department 536 Woodworth, Clovis, CA	1		1
Real Estate Department and Loan Servicing 795 Pollasky Avenue, Clovis, CA		1	1
Training Facility 630 Pollasky Avenue, Clovis, CA		1	1
Executive Administration Office 642 Pollasky Avenue, Clovis, CA		1	1
SBA Department 624 Pollasky Avenue, Clovis CA		1	1
Total	3	9	12

The Bank has plans to lease a full service branch at 2500 Tulare in Fresno, California in the second quarter of 2005. Effective January 1, 2005, two full service branches were added to leaseholds in Madera and Oakhurst , California as a result of the acquisition of Bank of Madera County.

(b) **Investment Policies**

For a description of the Company s policies (all of which may be changed without a vote of the Company s security holders) and the limitations on the percentage of assets which may be invested in any one investment, or type of investment with respect to: (1) investments in real estate or interests in real estate; (2) investments in real estate mortgages; and (3) securities of or interests in persons primarily engaged in real estate activities, reference is made hereunder to the information presented above under Item 1. Description of Business .

(c) **Description of Real Estate and Operating Data**

Inapplicable. None of the net book values of the properties listed above represent 10% or more of total assets of the Company as of December 31, 2004.

ITEM 3 - LEGAL PROCEEDINGS.

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

No director, officer, affiliate, more than 5% shareholder of the Company or the Bank or any associate 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.

None.

PART II

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

The Company s common stock is listed for trading on the Nasdaq SmallCap Market under the ticket symbol CVCY. As of February 28, 2005, the Company had approximately 450 shareholders of record.

The following table summarizes the high and low sales prices for the Company s common stock for the periods presented.

	Sales Prices for the Company s Common Stock (1)			
Quarter Ended		**Low**		**High**
March 31, 2003	$	13.75	$	16.00
June 30, 2003	$	14.50	$	17.50
September 30, 2003	$	16.80	$	20.00
December 31, 2003	$	18.20	$	24.95
March 31, 2004	$	20.50	$	27.00
June 30, 2004	$	23.00	$	25.00
September 30, 2004	$	22.00	$	30.00
December 30, 2004	$	22.75	$	26.85

(1) The Company s common stock was not listed on the Nasdaq SmallCap Market until March 5, 2004. Consequently, sales prices in 2003 are based on over the counter (OTC) transactions while sales prices in 2004 fell under NASDAQ.

The Company paid $0.10 per share cash dividends in 2004 and 2003 and a $0.05 per share cash dividend in 2002. On January 6, 2003, the Company effected a two-for-one stock split. As a result of the borrowing from Bank of the West, during the time the borrowing remains outstanding, which is expected to be until approximately 2007, the Company does not anticipate paying dividends to its shareholders. See Footnote 7 in the Notes to Consolidated Financial Statements for further details on the borrowing.

Inquiries regarding Central Valley Community Bancorp s accounting, internal accounting controls or auditing concerns should be directed to Steven D. McDonald, chairman of the Board of Directors Audit Committee, at steve.mcdonald@cvcb.com.

ITEM 6 - MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Management s discussion and analysis should be read in conjunction with the Company s audited Consolidated Financial Statements, including the Notes thereto, at pages 50 through 86 herein.

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 on Form 10-KSB the words anticipate, estimate, expect, project, intend, commit, and similar expressions, the Company intends to identify forward-looking statements. Such statements are not guarantees of performance and are subject to certain risks, uncertainties and assumptions, including those described in this Annual Report on Form 10-KSB. 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. The Company s market area includes the central valley area from Sacramento, California to Bakersfield, California. To garner public acceptance beyond the Clovis-Fresno area, the Company made a decision in the first half of 2002 to change the name of its one subsidiary, Clovis Community Bank, to Central Valley Community Bank (the Bank).

During 2004, the Company focused on assuring competitive products and services to our clients were made available while adjusting to the many new laws and regulations that affect the banking industry. No new branches or relocations were undertaken in 2004. The Bank opened an office in Kerman, California and a private banking facility in Sacramento, California in 2002 and anticipates opening a full service retail office in the Fresno downtown area in summer 2005.

After the close of business on December 31, 2004, the Company acquired all of the assets and assumed the liabilities of Bank of Madera County, a two-branch state chartered bank. On July 19, 2004, the Company signed a definitive agreement to merge Bank of Madera County (BMC) into the Company s wholly owned subsidiary, Central Valley Community Bank (the Bank). The Company filed a Form S-4, Registration Statement Under the Securities Act of 1933 on August 25, 2004 with the Securities and Exchange Commission to register the shares of the Company s common stock to be issued in the merger. All approvals of the merger were received from the FDIC, DFI and the Federal Reserve Bank of San Francisco, under the Bank Holding Company Act, as of December 17, 2004. On December 20, 2004, the shareholders of BMC approved the merger and the merger was closed after the close of business on December 31, 2004. BMC had $68,080,000 in total assets and $3,821,000 in shareholders equity as of December 31, 2004. Under the terms of the Agreement, BMC shareholders will receive a total of approximately $12,400,000 in cash and stock, representing $6,200,000 in cash and 261,053 shares of the Company s common stock. In addition, the holders of BMC common stock options received $1,911,000 for those options.

The transaction is valued at $12,400,000, or $26.22 per share of Bank of Madera County common stock. There were no material relationships between Bank of Madera County, its officers, shareholders or employees and Central Valley Community Bancorp and Central Valley Community Bank, and its officers, shareholders or employees, other than in respect to the transaction. Funds utilized in the transaction came solely from cash held at Central Valley Community Bank.

In December 2004, the Company entered into a non-revolving loan agreement with Bank of the West under which the Company borrowed $2,500,000 and added $2,000,000 in additional capital to the Bank. It is unlikely that the Company will pay dividends until the debt is paid. Refer to Other Liabilities for further information regarding the credit arrangement.

Due to the merger becoming effective after the close of business on December 31, 2004, the assets acquired, liabilities assumed and the operating results for BMC are not reflected in the financial statements of the Company or in Management s Discussion and Analysis of Financial Condition and Results of Operations.

The merger of the Bank and BMC will bring the total number of branches to nine (9). The combined banks will have approximately $435,475,000 in total assets. Total loans for BMC at December 31, 2004 were $45,779,000 and the Company s total gross loans were $209,279,000 at December 31, 2004 for a combined total of $255,058,000. Total deposits for BMC at December 31, 2004 were $63,769,000 and the Company s total deposits at December 31, 2004 were $326,006,000 for a combined total of $389,775,000.

The Company successfully offered an incentive program to BMC employees to retain and increase loans and deposits during the transition period of the merger. BMC s average gross loans for June 2004 were 43,300,000 compared to $44,941,000 for December 2004. BMC s average deposits for June 2004 were $55,300,000 compared to $62,012,000 for December 2004. There is no assurance that this level of loan and deposit retention will continue.

For a summary of assets acquired and liabilities assumed, see Footnote 17 to the audited financial statements at page 84.

This is the first acquisition to be undertaken by the Company. Management believes that the merger will allow the Bank to further accommodate a growing customer base and provide BMC customers with more convenient locations and that the potential for the combined performance exceeds what each entity could accomplish independently. However, the Company may not be able to integrate effectively the different operations without encountering difficulties, such as the loss of key employees and customers, the disruption of ongoing businesses, or possible inconsistencies in standards, controls, procedures, and policies. Moreover, the projected efficiencies which the Company expects from the merger or from any future acquisitions may not result in significant cost savings or revenue enhancements. If the Company experiences difficulties with the integration, it may not achieve the economic benefits expected to result from the merger, and this could have a negative impact on business and earnings.

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.

In 2002, the Bank formed a real estate investment trust, Central Valley Community Realty, LLC (CVCR). The trust invested in the Bank s real estate related assets. The Company realized certain favorable tax treatments related to the formation of CVCR in its consolidated California state tax filing for 2002. The Company did not realize any tax benefits from CVCR in 2004 or 2003

ECONOMIC CONDITIONS

Fresno County s economy has been relatively stable for the past three to four years; however, some minor evidence of a slow down has been evident in the fourth quarter of 2004. Most industries in the County are either stable or contracting very modestly. Fresno County s double-digit unemployment is one of the highest rates in California and the nation. This high level is a strong hindrance to strong growth in the County. Agriculture and agricultural related businesses remain a critical part of the County s economy. The County s agricultural production is widely diversified producing cotton, nuts, vegetables, fruit, cattle, and dairy products.

Fresno County also offers lower living costs compared with metropolitan areas to the North and South of the County. Residential construction, while slowing somewhat, still appears to be strong. According to the FDIC State Profiles reported for the Winter of 2004, the Unsold Inventory Index increased year-over-year, especially in Southern California markets. Concurrently, the medial time on market for detached homes increased to 30 days from 24 days additionally, housing affordability remained low and could deteriorate further as interest rates increase. The local economy benefited from growth in housing and construction fueled by record low long-term interest rates, demand for new housing and refinance activity. The Central Valley experienced significant appreciation in home and real estate values in the past two years while remaining relatively inexpensive compared to other metropolitan areas in the State; however, this appreciation began to slow in the fourth quarter of 2004.

OVERVIEW

In 2004, the Company reported net income of $3,695,000 or $1.27 diluted earnings per share compared to $3,372,000 or $1.19 diluted earnings per share in 2003. Basic earnings per share for 2004 was $1.41 compared to $1.30 for 2003, an 8.5% increase. The main contributor to the increase in net income was net interest income which increased $2,141,000 in 2004 compared to 2003, primarily as the result of increased volumes in earning assets and a 125 basis point increase in interest rates by the Federal Open Market Committee (FOMC), combined with modest decreases in the cost of interest-bearing liabilities. These changes were partially offset by reductions of $447,000 in rental income from equipment leased to others and $158,000 in loan placement fees. Net interest margin on a tax equivalent basis for 2004 was 4.91% compared to 4.75% in 2003. The increase in the net interest margin reflects five (5) increases in the prime rate of 25 basis points each during the second half of 2004. The impact of the 125 basis point increase in interest rates can be better appreciated given the Company s asset sensitive position as set forth in the following table of loan yields by quarter. (For further discussion on the Company s asset sensitive position, refer to Market Risk)

	1st Quarter 2004 Effective Yield	**2nd Quarter 2004 Effective Yield**	**3rd Quarter 2004 Effective Yield**	**4th Quarter 2004 Effective Yield**
Total Loans	6.70	6.42	6.75	7.22
Total Interest Bearing Deposits	0.86	0.81	0.83	0.91
Net Interest Margin	4.74	4.71	5.00	5.18

Average earning assets for 2004 were $311,414,000 compared to $275,846,000 for 2003. The major contributor to the 12.9% increase in average earning assets was an 11.7% increase in average loans and a 12.1% increase in average investment securities which were funded by the 13.8% growth in deposits. Loan and deposit growths are discussed in more detail below.

Return to shareholders is measured in the form of return on average equity (ROE) and the potential valuation of the stock price relative to the return and earnings per share. The return on average assets (ROA) is a measurement used to compare the Company s performance with other banks and holdings companies. ROA and ROE December 31, 2004 and 2003, respectively, are reflected in the following table.

	For the Year Ended December 31, 2004	For the Year Ended December 31, 2003
ROA	1.07%	1.10%
ROE	13.10%	13.23%

The Company strives to improve the consistency of the revenue streams in order to create more predictable future earnings and reduce the effect of changes in the operating environment on net income. Specifically, the Company has focused on net interest income through a variety of processes, including increases in average interest earning assets as a result of loan generation and retention and improved net interest margin by focusing on core deposit growth.

Similar to most of the banking industry, the Company s net interest margin was challenged by the impact of twelve consecutive decreases in the Federal funds interest rate by the FOMC in the past four years. Managing the loan yields affected by the interest rate movements and increased competition, and controlling the effective rates paid on deposits continues to challenge the Company s net interest margin. However, the Company is asset-sensitive and is positioned well in the event of future rate increases. The FOMC has increased the Federal funds interest rate by 125 basis points during the second half of 2004, providing opportunities for the Company s asset sensitive loan portfolio to reprice at higher rates, which are reflected in the increase in the Company s net interest margin. For additional information, please see Market Risk for further discussion of the Bank s interest rate position.

COMPANY LINES OF BUSINESS

The Company s market focus is lending to small to medium size commercial businesses offering both commercial and real estate loans. The Company also offers retail consumer loan products. These loans offer diversification as to industries and types of business, thus reducing exposure in any one industry concentration. The Company offers both fixed and floating interest rate loans and typically obtains collateral in the form of real estate, business equipment, deposit accounts, and accounts receivable, but looks mainly to business cash flow as its primary source of repayment.

The Company offers Small Business Administration (SBA) loans, and agricultural lending, as well. For the fifth consecutive year, Central Valley Community Bank has been honored as the number one SBA 504 lender in Fresno, Kings and Madera counties. At December 31, 2004 and 2003, SBA 504 loans were $13,645,000 and $10,448,000, respectively.

Agricultural loans increased $5,232,000 in 2004 compared to 2003. Agricultural loans were 7.6% of total loans at December 31, 2004 compared to 5.7% at December 31, 2003. The Company has several experienced and seasoned agricultural lending officers who provide expertise to agricultural lending.

As of December 31, 2004, in management s judgment, a concentration of loans existed in commercial loans and real estate-related loans. At that date, commercial and real estate-related loans represented 27.5% and 61.7% of gross total loans, respectively. These concentrations are within the Company s strategic plan and are the main focus of its business. Commercial and real estate related loans are generally a mix of short to medium-term, fixed and floating rate instruments and are mainly tied to the borrower s ability to repay from business cash flow. Similar concentrations existed as of December 31, 2003 with commercial and real estate-related loans representing 29.7% and 61.7% of total loans, respectively.

Although management believes the loans within these concentrations have no more than the normal risk of collectibility, a substantial decline in the performance of the economy in general or a decline in real estate values in the Company s primary market area, in particular, could have an adverse impact on collectibility, increase the level of real estate related nonperforming loans, or have other adverse effects which alone or in the aggregate could have a material adverse effect on the financial condition of the Company.

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

Loan Type (Dollars in thousands)	**December 31, 2004**	**% of Total loans**	**December 31, 2003**	**% of Total loans**
Commercial & industrial	$ 57,669	27.5%	$ 55,506	29.7%
Real estate	75,424	35.9%	77,468	41.5%
Real estate - construction, land development and other land loans	35,364	16.9%	25,232	13.5%
Equity lines of credit	18,714	8.9%	12,565	6.7%
Consumer & installment	6,420	3.1%		