CENTRAL VALLEY COMMUNITY BANCORP
Form 10-K
March 21, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 000-31977
CENTRAL VALLEY COMMUNITY BANCORP
(Exact name of registrant as specified in its charter)

CALIFORNIA	77-0539125
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7100 N. Financial Dr., Suite 101, Fresno, CA	93720
(Address of principal executive offices)	(Zip Code)

559-298-1775
(Registrant's telephone number, including area code)
[None]
(Former name, former address and former fiscal year, if changed since last report)
Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, No Par Value
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of June 30, 2011, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $49,577,000 based on the price at which the stock was last sold on June 30, 2011.

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

Common Stock, No Par Value	Outstanding at March 14, 2012
[Common Stock, No par value per share]	9,591,316 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts into Which Incorporated
Proxy Statement for the Annual Meeting of Shareholders to be held May 16, 2012 (Proxy Statement)	Part III

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ADDITIONAL INFORMATION; INQUIRIES

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

•Form 10-K — Annual Report;

•Form 10-Q — Quarterly Report;

•Form 8-K — Report of Unscheduled Material Events; and

•Form DEF 14A — Proxy Statement.

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

Copies of the annual report on Form 10-K for the year ended December 31, 2011 may be obtained without charge upon written request to Dave Kinross, Chief Financial Officer, at the Company's administrative offices, 7100 N. Financial Dr., Suite 101, Fresno, CA 93720.

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

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

PART I

ITEM 1 - DESCRIPTION OF BUSINESS

General

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

At December 31, 2011, we had one banking subsidiary, the Bank. Our principal business is to provide, through our banking subsidiary, financial services in our primary market area in California. We serve Fresno County, Madera County, Sacramento County, San Joaquin County, Merced County, and Stanislaus County and their surrounding areas through the Bank. We do not currently conduct any operations other than through the Bank. Unless the context otherwise requires, references to us refer to the Company and the Bank on a consolidated basis. At December 31, 2011, we had consolidated total assets of approximately $849,023,000. See Items 7 and 8, Management's Discussion and Analysis or Plan of Operation and Financial Statements.

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

On August 18, 2011, the Company entered into a Securities Purchase Agreement with the Small Business Lending Fund of the United States Department of the Treasury (the Treasury), under which the Company issued 7,000 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series C (the Preferred Shares) to the Treasury for an aggregate purchase price of $7,000,000. Simultaneously, the Company agreed with Treasury under a Letter Agreement to redeem, for an aggregate price of

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$7,000,000, the 7,000 shares of the Company's Series A Fixed Rate Cumulative Preferred Stock (Series A Stock)originally issued pursuant to the Treasury's Capital Purchase Program (CPP) in 2009. The redemption of the Series A Stock resulted in an acceleration of the remaining discount booked at the time of the CPP transaction.

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

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

The Preferred Stock was issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

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

If dividends on the Series C Preferred Stock are not paid in full for six dividend periods, whether or not consecutive, the holders of the Series C Preferred Stock will have the right to elect 2 directors. The right to elect directors will end when full dividends have been paid for four consecutive dividend periods. The Company has paid all scheduled dividend payments as of December 31, 2011.

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

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

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

The Company had no stock repurchase plans in place during 2011, 2010 or 2009.

As of March 9, 2012, we had a total of 231 employees and 219 full time equivalent employees, including the employees of the Bank.

The Bank

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

The Bank operates 17 full-service banking offices in Clovis, Fresno, Kerman, Lodi, Madera, Merced, Modesto, Oakhurst, Prather, Sacramento, Stockton, and Tracy. The Oakhurst and Madera branches were added through the Bank of Madera County merger in 2005. The Tracy, Stockton and Lodi offices were added through the merger with Service 1st Bank in

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November of 2008. The Bank has a Real Estate Division, an Agribusiness Center and an SBA Lending Division in Fresno. All real estate related transactions are conducted and processed through the Real Estate Division, including interim construction loans for single family residences and commercial buildings. We offer permanent single family residential loans through our mortgage broker services. Our total market share of deposits in Fresno and Madera counties increased to 4.55% in 2011 compared to 4.49% in 2010 based on FDIC deposit market share information published as of June 30, 2011.

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

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

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

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

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

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

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

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

The Bank's operating policy since its inception has emphasized serving the banking needs of individuals and the business and professional communities in the central valley area of California. At December 31, 2011, we had total loans of $427,395,000. Total commercial and industrial loans outstanding were $78,089,000; total agricultural land and production loans outstanding were $29,958,000, total real estate construction and other land loans outstanding were $33,047,000; total other real estate loans outstanding were $226,194,000, total equity loans and lines of credit were $51,106,000 and total consumer installment loans outstanding were $9,765,000. We accept real estate, listed securities, savings and time deposits, automobiles, inventory, machinery and equipment as collateral for loans.

No individual or single group of related accounts is considered material in relation to the Bank’s assets or deposits, or in relation to the overall business of the Company. However, at December 31, 2011 approximately 72.4% of our loan portfolio held for investment consisted of real estate-related loans, including construction loans, equity loans and lines of credit and commercial loans secured by real estate and 25.3% consisted of commercial loans. See Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations. We believe that these concentrations are mitigated by the diversification of our loan portfolio among commercial, real estate and consumer loans. In addition, our business activities currently are mainly concentrated in Fresno, Madera and San Joaquin County, California. Consequently, our results of operations and financial condition are dependent upon the general trends in this part of the California economy and, in particular, the residential and commercial real estate markets. In addition, our concentration of operations in this area of California exposes us to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires and floods in this region or as a result of energy shortages in California.

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

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

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

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

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

In Fresno and Madera Counties, in addition to our 12 full-service branch locations, serving the Bank's primary service

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areas, as of December 31, 2011 there were 163 operating banking and credit union offices in our primary service area, which consists of the cities of Clovis, Fresno, Kerman, Oakhurst, Madera, and Prather, California. Prather does not contain any banking offices other than our office. The June 2011 FDIC Summary of Deposits report indicated the Company had 4.29% of the total deposits held by all depositories in Fresno County and 7.27% in Madera County. In San Joaquin County, in addition to our three full service branch locations acquired from Service 1st, as of December 31, 2011 there were 118 operating banking and credit union offices. The FDIC Summary of Deposits as of June 2011 report indicated the Company had 1.63% of total deposits held by all depositories in San Joaquin County. In Sacramento County, in addition to our one branch, as of December 31, 2011 there were 229 operating banking and credit union offices in our primary service area. In Stanislaus County, in addition to our one branch, there were 99 operating banking and credit union offices in our primary service area. Business activity in our primary service area is oriented toward light industry, small business and agriculture.

The banking business in California generally, and our primary service area specifically, is highly competitive with respect to both loans and deposits, and is dominated by a relatively small number of major banks with many offices operating over a wide geographic area. Among the advantages such major banks have over us is their ability to finance wide-ranging advertising campaigns and to allocate their investment assets, including loans, to regions of higher yield and demand. Major banks offer certain services such as international banking and trust services which we do not offer directly but which we usually can offer indirectly through correspondent institutions. In addition, by virtue of their greater total capitalization, such banks have substantially higher lending limits than we do. Legal lending limits to an individual customer are limited to a percentage of our total capital accounts. As of December 31, 2011, the Bank’s legal lending limits to individual customers were $13,203,000 for unsecured loans and $22,005,000 for unsecured and secured loans combined. For borrowers desiring loans in excess of the Bank’s lending limits, the Bank makes, and may in the future make, such loans on a participation basis with other community banks taking the amount of loans in excess of the Bank’s lending limits. In other cases, the Bank may refer such borrowers to larger banks or other lending institutions.

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

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

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

Statistical Disclosure

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

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

Table A sets forth our average consolidated balance sheets for the years ended December 31, 2011, 2010, and 2009 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 2011 and 2010 resulting from changes in volume and changes in rates.

Investment Portfolio

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The book value (amortized cost) of investment securities at December 31, 2011, 2010, and 2009 and the book value, maturities and weighted average yield of investment securities at December 31, 2011 are set forth in Table C.

Loan Portfolio

The composition of the loan portfolio at December 31, 2011, 2010, 2009, 2008, and 2007, is summarized in Table D.

Maturities and sensitivity to changes in interest rates in the loan portfolio at December 31, 2011 are summarized in Table E.

Table F shows the composition of nonaccrual, past due and restructured loans at December 31, 2011, 2010, 2009, 2008, and 2007. Set forth in the text accompanying Table F is a discussion of the Company's policy for placing loans on nonaccrual status.

Summary of Loan Loss Experience

Table G sets forth an analysis of loan loss experience as of and for the years ended December 31, 2011, 2010, 2009, 2008, and 2007.

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, 2011, 2010, and 2009.

Table I sets forth the maturity of time certificates of deposit of $100,000 or more at December 31, 2011.

Return on Equity and Assets

Table J sets forth certain financial ratios for the years ended December 31, 2011, 2010, and 2009.

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Table A

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

The following table sets forth consolidated average assets, liabilities and shareholders' equity; interest income earned and interest expense paid; and the average yields earned or rates paid thereon for the years ended December 31, 2011, 2010, and 2009. The average balances reflect daily averages except nonaccrual loans, which were computed using quarterly averages.

	2011			2010			2009		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
ASSETS:									
Interest-earning deposits in other banks	$73,016	$187	0.26 %	$42,047	$110	0.26 %	$3,008	$8	0.27 %
Securities:									
Taxable securities	150,559	4,548	3.02 %	124,163	5,472	4.41 %	114,465	7,701	6.73 %
Non-taxable securities (1)	75,665	5,248	6.94 %	64,838	4,605	7.10 %	64,325	4,632	7.20 %
Total investment securities	226,224	9,796	4.33 %	189,001	10,077	5.33 %	178,790	12,333	6.90 %
Federal funds sold	695	2	0.29 %	713	2	0.28 %	17,627	48	0.27 %
Total	299,935	9,985	3.33 %	231,761	10,189	4.40 %	199,425	12,389	6.21 %
Loans (2)(3)	412,969	26,098	6.32 %	437,959	27,390	6.25 %	469,341	29,920	6.37 %
Federal Home Loan Bank stock	2,958	9	0.30 %	3,084	11	0.36 %	3,140	7	0.22 %
Total interest-earning assets (1)	715,862	$36,092	5.04 %	672,804	$37,590	5.59 %	671,906	$42,316	6.30 %
Allowance for credit losses	(11,018)			(10,922)			(8,608)		
Nonaccrual loans	15,322			17,381			13,117		
Other real estate owned	217			2,972			2,553		
Cash and due from banks	17,977			16,479			17,401		
Bank premises and equipment	5,788			6,089			6,629		
Other non-earning assets	56,030			54,049			49,511		
Total average assets	$800,178			$758,852			$752,509		

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(Dollars in thousands)	2011 Average Balance	Interest Income/ Expense	Average Interest Rate	2010 Average Balance	Interest Income/ Expense	Average Interest Rate	2009 Average Balance	Interest Income/ Expense	Average Interest Rate
LIABILITIES AND SHAREHOLDERS' EQUITY:									
Interest-bearing liabilities									
Interest-bearing deposits:									
Savings and NOW accounts	$154,765	$368	0.24 %	$142,350	$498	0.35 %	$131,818	$771	0.58 %
Money market accounts (MMA)	174,049	692	0.40 %	157,761	1,036	0.66 %	136,104	1,262	0.93 %
Time certificates of deposit, under $100,000	70,111	688	0.98 %	69,066	866	1.25 %	90,614	1,922	2.12 %
Time certificates of deposit, $100,000 and over	96,620	914	0.95 %	114,043	1,313	1.15 %	120,579	1,912	1.59 %
Total interest-bearing deposits	495,545	2,662	0.54 %	483,220	3,713	0.77 %	479,115	5,867	1.22 %
Other borrowed funds	10,265	280	2.73 %	19,634	570	2.90 %	29,987	760	2.53 %
Total interest-bearing liabilities	505,810	$2,942	0.58 %	502,854	$4,283	0.85 %	509,102	$6,627	1.30 %
Non-interest bearing demand deposits	182,244			152,946			153,148		
Other liabilities	8,738			6,878			6,859		
Shareholders' equity	103,386			96,174			83,400		
Total average liabilities and shareholders' equity	$800,178			$758,852			$752,509		
Interest income and rate earned on average earning assets (1)		$36,092	5.04 %		$37,590	5.59 %		$42,316	6.30 %
Interest expense and interest cost related to average interest-bearing liabilities		2,942	0.58 %		4,283	0.85 %		6,627	1.30 %
Net interest income and net interest margin (4)		$33,150	4.63 %		$33,307	4.95 %		$35,689	5.31 %

(1) Calculated on a fully tax equivalent basis, which includes Federal tax benefits relating to income earned on municipal bonds totaling $1,784, $1,566 and $1,575 in 2011, 2010 and 2009, respectively.
(2) Loan interest income includes loan fees of $399 in 2011, $460 in 2010, and $544 in 2009.
(3) Average loans do not include nonaccrual loans.
(4) Net interest margin is computed by dividing net interest income by total average interest-earning assets.

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Table B

VOLUME AND RATE ANALYSIS

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

	Years Ended December 31, 2011 Compared to 2010			2010 Compared to 2009		
(In thousands)	Volume	Rate	Net	Volume	Rate	Net
Increase (decrease) due to changes in:						
Interest income:						
Interest-earning deposits in other banks	$80	$(3)	$77	$102	$—	$102
Investment securities:						
Taxable	1,926	(2,850)	(924)	726	(2,955)	(2,229)
Non-taxable (1)	746	(103)	643	39	(66)	(27)
Total investment securities	2,672	(2,953)	(281)	765	(3,021)	(2,256)
Federal funds sold	—	—	—	(48)	2	(46)
Loans	(1,654)	362	(1,292)	(1,649)	(881)	(2,530)
FHLB Stock	—	(2)	(2)	—	4	4
Total earning assets (1)	1,098	(2,596)	(1,498)	(830)	(3,896)	(4,726)
Interest expense:						
Deposits:						
Savings, NOW and MMA	167	(641)	(474)	291	(790)	(499)
Certificates of deposit under $100,000	13	(191)	(178)	(388)	(668)	(1,056)
Certificates of deposit $100,000 and over	(184)	(215)	(399)	(99)	(500)	(599)
Total interest-bearing deposits	(4)	(1,047)	(1,051)	(196)	(1,958)	(2,154)
Other borrowed funds	(336)	46	(290)	(327)	137	(190)
Total interest bearing liabilities	(340)	(1,001)	(1,341)	(523)	(1,821)	(2,344)
Net interest income (1)	$1,438	$(1,595)	$(157)	$(307)	$(2,075)	$(2,382)

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

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Table C

INVESTMENT PORTFOLIO

The book value of investment securities at December 31, 2011, 2010, and 2009 is set forth in the following table. At December 31, 2011, we held no investment securities from any issuer which totaled over 10% of our shareholders' equity.

Available-for-Sale	Book Value at December 31,		
(In thousands)	2011	2010	2009
U.S. Government sponsored entities and agencies	$149	$190	$353
Obligations of states and political subdivisions	101,030	74,598	68,708
U.S. Government agencies collateralized by mortgage obligations	204,222	88,105	85,530
Other collateralized mortgage obligations	8,408	18,661	36,280
Corporate debt securities	—	500	1,228
Other equity securities	7,596	7,628	7,645
Total Available-for-Sale Securities	$321,405	$189,682	$199,744

The book value, maturities and weighted average yield of investment securities at December 31, 2011 are summarized in the following table.

(Dollars in thousands)	In one year or less		After one through five years		After five through ten years		After ten years		Total	
Available-for-Sale Securities	Amount	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Yield(1)
Debt securities(2)										
U.S. Government sponsored entities and agencies	$149	4.84 %	$—	—	$—	—	$—	—	$149	4.84 %
Obligations of states and political subdivisions	420	4.09 %	8,705	4.34 %	20,553	4.12 %	71,352	4.38 %	101,030	4.32 %
U.S. Government agencies collateralized by mortgage obligations	72	5.00 %	176	5.92 %	7,183	4.03 %	196,791	4.99 %	204,222	4.96 %
Other collateralized mortgage obligations	—	—	—	—	1,420	4.75 %	6,988	5.64 %	8,408	5.49 %
Other equity securities	7,596	3.72 %	—	—	—	—	—	—	7,596	3.72 %
	$8,237	3.77 %	$8,881	4.38 %	$29,156	4.13 %	$275,131	4.85 %	$321,405	4.74 %

(1) Not computed on a tax equivalent basis.

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

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Table D

LOAN PORTFOLIO

The composition of the loan portfolio at December 31, 2011, 2010, 2009, 2008, and 2007 is summarized in the table below.

(In thousands)	2011	2010	2009	2008	2007
Commercial:					
Commercial and industrial	$78,089	$81,318	$93,282	$109,664	$71,416
Agricultural land and production	29,958	20,604	13,903	20,406	17,584
Total commercial	108,047	101,922	107,185	130,070	89,000
Real estate:					
Owner occupied	113,183	111,888	106,606	113,414	76,808
Real estate-construction and other land loans	33,047	32,038	51,633	57,923	48,593
Commercial real estate	62,523	63,627	71,420	64,358	43,334
Agricultural real estate	42,596	44,397	38,759	32,136	26,796
Other real estate	7,892	8,103	4,610	2,926	1,772
Total real estate	259,241	260,053	273,028	270,757	197,303
Consumer:					
Equity loans and lines of credit	51,106	58,860	65,353	63,828	46,575
Consumer and installment	9,765	11,261	14,033	19,801	8,838
Total consumer	60,871	70,121	79,386	83,629	55,413
Deferred loan fees, net	(764)	(499)	(392)	(218)	(588)
Total gross loans	427,395	431,597	459,207	484,238	341,128
Allowance for credit losses	(11,396)	(11,014)	(10,200)	(7,223)	(3,887)
Total (1)	$415,999	$420,583	$449,007	$477,015	$337,241

	2011	2010		2009	2008	2007
(1) Includes nonaccrual loans of:	$14,434	$18,561	18,959	$18,959		