UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED September 30, 2011

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 000 31977

CENTRAL VALLEY COMMUNITY BANCORP

(Exact name of registrant as specified in its charter)

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

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

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 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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation 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 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.

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 November 9, 2011 there were 9,547,816 shares of the registrant s common stock outstanding.

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

2011 QUARTERLY REPORT ON FORM 10-Q

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PART 1: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Cash and due from banks	$ 21,014	$ 11,357
Interest-earning deposits in other banks	76,268	89,042
Federal funds sold	791	600
Total cash and cash equivalents	98,073	100,999
Available-for-sale investment securities (Amortized cost of $254,136 at September 30, 2011 and $189,682 at December 31, 2010)	262,050	191,325
Loans, less allowance for credit losses of $11,031 at September 30, 2011 and $11,014 at December 31, 2010	414,735	420,583
Bank premises and equipment, net	5,950	5,843
Other real estate owned	270	1,325
Bank owned life insurance	11,563	11,390
Federal Home Loan Bank stock	2,893	3,050
Goodwill	23,577	23,577
Core deposit intangibles	887	1,198
Accrued interest receivable and other assets	14,910	18,304
Total assets	$ 834,908	$ 777,594
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits:		
Non-interest bearing	$ 194,190	$ 173,867
Interest bearing	512,101	476,628
Total deposits	706,291	650,495
Short-term borrowings		10,000
Long-term debt	4,000	4,000
Junior subordinated deferrable interest debentures	5,155	5,155
Accrued interest payable and other liabilities	13,115	10,553
Total liabilities	728,561	680,203
Commitments and contingencies (Note 10)		
Shareholders equity:		
Preferred stock, no par value, $1,000 per share liquidation preference; 10,000,000 shares authorized, Series A, no par value, 7,000 issued and outstanding at December 31, 2010		6,864
Preferred stock, no par value, $1,000 per share liquidation preference; 10,000,000 shares authorized, Series C, no par value, 7,000 issued and outstanding at September 30, 2011	7,000	
Common stock, no par value; 80,000,000 authorized; issued and outstanding 9,547,816 at September 30, 2011 and 9,109,154 at December 31, 2010	40,505	38,428
Non-voting common stock, 1,000,000 authorized; issued and outstanding 258,862 at December 31, 2010		1,317
Retained earnings	54,185	49,815

Accumulated other comprehensive income, net of tax		4,657		967
Total shareholders equity		106,347		97,391
Total liabilities and shareholders equity	$	834,908	$	777,594

See notes to unaudited consolidated financial statements.

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except share and per share amounts)	For the Three Months Ended September 30, 2011	2010	For the Nine Months Ended September 30, 2011	2010
INTEREST INCOME:				
Interest and fees on loans	$ 6,640	$ 7,112	$ 19,662	$ 20,816
Interest on deposits in other banks	46	23	141	62
Interest on Federal funds sold			1	1
Interest and dividends on investment securities:				
Taxable	1,079	1,304	3,307	4,282
Exempt from Federal income taxes	892	761	2,522	2,277
Total interest income	8,657	9,200	25,633	27,438
INTEREST EXPENSE:				
Interest on deposits	647	876	2,076	2,912
Interest on junior subordinated deferrable interest debentures	24	36	73	84
Other	37	115	143	353
Total interest expense	708	1,027	2,292	3,349
Net interest income before provision for credit losses	7,949	8,173	23,341	24,089
PROVISION FOR CREDIT LOSSES	400	1,300	750	2,900
Net interest income after provision for credit losses	7,549	6,873	22,591	21,189
NON-INTEREST INCOME:				
Service charges	735	763	2,183	2,487
Appreciation in cash surrender value of bank owned life insurance	96	98	289	293
Loan placement fees	51	89	185	193
Gain on disposal of other real estate owned	75		608	
Net realized gains (losses) on sale and calls of investment securities	223	(19)	249	32
Total impairment on investment securities	214	(478)	(4)	(1,896)
(Decrease) increase in fair value recognized in other comprehensive income	(214)	478	(27)	1,196
Net impairment loss recognized in earnings			(31)	(700)
Federal Home Loan Bank dividends	1	3	6	8
Other income	414	359	1,451	1,062
Total non-interest income	1,595	1,293	4,940	3,375
NON-INTEREST EXPENSES:				
Salaries and employee benefits	4,058	3,961	12,134	11,544
Occupancy and equipment	978	976	2,848	2,890
Regulatory assessments	181	281	664	887
Data processing expense	295	310	857	878
Advertising	182	183	548	557
Audit and accounting fees	112	114	337	342
Legal fees	90	78	266	367
Other real estate owned, net	9	318	11	759
Amortization of core deposit intangibles	104	104	311	311
Loss on sale of assets		10		10
Other expense	1,213	1,074	3,466	3,210
Total non-interest expenses	7,222	7,409	21,442	21,755

Income before provision for income taxes	1,922	757	6,089	2,809
PROVISION (BENEFIT) FOR INCOME TAXES	514	(107)	1,320	149
Net income	$ 1,408	$ 864	$ 4,769	$ 2,660
Net income	$ 1,408	$ 864	$ 4,769	$ 2,660
Preferred stock dividends and accretion	202	99	400	296
Net income available to common shareholders	$ 1,206	$ 765	$ 4,369	$ 2,364
Net income per common share:				
Basic earnings per share	$ 0.13	$ 0.08	$ 0.46	$ 0.26
Weighted average common shares used in basic computation	9,547,816	9,363,908	9,513,387	9,156,561
Diluted earnings per share	$ 0.13	$ 0.08	$ 0.46	$ 0.26
Weighted average common shares used in diluted computation	9,557,609	9,432,301	9,534,426	9,244,289

See notes to unaudited consolidated financial statements.

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (In thousands)

	For the Nine Months Ended September 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,769	$ 2,660
Adjustments to reconcile net income to net cash provided by operating activities:		
Net increase in deferred loan fees	149	143
Depreciation	917	949
Accretion	(546)	(758)
Amortization	2,336	1,437
Stock-based compensation	149	172
Tax benefit from exercise of stock options	(117)	(28)
Provision for credit losses	750	2,900
Net other than temporary impairment losses on investment securities	31	700
Net realized gains on sales and calls of available-for-sale investment securities	(249)	(32)
Net gain on sale and disposal of equipment		10
Net (gain) loss on sale of other real estate owned	(608)	14
Write down of other real estate owned and other property		453
Increase in bank owned life insurance, net of expenses	(112)	(293)
Net gain on bank owned life insurance	(85)	
Net (increase) decrease in accrued interest receivable and other assets	(724)	750
Net decrease in prepaid FDIC Assessments	558	730
Net increase in accrued interest payable and other liabilities	2,278	913
Provision (benefit) for deferred income taxes	974	(456)
Net cash provided by operating activities	10,470	10,264
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available-for-sale investment securities	(133,308)	(21,869)
Proceeds from sales or calls of available-for-sale investment securities	43,580	16,718
Proceeds from maturity and principal repayments of available-for-sale investment securities	24,011	19,226
Net decrease (increase) in loans	4,704	(5,488)
Proceeds from sale of other real estate owned	2,195	2,555
Purchases of premises and equipment	(1,024)	(276)
FHLB stock redeemed	157	90
Proceeds from bank owned life insurance	146	
Proceeds from sale of premises and equipment		5
Net cash (used in) provided by investing activities	(59,539)	10,961
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand, interest bearing and savings deposits	70,374	18,467
Net decrease in time deposits	(14,578)	(22,117)
Repayments of short-term borrowings to Federal Home Loan Bank	(10,000)	(5,000)
Proceeds from exercise of stock options	680	550
Warrant purchase	(185)	
Tax benefit from exercise of stock options	117	28
Cash paid for preferred stock dividends	(265)	(261)
Net cash provided by (used in) financing activities	46,143	(8,333)
Decrease in cash and cash equivalents	(2,926)	12,892
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	100,999	48,680
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 98,073	$ 61,572

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:				
Cash paid during the year for:				
Interest	$	2,551	$	3,674
Income taxes	$	826	$	301
Non-Cash Investing Activities:				
Net pre-tax change in unrealized gain on available-for-sale investment securities	$	6,271	$	6,871
Non-Cash Financing Activities:				
Redemption of preferred stock Series A and issuance of preferred stock Series C	$	7,000	$	
Transfer of loans to other real estate owned	$	244	$	3,467
Accrued preferred stock dividends	$	42	$	44

See notes to unaudited consolidated financial statements.

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CENTRAL VALLEY COMMUNITY BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The interim unaudited consolidated financial statements of Central Valley Community Bancorp and subsidiary have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). These interim consolidated financial statements include the accounts of Central Valley Community Bancorp and its wholly owned subsidiary Central Valley Community Bank (the Bank) (collectively, the Company). All significant intercompany accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The Company believes that the disclosures are adequate to make the information presented not misleading. These interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company s 2010 Annual Report to Shareholders on Form 10-K. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company s financial position at September 30, 2011 and December 31, 2010, and the results of its operations for the three and nine month interim periods ended September 30, 2011 and September 30, 2010 and its cash flows for the nine month interim periods ended September 30, 2011 and September 30, 2010 have been included. Certain reclassifications have been made to prior year amounts to conform to the 2011 presentation. The results of operations for interim periods are not necessarily indicative of results for the full year.

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

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

Recent Accounting Pronouncements

Determination of Whether a Restructuring is a Troubled Debt Restructuring

In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-02, *A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring*. This ASU provides for a more consistent application of the accounting guidance for troubled debt restructurings (TDRs). This ASU clarified guidance on a creditor s evaluation of whether it has granted a concession to a borrower, and clarified guidance to determine if a borrower is experiencing financial difficulties. This ASU also finalized the disclosures required in a creditor s financial statements related to TDRs. The new provisions of this standard became effective on July 1, 2011.

As a result of adopting ASU 2011-02, management reassessed all restructurings that occurred on or after January 1, 2011 and identified eight loans totaling $18,739,000 that were not previously identified as TDRs which now qualify as TDRs under the guidance of ASU 2011-02. The identification of the $18,739,000 of TDRs resulted in an increase to the specific reserves added to the allowance for credit losses of $427,000 at September 30, 2011.

Impact of New Financial Accounting Standards

Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs

In May 2011, FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* This ASU represents the converged guidance of the FASB and the IASB (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term fair value. The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. The amendments to the *FASB Accounting Standards Codification* (Codification) in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. Management does not believe the adoption of this ASU will have a significant impact on the Company s financial position, results of operations or cash flows.

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Presentation of Comprehensive Income

In June 2011, FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income.* This ASU amends the *FASB Accounting Standards Codification*TM (Codification) to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. In October 2011, FASB decided that the specific requirement to present items that are reclassified from other comprehensive income to net income alongside their respective components of net income and other comprehensive income will be deferred. Therefore, those requirements will not be effective for public entities for fiscal years and interim periods with those years beginning after December 15, 2011. The remaining provisions of ASU 2011-05 should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. Management does not believe the adoption of this ASU will have a significant impact on the Company s financial position, results of operations or cash flows.

Intangibles Goodwill and Other Topics

The FASB has issued ASU 2011-08, *Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment.* ASU 2011-08 is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350, *Intangibles-Goodwill and Other.* The more-likely-than-not threshold is defined as having a likelihood of more than 50%. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company has elected to early-adopt the provisions of ASU 2011-08 and apply the provisions to management s annual evaluation of the Company s Goodwill as of September 30, 2011. The impact of adoption was not material to the Company s financial position, results of operations or cash flows.

Note 2. Share-Based Compensation

For the nine month periods ended September 30, 2011 and 2010, share-based compensation cost recognized was $149,000 and $172,000, respectively. For the quarter ended September 30, 2011 and 2010, share-based compensation cost recognized for stock option compensation was $47,000 and $59,000, respectively. The recognized tax benefit for stock option compensation expense was $27,000 and $31,000, for the nine month periods ended September 30, 2011 and 2010, respectively. For the three month periods ended September 30, 2011 and 2010, recognized tax benefits were $9,000 and $5,000, respectively.

The Company bases the fair value of the options granted on the date of grant using a Black-Scholes Merton option pricing model that uses assumptions based on expected option life and the level of estimated forfeitures, expected stock volatility, risk free interest rate, and dividend yield. The expected term of the Company s options was determined under the applicable guidance for estimating expected term of options. Stock volatility is based on the historical volatility of the Company s stock. The risk-free rate is based on the U. S. Treasury yield curve for the periods within the contractual life of the options in effect at the time of grant. The compensation cost for options granted is based on the weighted average grant date fair value per share.

No options to purchase shares of the Company s common stock were issued in the first nine months of 2011 from any of the Company s stock based compensation plans. In the same period of 2010, options to purchase 67,800 shares of the Company s common stock were issued from the Central Valley Community Bancorp 2005 Omnibus Incentive Plan and 15,200 were issued from the Central Valley Community Bancorp 2000 Stock Option Plan. All options were issued at an exercise price equal to the fair market value at the grant date.

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A summary of the combined activity of the Company s Stock Based Compensation Plans for the nine month period ended September 30, 2011 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2011	707,129	7.31		
Options exercised	(179,800)	$ 3.78		
Options canceled	(16,000)	$ 6.96		
Options outstanding at September 30, 2011	511,329	$ 8.56	4.17	$ 17
Options vested or expected to vest at September 30, 2011	494,952	$ 8.63	5.70	$ 17
Options exercisable September 30, 2011	418,405	$ 9.14	3.30	$ 14

The weighted-average grant-date fair value of options granted in the nine month period ended September 30, 2010 was $2.59.

The total intrinsic value of 179,800 options exercised in the nine months ended September 30, 2011 was $417,000. The total intrinsic value of 159,400 options exercised in the nine months ended September 30, 2010 was $349,000.

Cash received from options exercised for the nine months ended September 30, 2011 was $680,000. The actual tax benefit realized for the tax deductions from options exercised totaled $117,000 for nine months ended September 30, 2011.

As of September 30, 2011, there was $244,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all plans. The cost is expected to be recognized over a weighted average period of 2.77 years.

Note 3. Earnings Per Share

Basic earnings per share (EPS), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options or warrants, stock appreciation rights settled in stock or restricted stock awards, result in the issuance of common stock which shares in the earnings of the Company. There was no difference in the net income used in the calculation of basic earnings per share and diluted earnings per share for the three and nine month periods ended September 30, 2011 or 2010.

A reconciliation of the numerators and denominators of the basic and diluted EPS computations is as follows:

Basic Earnings Per share In thousands (except share and per share amounts)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net Income	$ 1,408	$ 864	$ 4,769	$ 2,660
Less: Preferred stock dividends and accretion	202	99	400	296
Income available to common shareholders	$ 1,206	$ 765	$ 4,369	$ 2,364
Weighted average shares outstanding	9,547,816	9,363,908	9,513,387	9,156,561
Net income per share	$ 0.13	$ 0.08	$ 0.46	$ 0.26

Diluted Earnings Per share In thousands (except share and per share amounts)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net Income	$ 1,408	$ 864	$ 4,769	$ 2,660
Less: Preferred stock dividends and accretion	202	99	400	296
Income available to common shareholders	$ 1,206	$ 765	$ 4,369	$ 2,364
Weighted average shares outstanding	9,547,816	9,363,908	9,513,387	9,156,561
Effect of dilutive stock options	9,793	68,393	21,039	87,728
Weighted average shares of common stock and common stock equivalents	9,557,609	9,432,301	9,534,426	9,244,289
Net income per diluted share	$ 0.13	$ 0.08	$ 0.46	$ 0.26

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During the three-month periods ending September 30, 2011 and 2010, options and warrants to purchase 436,929 and 533,131 shares of common stock, respectively, were not factored into the calculation of dilutive stock options because they were anti-dilutive. During the nine-month periods ending September 30, 2011 and 2010, options and warrants to purchase 436,929 and 533,131 shares of common stock, respectively, were not factored into the calculation of dilutive stock options because they were anti-dilutive.

Note 4. Investments

The investment portfolio consists primarily of agency securities, mortgage backed securities, and municipal securities all of which are classified available-for-sale. As of September 30, 2011, $112,095,000 was held as collateral for borrowing arrangements, public funds, and for other purposes.

The fair value of the available-for-sale investment portfolio reflected an unrealized gain of $7,914,000 at September 30, 2011 compared to an unrealized gain of $1,643,000 at December 31, 2010.

The following table sets forth the carrying values and estimated fair values of our investment securities portfolio at the dates indicated (in thousands):

	September 30, 2011			
Available-for-Sale Securities	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Debt securities:				
U.S. Government agencies	$ 159	$ 2	$	$ 161
Obligations of states and political subdivisions	86,950	7,567	(356)	94,161
U.S. Government agencies collateralized by mortgage obligations	147,029	1,747	(494)	148,282
Other collateralized mortgage obligations	12,402	258	(1,162)	11,498
Other equity securities	7,596	352		7,948
	$ 254,136	$ 9,926	$ (2,012)	$ 262,050

	December 31, 2010			
Available-for-Sale Securities	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Debt securities:				
U.S. Government agencies	$ 190	$ 5	$	$ 195
Obligations of states and political subdivisions	74,598	1,884	(1,432)	75,050
U.S. Government agencies collateralized by mortgage obligations	88,105	2,092	(120)	90,077
Other collateralized mortgage obligations	18,661	506	(1,329)	17,838
Corporate debt securities	500	4		504
Other equity securities	7,628	33		7,661
	$ 189,682	$ 4,524	$ (2,881)	$ 191,325

Investment securities with unrealized losses as of the dates indicated are summarized and classified according to the duration of the loss period as follows (in thousands):

	September 30, 2011					
	Less than 12 Months		12 Months or More		Total	
Available-for-Sale Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Debt securities:						
Obligations of states and political subdivisions	$ 60	$ (4)	$ 3,023	$ (352)	$ 3,083	$ (356)
U.S. Government agencies collateralized by mortgage obligations	65,253	(494)			65,253	(494)
Other collateralized mortgage obligations	1,450	(13)	5,186	(1,149)	6,636	(1,162)
	$ 66,763	$ (511)	$ 8,209	$ (1,501)	$ 74,972	$ (2,012)

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	December 31, 2010											
	Less than 12 Months				12 Months or More				Total			
Available-for-Sale Securities		**Fair Value**		**Unrealized Losses**		**Fair Value**		**Unrealized Losses**		**Fair Value**		**Unrealized Losses**
Debt securities:												
Obligations of states and political subdivisions	$	24,782	$	(904)	$	3,168	$	(528)	$	27,950	$	(1,432)
U.S. Government agencies collateralized by mortgage obligations		9,131		(120)						9,131		(120)
Other collateralized mortgage obligations		286		(2)		10,136		(1,327)		10,422		(1,329)
	$	34,199	$	(1,026)	$	13,304	$	(1,855)	$	47,503	$	(2,881)

We periodically evaluate each investment security for other-than-temporary impairment, relying primarily on industry analyst reports, observation of market conditions and interest rate fluctuations. As of September 30, 2011, the Company performed an analysis of the investment portfolio to determine whether any of the investments held in the portfolio had an other-than-temporary impairment (OTTI). Under ASC 320-10, the portion of the impairment that is attributable to a shortage in the present value of expected future cash flows relative to the amortized cost should be recorded as a current period charge to earnings. The discount rate in this analysis is the coupon rate which approximates the current book yield.

As of September 30, 2011, the Company performed an analysis of the investment portfolio to determine whether any of the investments held in the portfolio had an other-than-temporary impairment (OTTI). Management evaluated all available-for-sale investment securities with an unrealized loss at September 30, 2011 and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at September 30, 2011 greater than 10% of the recorded book value on that date, or which had an unrealized loss of more than $10,000. Management also analyzed any securities that may have been downgraded by credit rating agencies. Management retained the services of a third party in May 2011 to provide independent valuation and OTTI analysis of private label residential mortgage backed securities (PLRMBS).

For those bonds that met the evaluation criteria, management obtained and reviewed the most recently published national credit ratings for those bonds. For those bonds that were municipal debt securities with an investment grade rating by the rating agencies, management also evaluated the financial condition of the municipality and any applicable municipal bond insurance provider and concluded that no credit related impairment existed.

The evaluation for PLRMBS also includes estimating projected cash flows that the Company is likely to collect based on an assessment of all available information about the applicable security on an individual basis, the structure of the security, and certain assumptions, such as the remaining payment terms for the security, prepayment speeds, default rates, loss severity on the collateral supporting the security based on underlying loan-level borrower and loan characteristics, expected housing price changes, and interest rate assumptions, to determine whether the Company will recover the entire amortized cost basis of the security. In performing a detailed cash flow analysis, the Company identified the best estimate of the cash flows expected to be collected. If this estimate results in a present value of expected cash flows (discounted at the security s effective yield) that is less than the amortized cost basis of the security, an OTTI is considered to have occurred.

To assess whether it expects to recover the entire amortized cost basis of its PLRMBS, the Company performed a cash flow analysis for all of its PLRMBS as of September 30, 2011. In performing the cash flow analysis for each security, the Company uses a third-party model. The model considers borrower characteristics and the particular attributes of the loans underlying the Company s securities, in conjunction with assumptions about future changes in home prices and other assumptions, to project prepayments, default rates, and loss severities.

The month-by-month projections of future loan performance are allocated to the various security classes in each securitization structure in accordance with the structure s prescribed cash flow and loss allocation rules. When the credit enhancement for the senior securities in a securitization is derived from the presence of subordinated securities, losses are allocated first to the subordinated securities until their principal balance is reduced to zero. The projected cash flows are based on a number of assumptions and expectations, and the results of these models can vary significantly with changes in assumptions and expectations. The scenario of cash flows determined based on the model approach described above reflects a best-estimate scenario.

At each quarter end, the Company compares the present value of the cash flows expected to be collected on its PLRMBS to the amortized cost basis of the securities to determine whether a credit loss exists.

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The unrealized losses associated with PLRMBS are primarily driven by higher projected collateral losses, wider credit spreads, and changes in interest rates. The Company assesses for credit impairment using a discounted cash flow model. The key assumptions include default rates, severities, discount rates and prepayment rates. Losses are estimated to a security by forecasting the underlying mortgage loans in each transaction. The forecasted loan performance is used to project cash flows to the various tranches in the structure. Based upon management s assessment of the expected credit losses of the security given the performance of the underlying collateral compared with our credit enhancement (which occurs as a result of credit loss protection provided by subordinated tranches), the Company expects to recover the entire amortized cost basis of these securities, with the exception of certain securities for which OTTI was previously recorded.

U.S. Government Agencies

At September 30, 2011, the Company held one U.S. Government agency security and it was not in a loss position.

Obligations of States and Political Subdivisions

At September 30, 2011, the Company held 169 obligations of states and political subdivision securities of which one was in a loss position for less than 12 months and six were in a loss position and have been in a loss position for 12 months or more. The unrealized losses on the Company s investments in obligations of states and political subdivision securities were caused by interest rate changes. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell, and it is more likely than not that it will not be required to sell those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2011.

U.S. Government Agencies Collateralized by Mortgage Obligations

At September 30, 2011, the Company held 162 U.S. Government agency securities collateralized by mortgage obligation securities of which 33 were in a loss position for less than 12 months. The unrealized losses on the Company s investments in U.S. government agencies collateralized by mortgage obligations were caused by interest rate changes. The contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company s investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell, and it is more likely than not that it will not be required to sell those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2011.

Other Collateralized Mortgage Obligations

At September 30, 2011, the Company had a total of 28 PLRMBS with a remaining principal balance of $12,402,000 and a net unrealized loss of approximately $904,000. Nine of these securities account for $1,162,000 of the unrealized loss at September 30, 2011 offset by 19 of these securities with gains totaling $258,000. Seven of these PLRMBS with a remaining principal balance of $6,396,000 had credit ratings below investment grade. The Company continues to perform extensive analyses on these securities as well as all whole loan CMOs. Several of these investment securities continue to demonstrate cash flows and credit support as expected and the expected cash flows of the security discounted at the security s effective yield are greater than the book value of the security, therefore management does not consider these securities to be other than temporarily impaired. No credit related OTTI charges related to PLRMBS were recorded during the nine month period ended September 30, 2011.

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Other Equity Securities

At September 30, 2011, the Company had a total of two mutual fund equity investments, one of which had been in an unrealized loss position for more than 12 months. Based on management s evaluation of the nature of the decline in net asset value on this mutual fund, the Company recorded an OTTI charge of $31,000 during the nine month period ended September 30, 2011.

Investment securities as of September 30, 2011 with credit ratings below investment grade are summarized in the table below (dollars in thousands):

Description	Book Value	Market Value	Unrealized Gain (Loss)	Rating	Agency	12 Month Historical Prepayment Rates %	Projected Default Rates %	Projected Severity Rates %	Original Purchase Price %	Current Credit Enhancement %
PHHAM	$ 2,451	$ 2,043	$ (408)	C	Fitch	13.70	23.42	51.00	97.25	0.12
CWALT 1	798	618	(180)	C	Fitch	9.47	27.89	63.95	100.73	4.63
CWALT 2	371	261	(110)	C	Fitch	8.80	30.84	55.77	101.38	2.70
FHAMS	2,254	1,881	(373)	D	Fitch	11.38	21.78	54.21	95.00	(0.05)
BAALT	151	132	(19)	CCC	Fitch	8.36	10.95	57.41	97.24	4.89
ABFS	310	253	(57)	D	S&P	6.00	45.00	80.00	97.46	0.00
CONHE	61	75	14	B3	Moodys	0.10	10.00	60.00	86.39	0.072
TOTALS	$ 6,396	$ 5,263	$ (1,133)							

The following tables provide a roll forward for the three and nine month periods ended September 30, 2011 and 2010 of investment securities credit losses recorded in earnings. The beginning balance represents the credit loss component for which OTTI occurred on debt securities in prior periods. Additions represent the first time a debt security was credit impaired or when subsequent credit impairments have occurred on securities for which OTTI credit losses have been previously recognized.

(Dollars in thousands)	For the three months ended September 30, 2011	For the three months ended September 30, 2010	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Beginning balance	$ 767	$ 700	$ 1,387	$ 300
Amounts related to credit loss for which an OTTI charge was not previously recognized			31	700
Increases to the amount related to credit loss for which OTTI was previously recognized				
Realized gains (losses) for securities sold	16		(635)	(300)
Ending balance	$ 783	$ 700	$ 783	$ 700

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The amortized cost and estimated fair value of investment securities at September 30, 2011 and December 31, 2010 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

September 30, 2011 (in thousands)	**Amortized Cost**	**Estimated Fair Value**
Within one year	$ 579	$ 587
After one year through five years	7,946	8,705
After five years through ten years	18,968	20,377
After ten years	59,616	64,653
	87,109	94,322
Investment securities not due at a single maturity date:		
U.S. Government agencies collateralized by mortgage obligations	147,029	148,282
Other collateralized mortgage obligations	12,402	11,498
Other equity securities	7,596	7,948
	$ 254,136	$ 262,050

December 31, 2010	**Amortized Cost**	**Estimated Fair Value**
Within one year	$ 500	$ 504
After one year through five years	6,350	6,819
After five years through ten years	18,274	18,664
After ten years	50,164	49,762
	75,288	75,749
Investment securities not due at a single maturity date:		
U.S. Government agencies collateralized by mortgage obligations	88,105	90,077
Other collateralized mortgage obligations	18,661	17,838
Other equity securities	7,628	7,661
Total	$ 189,682	$ 191,325

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Note 5. Fair Value Measurements

The estimated carrying and fair values of the Company s financial instruments are as follows (in thousands):

	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(In thousands)		
Financial assets:				
Cash and due from banks	$ 21,014	$ 21,014	$ 11,357	$ 11,357
Interest-earning deposits in other banks	76,268	76,268	89,042	89,042
Federal funds sold	791	791	600	600
Available-for-sale investment securities	262,050	262,050	191,325	191,325
Loans, net	414,735	409,219	420,583	405,876
Bank owned life insurance	11,563	11,563	11,390	11,390
Federal Home Loan Bank stock	2,893	2,893	3,050	3,050
Accrued interest receivable	3,711	3,711	3,467	3,467
Financial liabilities:				
Deposits	$ 706,291	$ 755,703	$ 650,495	$ 651,668
Short-term borrowings			10,000	10,000
Long-term debt	4,000	4,197	4,000	4,256
Junior subordinated deferrable interest debentures	5,155	2, 062	5,155	2,320
Accrued interest payable	216	216	475	475

These estimates do not reflect any premium or discount that could result from offering the Company s entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

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

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

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Fair Value Hierarchy

In accordance with applicable guidance, the Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1 Quoted market prices for identical instruments traded in active exchange markets.

Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Company s estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, we report the transfer at the beginning of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings. During the nine months ended September 30, 2011, no transfers between levels occurred.

Assets Recorded at Fair Value

The following tables present information about the Company s assets and liabilities measured at fair value on a recurring and non-recurring basis as of September 30, 2011:

Recurring Basis

The Company is required or permitted to record the following assets at fair value on a recurring basis under other accounting pronouncements as of September 30, 2011 (in thousands).

Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities				
Debt Securities:				
U.S. Government agencies	$ 161	$	$ 161	$
Obligations of states and political subdivisions	94,161		94,161	
U.S. Government agencies collateralized by mortgage obligations	148,282		148,282	
Other collateralized mortgage obligations	11,498		11,498	
Other equity securities	7,948	7,948		
Total assets and liabilities measured at fair value	$ 262,050	$ 7,948	$ 254,102	$

Securities in Level 1 are mutual funds and fair values are based on quoted market prices for identical instruments traded in active markets. Fair values for available-for-sale investment securities in Level 2 are based on quoted market prices for similar securities.

The balance of Level 3 assets measured at fair value on a recurring basis was zero for the year ended December 31, 2010. No changes occurred in the first three quarters of 2011.

There were no liabilities measured at fair value on a recurring basis at September 30, 2011.

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Non-recurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. These include assets that are measured at the lower of cost or fair value that were recognized at fair value which was below cost at September 30, 2011 (in thousands).

Description	Fair Value	Level 1	Level 2	Level 3	Total Gains (Losses) in the Period
Impaired loans:					
Commercial:					
Commercial and industrial	$ 2,468	$	$	$ 2,468	$ 267
Agricultural production					