Central Valley
Community
Bancorp

2020 To Our Shareholders

Last year I closed this annual shareholder letter by observing that uncertainty was impacting the financial services industry. Little did I know what an understatement that would turn out to be! As 2020 found us dealing with the financial impact of a worldwide pandemic and the Federal response of lowering rates, we could not know how much this would affect the economic wellbeing of our clients or communities. As such, we had to learn quickly, practice perseverance and embrace flexibility.

While 2020 proved to be a difficult year, in many respects it brought out the best in our Company. We rallied in our essential role of providing banking access in the safest way possible for our team, our clients and our communities – helping fuel the economy throughout the quarantines and shutdowns. We all learned the meaning of shelter-at-home orders, social distancing and color-coded regional economic impacts, both personally and professionally. And we supported our territory in tangible ways, especially for those on the front lines, like healthcare workers and first responders who selflessly managed unprecedented volume during the pandemic and California's wildfires.

We made physical access to banking available wherever possible and ramped up digital education and access. Significant team resources were invested into processing Paycheck Protection Program (PPP) loan applications, with our team processing a total of 1,077 PPP loans totaling $211,575,000 in 2020. Choosing to extend our PPP participation in 2021, as of this writing we have processed an additional 405 PPP loans totaling $65,000,000. We look forward to the continued benefits for our business clients along with improved economic conditions throughout our territory.

Even during the toughest of economic times, our leadership team remained true to the Mission Statement of our now 41-year-old community bank. Our community support focused on food insecurity, housing and social justice, and we launched a campaign to support the Central Sierra Resiliency Fund to help the people and communities affected by the devastating Creek Fire, the largest single fire incident recorded in California history.

Financial Overview

While 2020 will likely be remembered for many negative reasons, we choose to reflect on the tremendous support and compassion demonstrated by our team for the clients and communities we serve. Likewise, we are grateful for the confidence and support you have shown us during this time.

Throughout 2020 we remained focused on credit quality in our loan portfolio and made appropriate allocations to the Allowance For Loan and Lease Losses. Our team worked closely with borrowers to understand their unique circumstances, and assisted nearly 300 clients with a loan deferral program. This work, along with strong capital levels, will help ensure safety and soundness for our shareholders as we emerge from the pandemic.

In 2020, we reached the milestone of exceeding $2 billion in assets as of December 31, 2020. The Company reported net income for the year ended December 31, 2020, of $20,347,000 and enjoyed strong loan and deposit growth with loans reaching $1,102,347,000 and total deposits reaching $1,722,710,000. In 2020 the Board of Directors declared dividends of $0.44 per share totaling $5,530,000. And to underscore the year's accomplishments, the Company's tangible book value improved by nearly 15 percent.

Farewell, Pat… and Welcome, Pat!

Pat Carman, Executive Vice President, Chief Credit Officer, retired in November 2020 with over 48 years of industry expertise, the last 12 with Central Valley Community Bank. Pat Carman was succeeded by Pat Luis as the new Executive Vice President, Chief Credit Officer.

Luis joined CVCB with over 35 years of bank credit management expertise. He oversees the Credit Administration Division and credit quality for the Bank, and serves as a member of the Managing Committee. Known for his extensive credit risk knowledge, agribusiness understanding, team development acumen and business intelligence, Luis has worked in large national banks and the farm credit association – mostly in California and the Western US – throughout his career.

Board Member Addition

Andriana Majarian was added to the Board of Directors in December 2020. She is the Chief Operating Officer of Agrian, based in Clovis, California, one of the world's largest and most-profitable ag technology companies, acquired by TELUS Agriculture in August 2020. Andriana serves on Agrian's executive leadership team and oversees all aspects of the company's global operations in 58 countries. Her experience and leadership are focused on developing and delivering technology-driven business services and solutions, providing outstanding client service and expanding Agrian's revenue growth.

Upgrades for Improved Client Service… Both Online and In Person

The Bank continued to upgrade and refine our cybersecurity and innovation initiatives in 2020, in addition to digital processes that enabled our clients to experience improved service. This is all part of our ongoing commitment to investing in advanced technologies to ensure that our Company and clients are prepared for the future, no matter what it may hold.

In the summer of 2020, Personal and Business Online Banking systems were upgraded to an improved, intuitive system design with added services for over 12,000 of our valued Personal and Business clients. This was further enhanced by the launch of Digital Wallet, which enables clients to make purchases easily and securely – with contactless safety – using their smartphones.

Meanwhile, in the brick-and-mortar world, our Prather Banking Center set in the Central Sierra, relocated to a temporary facility in its existing shopping center while a new, permanent office is being constructed in its original location. The new Banking Center is expected to be completed in the spring of 2021.

Awards & Achievements

During 2020, the Company earned recognition in a wide range of categories, from our robust financial performance to our talented team. Among the highlights:

- Continuing our growing impact with SCORE, a nonprofit organization dedicated to small business advocacy. Our team provides mentoring for new and existing businesses throughout our territory.

- Achieving a Super Premier performance rating from The Findley Reports – the highest of the three performance tiers recognized by the firm, based upon the Bank's 2019 operating results.

- Earning a 5-Star Superior rating from Bauer Financial for all four quarters of 2020, a rating reserved for financial institutions that are among the nation's strongest and safest, operating above regulatory capital requirements.

- Being honored by The Business Journal as "Best Business Bank" for the seventh consecutive year in its 2020 Best of Central Valley Business Awards.

Stronger. Sharper. More Committed than Ever.

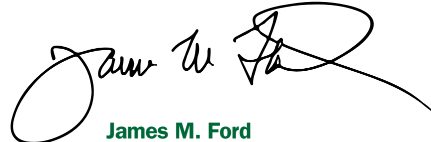
There's no question that 2020 will be remembered as a year of extraordinary change, challenge and heroism, as well as a reminder of humanity's unquenchable ability to adapt and endure. The year 2020 did not define us – it sharpened us. We emerged from 2020 stronger so that, no matter the situation, our team is ready, willing and able to serve our clients with the excellence we have long been known for.

As we entered 2021, we were mindful of the political changes brought about by the 2020 elections, the start of the COVID-19 vaccine rollout and the hopeful improvement of economic conditions.
No matter what 2021 may bring, we remain optimistic that our brand of relationship banking will continue to serve our team, clients and shareholders very well.

Thank you for your loyalty and commitment to our Company during this unprecedented time. Our experienced leadership, dedicated local banking professionals and committed Board of Directors will continue to earn your trust daily as we continue to successfully serve our communities, guided by the core values that have been at our forefront for over 40 years.

Sincerely,

Daniel J. Doyle
Chairman of the Board,
Central Valley Community Bancorp
Central Valley Community Bank



James M. Ford
President & CEO,
Central Valley Community Bancorp
Central Valley Community Bank

Board of **Directors**

Investing In Relationships

Daniel J. Doyle
Chairman of the Board,
Central Valley Community Bancorp
Central Valley Community Bank

James M. Ford
President and CEO,
Central Valley Community Bancorp
Central Valley Community Bank

Daniel N. Cunningham
Vice Chairman,
Central Valley Community Bancorp
Central Valley Community Bank
Director, Quinn Group Inc.

Steven D. McDonald
Secretary of the Board,
Central Valley Community Bancorp
Central Valley Community Bank
President, McDonald Properties, Inc.

F.T. "Tommy" Elliott, IV
Owner,
Wileman Bros. & Elliott, Inc.
Kaweah Container, Inc.

Robert J. Flautt
Retired Bank Executive

Gary D. Gall
Retired Bank Executive

Andriana D. Majarian
Chief Operating Officer,
Agrian

Louis C. McMurray
President,
Charles McMurray Co.

Karen A. Musson
Marketing and Media,
Gar Tootelian, Inc.

Dorothea D. Silva
Principal,
Avaunt Ltd. CPAs
and Consultants

William S. Smittcamp
President and CEO,
Wawona Frozen Foods

Making History Together

Our history is written by many hands, but with one vision: to help our clients and communities succeed. We are proud of our legacy of success, and just as proud that our story is still being written today.

A History of Strength - A Heart of Service

Central Valley Community Bank (Bank), founded in 1979, is a California State chartered bank with deposit accounts insured by the Federal Deposit Insurance Corporation (FDIC). The Bank commenced operations on January 10, 1980, in Clovis, California, with 12 professional bankers and beginning assets of $2,000,000.

Central Valley Community Bancorp (Company), was established on November 15, 2000, as the holding company for Central Valley Community Bank and is registered as a bank holding company with the Board of Governors of the Federal Reserve System. The common stock of the Company trades on the NASDAQ stock exchange under the symbol "CVCY." The Company is regulated by the Federal Deposit Insurance Corporation, Federal Reserve Board, Securities and Exchange Commission, and the California Department of Business Oversight.

The Bank operates full-service offices in 16 communities within the San Joaquin Valley and Greater Sacramento Region. Banking Centers are located in Cameron Park, Clovis, Exeter, Folsom, Fresno, Gold River, Kerman, Lodi, Madera, Merced, Modesto, Oakhurst, Prather, Roseville, Stockton and Visalia. Additionally, the Bank operates Commercial, Real Estate, SBA and Agribusiness Lending Departments.

With assets exceeding $2 billion as of December 31, 2020, Central Valley Community Bank has grown into a well-capitalized institution, with a proven track record of financial strength, security and stability. The Company's financial performance continues to receive industry acclaim and national recognition. Despite the Bank's growth, it has remained true to its original roots and committed to its core values of teamwork, respect, accountability, integrity and leadership.

Central Valley Community Bank distinguishes itself from other financial institutions through its strength, client advocacy, exemplary service to clients and communities, and the values that have guided the Bank since its opening. The Bank's unique brand of personalized service is demonstrated daily by professional bankers who live its mission of providing personalized financial solutions that guide businesses and communities to succeed and thrive.

Guided by an engaged Board of Directors and a seasoned Executive Management Team, the Bank continues to focus on personalized service, client referrals and team member satisfaction. Central Valley Community Bank's strong foundation, concern for its team and training opportunities at all levels has afforded the ongoing addition and retention of high-quality employees.

Supporting Our Communities In So Many Ways

Focused on investing in the communities it serves, the Bank annually supports a wide variety of organizations with financial donations and the talents and energy of its people. Additionally, Bank management serves in leadership positions for civic and philanthropic organizations, as well as industry groups at the state and national levels. Providing leadership-by- example sets the pace for the entire team, all committed to improving and strengthening the quality of life in the communities where they live, work and raise their families. This is evidenced by The Business Journal's "Best of Central Valley Business Awards" where the Bank was honored for the seventh consecutive year as "Best Business Bank" in 2020.

Always On The Leading Edge Of Security & Convenience

Central Valley Community Bank maintains state-of-the-art data processing and information systems, and offers a complete line of innovative and competitive business and personal deposit and loan products. Through FDIC insurance, client deposits for all insurable accounts are protected up to $250,000. For maximum convenience, personal and business services are available through Online Banking with Bill Pay, Mobile Banking, Mobile Deposit, CVCB CardControl, eStatements and Financial tools. The Private Business Banking Department ensures that businesses of all sizes benefit from custom-tailored Cash Management services through Business Online Banking, Remote Deposit and Merchant Card Services. In addition, ATMs are located throughout the Bank's territory, and clients are able to access ATMs nationwide for free through the MoneyPass® network. BankLine provides 24-hour telephone banking and convenient banking hours are offered at the Bank's offices.

A Proud Reputation Built On Personal Relationships

Central Valley Community Bank has built a reputation for superior banking service by offering personalized "relationship banking" for businesses, professionals and individuals. Serving the business community has always been a primary focus for the Bank, which continues to expand its commercial banking team to serve even more satisfied clients.

Central Valley Community Bank's experienced banking professionals live and work in the local community, and have a deep understanding of the marketplace. As a result, the Bank has remained an active business lender and is proud to be a Preferred SBA Lender. Central Valley Community Bank has consistently been ranked upon the top SBA 504 lenders in the Central Valley from CenCal Business Group's Lender of the Year award in recent years.

At Central Valley Community Bank, you will find the secure lending power of a big bank plus the stable values and relationships of a community bank. From small manufacturing to large agribusiness organizations, healthcare companies to service industries, and everything in between, Central Valley Community Bank is always ready to leverage its strength, experience and commitment to help businesses thrive – even in the toughest economic times – by offering tailored lending products.

Central Valley Community Bank is dedicated to providing outstanding value to its clients by increasing and enhancing its products and services, while emphasizing needs-based consulting within Banking Centers and Customer Service environments. Serving both new and long-time customers continues to be an important factor in the Bank's growth, as demonstrated in ongoing client referrals. Dependable values and security are important to banking clients, and the Bank is well-positioned to provide them with an ongoing emphasis on privacy, safety and convenience.

A Firm Foundation For Building A Strong Future

Thanks to the vision of the Company's leadership and Board of Directors, the Bank has grown steadily and sensibly for over four decades, keeping pace with the needs of its clients and the communities it serves, all while retaining the local values that formed the Bank's firm foundation.

Trusted **Leadership**

Holding Company & Bank Officers

James M. Ford
President and CEO

Patrick A. Luis
Executive Vice President,
Chief Credit Officer

David A. Kinross
Executive Vice President,
Chief Financial Officer

Bank Executive Management

James J. Kim
Executive Vice President,
Chief Operating Officer

Teresa Gilio
Executive Vice President,
Chief Administrative Officer

Blaine C. Lauhon
Executive Vice President,
Market Executive,
Northern Region

A. Ken Ramos
Executive Vice President,
Market Executive,
Southern Region

Dawn M. Cagle
Senior Vice President,
Human Resources

Independent Auditors

Crowe LLP,
Sacramento, CA

Counsel

Buchalter, A Professional Corporation,
Sacramento, CA

Central Valley Community Bank Executive Management

From Left to Right: David A. Kinross, Patrick A. Luis, Dawn M. Cagle, James M. Ford, James J. Kim, A. Ken Ramos, Teresa Gilio and Blaine C. Lauhon

Corporate Responsibility

Mission Statement

We provide personalized financial solutions that guide businesses and communities to succeed and thrive.

Core Values

Teamwork, Respect, Accountability, Integrity and Leadership

Environmental, Social and Governance (ESG)

At Central Valley Community Bank, we believe that accountable corporate behavior is essential for a community bank, and work diligently to ensure a more equitable, resilient future for our clients, team members, shareholders and the communities where we live and operate. For that reason, our executive management team annually reviews and prioritizes the Company's areas of focus, which include: community and charitable giving, responsible lending practices, economic growth, sustainable practices, vendor management and employment practices, among others.

Since 1980, we have supported our clients with a full range of banking and financial services, while championing initiatives that strengthen our communities, protect our environment and promote transparency, accountability and diversity.

In 2020, with the immense hardships brought on by the COVID-19 pandemic and California wildfires, we elevated our community support in the areas of food insecurity, housing and social justice to be able to help more people and communities rebuild their lives and achieve financial balance.

Our governance structure enables us to manage all major aspects of our business through an integrated process of financial, strategic, risk and leadership planning. This structure and process also ensure our compliance with laws and regulations while providing clear lines of authority for decision-making and accountability. Guided by our core values and high ethical standards, we strive to operate with integrity that inspires our clients and community to confidently place their trust in our Company.

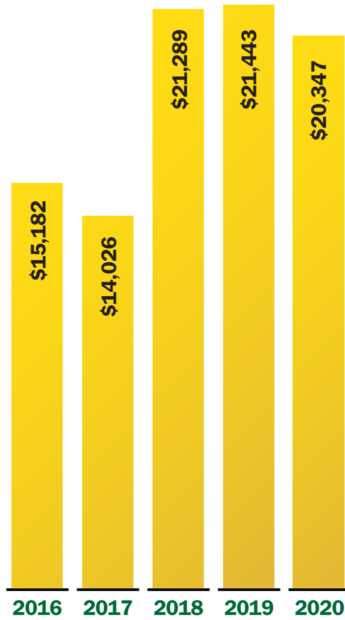
Diversity, Equity and Inclusion (DEI)

Our Bank policy reflects our commitment to maintaining a diverse and inclusive workplace in which all team members are supported, valued for their unique perspectives, skills and experiences, and have the opportunity to contribute to the Company's success. This commitment is evident throughout our workplace and our impact on the communities we serve.

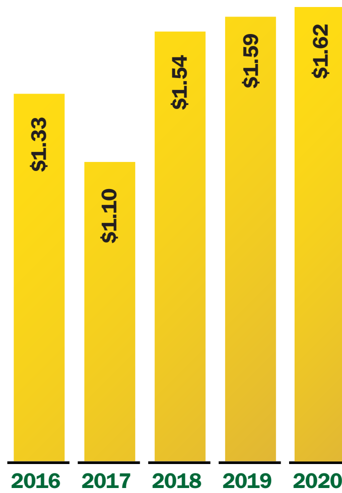
For more information on Corporate Responsibility, please visit the *About Us* section of our website at **www.cvcb.com**.

Trend **Analysis**

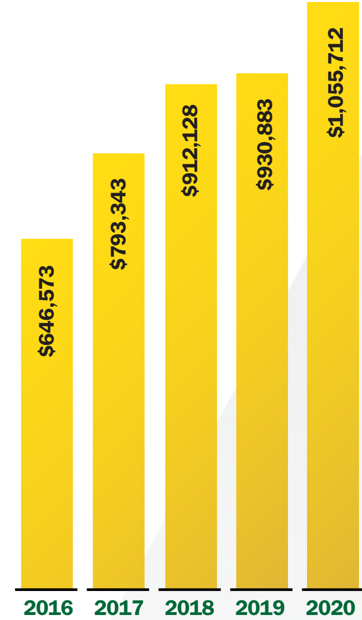
Central Valley Community Bancorp



Net Income (In Thousands)

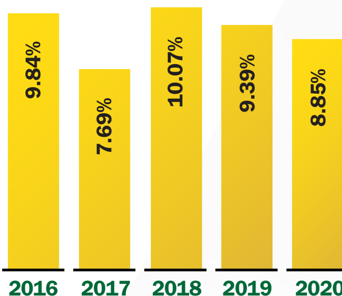


Diluted Earnings Per Share

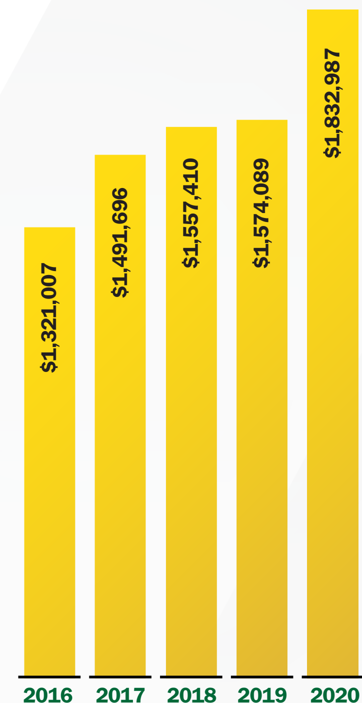


Average Total Loans (In Thousands)

Average Total Deposits (In Thousands)



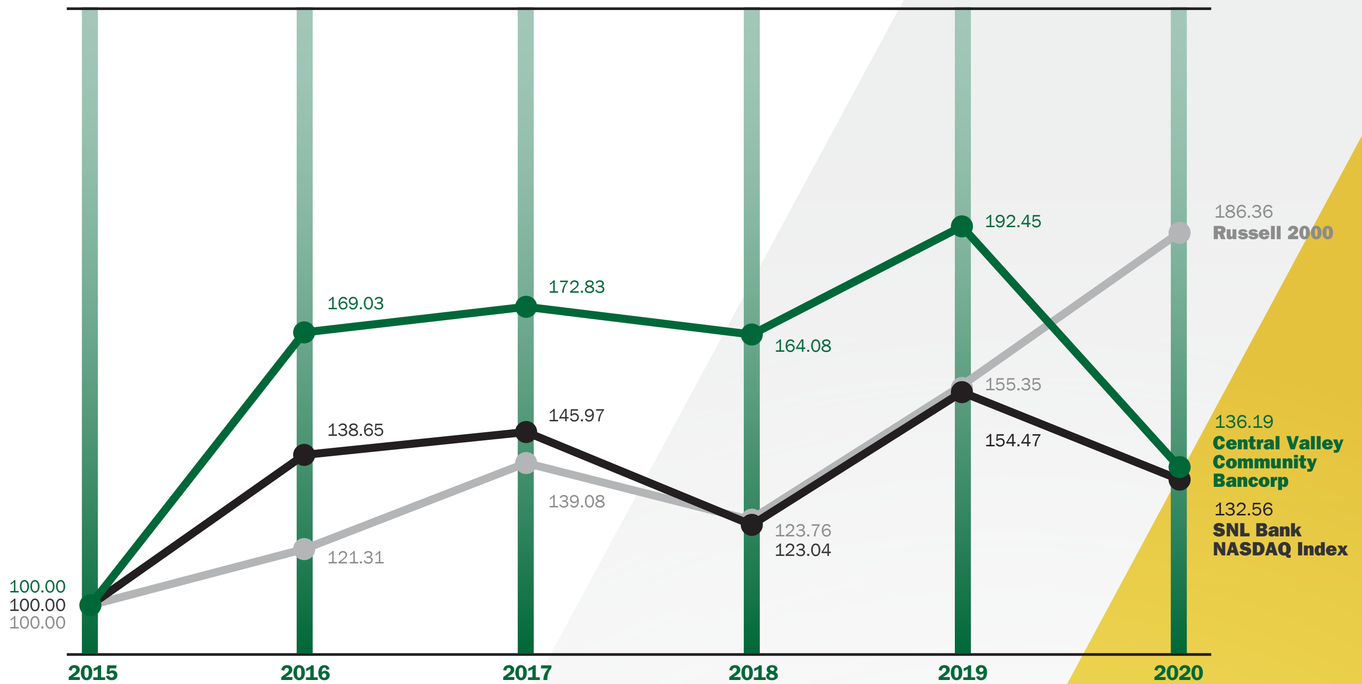
Return on Shareholders' Equity



Average Total Assets (In Thousands)

Comparative Stock
Price Performance

Central Valley Community Bancorp



Note: The graph above shows the cumulative total shareholder return on Central Valley Community Bancorp common stock compared to the cumulative total returns for the Russell 2000 Index and the SNL Bank NASDAQ Index, measured as of the last trading day of each year shown. The graph assumes an investment of $100 on December 31, 2015 and reinvestment of dividends on the date of payment without commissions. The performance graph represents past performance and should not be considered to be an indication of future stock performance.

Source: S&P Global Market Intelligence
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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
Consolidated Balance Sheets

December 31, 2020 and 2019 (In thousands, except share amounts)

ASSETS	2020	2019
Cash and due from banks	$ 34,175	$ 24,195
Interest-earning deposits in other banks	36,103	28,379
Total cash and cash equivalents	70,278	52,574
Available-for-sale debt securities	710,092	470,746
Equity securities	7,634	7,472
Loans, less allowance for credit losses of $12,915 at December 31, 2020 and $9,130 at December 31, 2019	1,089,432	934,250
Bank premises and equipment, net	8,228	7,618
Bank owned life insurance	28,713	30,230
Federal Home Loan Bank stock	5,595	6,062
Goodwill	53,777	53,777
Core deposit intangibles	1,183	1,878
Accrued interest receivable and other assets	29,164	32,148
Total assets	$ 2,004,096	$ 1,596,755
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 824,889	$ 594,627
Interest bearing	897,821	738,658
Total deposits	1,722,710	1,333,285
Junior subordinated deferrable interest debentures	5,155	5,155
Accrued interest payable and other liabilities	31,210	30,187
Total liabilities	1,759,075	1,368,627
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Preferred stock, no par value; 10,000,000 shares authorized, none issued and outstanding	—	—
Common stock, no par value; 80,000,000 shares authorized; issued and outstanding: 12,509,848 at December 31, 2020 and 13,052,407 at December 31, 2019	79,416	89,379
Retained earnings	150,749	135,932
Accumulated other comprehensive income, net of tax	14,856	2,817
Total shareholders' equity	245,021	228,128
Total liabilities and shareholders' equity	$ 2,004,096	$ 1,596,755

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

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
Consolidated Statements of Income

For the Years Ended December 31, 2020, 2019, and 2018 (In thousands, except per share amounts)

	2020	2019	2018
Interest income:			
Interest and fees on loans	$ 52,066	$ 51,464	$ 49,936
Interest on deposits in other banks	246	375	459
Interest and dividends on investment securities:			
Taxable	11,740	13,197	10,254
Exempt from Federal income taxes	1,966	1,295	3,538
Total interest income	66,018	66,331	64,187
Interest expense:			
Interest on deposits	1,465	1,928	1,153
Interest on junior subordinated deferrable interest debentures	130	210	199
Other	—	421	132
Total interest expense	1,595	2,559	1,484
Net interest income before provision for credit losses	64,423	63,772	62,703
Provision for credit losses	3,275	1,025	50
Net interest income after provision for credit losses	61,148	62,747	62,653
Non-interest income:			
Service charges	2,071	2,756	2,986
Appreciation in cash surrender value of bank owned life insurance	711	728	695
Interchange fees	1,347	1,446	1,462
Loan placement fees	2,291	978	708
Net realized gain on sale of credit card portfolio	—	—	462
Net realized gains on sales and calls of investment securities	4,252	5,199	1,314
Federal Home Loan Bank dividends	323	455	590
Other income	2,802	1,743	2,107
Total non-interest income	13,797	13,305	10,324
Non-interest expenses:			
Salaries and employee benefits	28,603	26,654	26,221
Occupancy and equipment	4,626	5,439	5,972
Regulatory assessments	490	251	619
Data processing expense	2,046	1,557	1,666
Professional services	2,398	1,305	1,475
ATM/Debit card expenses	819	920	739
Information technology	2,391	2,611	1,113
Directors' expenses	615	710	465
Advertising	663	756	758
Internet banking expenses	650	816	732
Acquisition and integration expenses	—	—	217
Amortization of core deposit intangibles	695	695	455
Other expense	3,688	4,386	4,636
Total non-interest expenses	47,684	46,100	45,068
Income before provision for income taxes	27,261	29,952	27,909
Provision for income taxes	6,914	8,509	6,620
Net income	$ 20,347	$ 21,443	$ 21,289
Basic earnings per common share	$ 1.62	$ 1.60	$ 1.55
Diluted earnings per common share	$ 1.62	$ 1.59	$ 1.54
Cash dividends per common share	$ 0.44	$ 0.43	$ 0.31

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

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
Consolidated Statements
of Comprehensive Income

For the Years Ended December 31, 2020, 2019, and 2018 (In thousands)

	2020	2019	2018
NET INCOME	$ 20,347	$ 21,443	$ 21,289
Other Comprehensive Income (Loss):			
Unrealized gains (losses) on securities:			
Unrealized holdings gains (losses) arising during the period	21,344	15,455	(9,159)
Less: reclassification for net (gains) losses included in net income	(4,252)	(5,199)	(1,314)
Other comprehensive income (loss), before tax	17,092	10,256	(10,473)
Tax (expense) benefit related to items of other comprehensive income	(5,053)	(3,032)	3,096
Total other comprehensive income (loss)	12,039	7,224	(7,377)
Comprehensive income	$ 32,386	$ 28,667	$ 13,912

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

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
Consolidated Statements
of Changes in Shareholders' Equity

For the Years Ended December 31, 2020, 2019, and 2018 (In thousands, except share amounts)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss) (Net of Taxes)	Total Shareholders' Equity
	Shares	Amount			
Balance, January 1, 2018	13,696,722	$ 103,314	$ 103,275	$ 2,970	$ 209,559
Net income	-	-	21,289	-	21,289
Other comprehensive loss	-	-	-	(7,377)	(7,377)
Restricted stock granted net of forfeitures	20,494	-	-	-	-
Cash dividend ($0.31 per common share)	-	-	(4,270)	-	(4,270)
Stock issued under employee stock purchase plan	11,581	211	-	-	211
Stock-based compensation expense	-	482	-	-	482
Repurchase and retirement of common stock	(47,862)	(894)	-	-	(894)
Stock options exercised	74,030	738	-	-	738
Balance, December 31, 2018	13,754,965	103,851	120,294	(4,407)	219,738
Net income	-	-	21,443	-	21,443
Other comprehensive income	-	-	-	7,224	7,224
Stock issued under employee stock purchase plan	12,286	216	-	-	216
Restricted stock granted net of forfeitures	16,495	-	-	-	-
Stock awarded to employees	5,295	100	-	-	100
Stock-based compensation expense	-	555	-	-	555
Cash dividend ($0.43 per common share)	-	-	(5,805)	-	(5,805)
Repurchase and retirement of common stock	(768,754)	(15,619)	-	-	(15,619)
Stock options exercised	32,120	276	-	-	276
Balance, December 31, 2019	13,052,407	89,379	135,932	2,817	228,128
Net income	-	-	20,347	-	20,347
Other comprehensive income	-	-	-	12,039	12,039
Restricted stock granted, net of forfeitures	13,008	-	-	-	-
Stock issued under employee stock purchase plan	15,764	199	-	-	199
Stock awarded to employees	6,548	141	-	-	141
Stock-based compensation expense	-	470	-	-	470
Cash dividend ($0.44 per common share)	-	-	(5,530)	-	(5,530)
Stock options exercised	43,500	279	-	-	279
Repurchase and retirement of common stock	(621,379)	(11,052)	-	(11,052)	
Balance, December 31, 2020	12,509,848	$ 79,416	$ 150,749	$ 14,856	$ 245,021

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

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
Consolidated Statements
of Cash Flows

For the Years Ended December 31, 2020, 2019, and 2018 (In thousands)

	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 20,347	$ 21,443	$ 21,289
Adjustments to reconcile net income to net cash provided by operating activities:			
Net (increase) decrease in deferred loan costs	(4,127)	(77)	233
Depreciation	881	1,742	1,703
Accretion	(1,326)	(917)	(898)
Amortization	4,622	4,564	6,457
Stock-based compensation	470	555	482
Provision for credit losses	3,275	1,025	50
Net realized gains on sales and calls of available-for-sale investment securities	(4,252)	(5,199)	(1,314)
Net (gain) loss on sale and disposal of equipment	(6)	—	2
Net change in equity investments	(162)	(218)	42
Increase in bank owned life insurance, net of expenses	(551)	(728)	(695)
Net gain on sale of credit card portfolio	—	—	(462)
Net gain on bank owned life insurance	(1,167)	—	—
Net (increase) decrease in accrued interest receivable and other assets	(1,128)	(9,521)	3,218
Net increase (decrease) in accrued interest payable and other liabilities	1,165	9,641	(599)
(Provision) benefit for deferred income taxes	(1,051)	(589)	403
Net cash provided by operating activities	16,990	21,721	29,911
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of available-for-sale investment securities	(540,362)	(301,254)	(225,970)
Proceeds from sales or calls of available-for-sale investment securities	283,956	281,906	246,824
Proceeds from maturity and principal repayment of available-for-sale investment securities	35,914	25,120	36,495
Proceeds from sale of credit card portfolio	—	—	2,954
Net increase in loans	(154,331)	(25,606)	(20,477)
Purchases of premises and equipment	(1,492)	(876)	(791)
Purchases of bank owned life insurance	(250)	(1,000)	—
FHLB stock redeemed	467	781	—
Proceeds from bank owned life insurance	3,485	—	—
Proceeds from sale of premises and equipment	6	—	—
Net cash (used in) provided by investing activities	(372,607)	(20,929)	39,035
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in demand, interest-bearing and savings deposits	393,308	54,074	(112,134)
Net decrease in time deposits	(3,883)	(3,087)	(31,253)
Proceeds from short-term borrowings from Federal Home Loan Bank	—	725,500	568,500
Repayments of short-term borrowings to Federal Home Loan Bank	—	(735,500)	(558,500)
Proceeds of borrowings from other financial institutions	—	2,870	19,705
Repayments of borrowings from other financial institutions	—	(2,870)	(19,705)
Purchase and retirement of common stock	(11,052)	(15,619)	(894)
Proceeds from stock issued under employee stock purchase plan	199	216	211
Proceeds from exercise of stock options	279	276	738
Cash dividend payments on common stock	(5,530)	(5,805)	(4,270)
Net cash provided by (used in) financing activities	373,321	20,055	(137,602)
Increase (decrease) in cash and cash equivalents	17,704	20,847	(68,656)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	52,574	31,727	100,383
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 70,278	$ 52,574	$ 31,727
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 1,706	$ 2,517	$ 1,460
Income taxes	$ 5,120	$ 9,140	$ 2,700
Operating cash flows from operating leases	$ 2,240	$ 1,643	$ —
Non-cash investing and financing activities:			
Initial recognition of operating lease right-of-use assets	$ —	$ 10,129	$ —

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General - Central Valley Community Bancorp (the "Company") was incorporated on February 7, 2000 and subsequently obtained approval from the Board of Governors of the Federal Reserve System to be a bank holding company in connection with its acquisition of Central Valley Community Bank (the "Bank"). The Company became the sole shareholder of the Bank on November 15, 2000 in a statutory merger, pursuant to which each outstanding share of the Bank's common stock was exchanged for one share of common stock of the Company.

Service 1st Capital Trust I (the Trust) is a business trust formed by Service 1st for the sole purpose of issuing trust preferred securities. The Company succeeded to all the rights and obligations of Service 1st in connection with the acquisition of Service 1st. The Trust is a wholly-owned subsidiary of the Company.

The Bank operates 20 full service offices throughout California's San Joaquin Valley and Greater Sacramento Region. The Bank's primary source of revenue is providing loans to customers who are predominately small and middle-market businesses and individuals.

The deposits of the Bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to applicable legal limits. Depositors' accounts at an insured depository institution, including all non-interest bearing transactions accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount of $250,000 for each deposit insurance ownership category.

The accounting and reporting policies of the Company and the Bank conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Management has determined that because 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.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and the consolidated accounts of its wholly-owned subsidiary, the Bank. Intercompany transactions and balances are eliminated in consolidation.

For financial reporting purposes, Service 1st Capital Trust I, is a wholly-owned subsidiary acquired in the merger of Service 1st Bancorp and formed for the exclusive purpose of issuing trust preferred securities. The Company is not considered the primary beneficiary of this trust (variable interest entity), therefore the trust is not consolidated in the Company's financial statements, but rather the subordinated debentures are shown as a liability on the Company's consolidated financial statements. The Company's investment in the common stock of the Trust is included in accrued interest receivable and other assets on the consolidated balance sheet.

Risks and Uncertainties - In December 2019, a novel strain of coronavirus, COVID-19, was reported in Wuhan, China. COVID-19 continues to aggressively spread globally, including all 50 states in the United States. A prolonged COVID-19 outbreak, or any other epidemic that harms the global economy, U.S. economy, or the economies in which we operate, could adversely affect our operations. While the spread of COVID-19 has minimally affected our operations as of December 31, 2020, it has caused significant economic disruption throughout the United States as state and local governments issued "shelter at home" orders along with the closing of non-essential businesses. The potential financial impact is unknown at this time. However, if these actions are sustained, it may adversely affect several industries within our geographic footprint and impair the ability of our customers to fulfill their contractual obligations to the Company. This could cause the Company to experience a material adverse effect on our business operations, asset valuations, financial condition, and results of operations. Material adverse impacts may include all or a combination of valuation impairments on our intangible assets, investments, loans, or deferred tax assets.

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

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

Cash and Cash Equivalents - For the purpose of the statement of cash flows, cash, due from banks with maturities less than 90 days, interest-earning deposits in other banks, and Federal funds sold are considered to be cash equivalents. Generally, Federal funds are sold and purchased for one-day periods. Net cash flows are reported for customer loan and deposit transactions, interest-bearing deposits in other banks, and Federal funds purchased.

Investment Securities - Investments are classified into the following categories:

- Available-for-sale securities, reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.

- Held-to-maturity securities, which management has the positive intent and ability to hold to maturity, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value in the period which the transfer occurs. During the year ended December 31, 2020, there were no transfers between categories.

Gains or losses on the sale of investment securities are computed on the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums. Premiums and discounts on securities are amortized or accreted on the level yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated.

An investment security is impaired when its carrying value is greater than its fair value. Investment securities that are impaired are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether such a decline in their fair value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Company to retain its investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospect for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary, and management does not intend to sell the security or it is more likely than not that the Company will not be required to sell the security before recovery, for debt securities, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive income. If management intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovering its forecasted cost, the entire impairment loss is recognized as a charge to earnings.

Loans - All loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at principal balances outstanding net of deferred loan fees and costs, and the allowance for credit losses. Interest is accrued daily based upon outstanding loan principal balances. However, when a loan becomes impaired and the future collectability of interest and principal is in serious doubt, the loan is placed on nonaccrual status and the accrual of interest income is suspended. Any loan delinquent 90 days or more is automatically placed on nonaccrual status. Any interest accrued but unpaid is charged against income. Subsequent payments on these loans, or payments received on nonaccrual loans for which the ultimate collectability of principal is not in doubt, are applied first to principal until fully collected and then to interest.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Interest income on loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer and credit card loans are typically charged off no later than 90 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. A loan placed on non-accrual status may be restored to accrual status when principal and interest are no longer past due and unpaid, or the loan otherwise becomes both well secured and in the process of collection. When a loan is brought current, the Company must also have reasonable assurance that the obligor has the ability to meet all contractual obligations in the future, that the loan will be repaid within a reasonable period of time, and that a minimum of six months of satisfactory repayment performance has occurred.

Substantially all loan origination fees, commitment fees, direct loan origination costs and purchase premiums and discounts on loans are deferred and recognized as an adjustment of yield, and amortized to interest income over the contractual term of the loan. The unamortized balance of deferred fees and costs is reported as a component of net loans.

Acquired loans and Leases - Loans and leases acquired through purchase or through a business combination are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan and lease losses is not recorded at the acquisition date. Should the Company's allowance for credit losses methodology indicate that the credit discount associated with acquired, non-purchased credit impaired loans, is no longer sufficient to cover probable losses inherent in those loans, the Company will establish an allowance for those loans through a charge to provision for credit losses. At the time of an acquisition, we evaluate loans to determine if they are purchase credit impaired loans. Purchased credit impaired loans are those acquired loans with evidence of credit deterioration for which collection of all contractual payments was not considered probable at the date of acquisition. This determination is made by considering past due and/or nonaccrual status, prior designation of a troubled debt restructuring, or other factors that may suggest we will not be able to collect all contractual payments. Purchased credit impaired loans are initially recorded at fair value with the difference between fair value and estimated future cash flows accreted over the expected cash flow period as income only to the extent we can reasonably estimate the timing and amount of future cash flows. In this case, these loans would be classified as accruing. In the event we are unable to reasonably estimate the timing and amount of future cash flows, or if the loan is acquired primarily for the rewards of ownership of the underlying collateral, the loan is classified as non-accrual. An acquired loan previously classified by the seller as a troubled debt restructuring is no longer classified as such at the date of acquisition. Past due status is reported based on contractual payment status.

All loans not otherwise classified as purchase credit impaired are recorded at fair value with the discount to contractual value accreted over the life of the loan.

Allowance for Credit Losses - The allowance for credit losses (the "allowance") is a valuation allowance for probable incurred credit losses in the Company's loan portfolio. The allowance is established through a provision for credit losses which is charged to expense. Additions to the allowance are made to maintain the adequacy of the total allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance. The overall allowance consists of two primary components, specific reserves related to impaired loans and general reserves for inherent losses related to loans that are not impaired.

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 principal and interest, according to the contractual terms of the original agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Loans determined to be impaired are individually evaluated for impairment. When a loan is impaired, the Company measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, it may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to come solely from the sale or operation of underlying collateral.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the Company for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Restructured workout loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

When determining the allowance for loan losses on acquired loans, we bifurcate the allowance between legacy loans and acquired loans. Loans remain designated as acquired until either (i) loan is renewed or (ii) loan is substantially modified whereby modification results in a new loan. When determining the allowance on acquired loans, the Company estimates probable incurred credit losses as compared to the Company's recorded investment, with the recorded investment being net of any unaccreted discounts from the acquisition.

The determination of the general reserve for loans that are not impaired is based on estimates made by management, including but not limited to, consideration of a simple average of historical losses by portfolio segment (and in certain cases peer loss data) over the most recent 48 quarters, and qualitative factors including economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan portfolio, and probable losses inherent in the portfolio taken as a whole.

The Company segregates the allowance by portfolio segment. These portfolio segments include commercial, real estate, and consumer loans. The relative significance of risk considerations vary by portfolio segment. For commercial and real estate loans, the primary risk consideration is a borrower's ability to generate sufficient cash flows to repay their loan. Secondary considerations include the creditworthiness of guarantors and the valuation of collateral. In addition to the creditworthiness of a borrower, the type and location of real estate collateral is an important risk factor for real estate loans. The primary risk considerations for consumer loans are a borrower's personal cash flow and liquidity, as well as collateral value. The allowance for credit losses attributable to each portfolio segment, which includes both impaired loans and loans that are not impaired, is combined to determine the Company's overall allowance, which is included on the consolidated balance sheet.

Commercial:

Commercial and industrial - Commercial and industrial loans are generally underwritten to existing cash flows of operating businesses. Additionally, economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Past due payments may indicate the borrower's capacity to repay their obligations may be deteriorating.

Agricultural production - Loans secured by crop production and livestock are especially vulnerable to two risk factors that are largely outside the control of Company and borrowers: commodity prices and weather conditions.

Real Estate:

Owner-occupied commercial real estate - Real estate collateral secured by commercial or professional properties with repayment arising from the owner's business cash flows. To meet this classification, the owner's operation must occupy no less than 50% of the real estate held. Financial profitability and capacity to meet the cyclical nature of the industry and related real estate market over a significant timeframe is essential.

Real estate construction and other land loans - Land and construction loans generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within specified costs and time lines. Trends in the construction industry significantly

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

Agricultural real estate - Agricultural loans secured by real estate generally possess a higher inherent risk of loss caused by changes in concentration of permanent plantings, government subsidies, and the value of the U.S. dollar affecting the export of commodities.

Investor commercial real estate - Investor commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments, except land and construction loans. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for properties to produce sufficient cash flows to service debt obligations.

Other real estate - Primarily loans secured by agricultural real estate for development and production of permanent plantings that have not reached maximum yields. Also real estate loans where agricultural vertical integration exists in packing and shipping of commodities. Risk is primarily based on the liquidity of the borrower to sustain payment during the development period.

Consumer:

Equity loans and lines of credit - The degree of risk in residential real estate lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends may indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Installment and other consumer loans - An installment loan portfolio is usually comprised of a large number of small loans scheduled to be amortized over a specific period. Most installment loans are made directly for consumer purchases. Other consumer loans include other open ended unsecured consumer loans. Open ended unsecured loans generally have a higher rate of default than all other portfolio segments and are also impacted by weak economic conditions and trends. Open ended unsecured loans in homogeneous loan portfolio segments are not evaluated for specific impairment.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the adequacy of the allowance, including consideration of the relative risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Company's primary regulators, the FDIC and California Department of Business Oversight, as an integral part of their examination process, review the adequacy of the allowance. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

Risk Rating - The Company assigns a risk rating to all loans, and periodically performs detailed reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. The most recent review of risk rating was completed in December 2020. These risk ratings are also subject to examination by independent specialists engaged by the Company, and the Company's regulators. During these internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate and the fair values of collateral securing these loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, defined as follows:

Pass - A pass loan is a strong credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention - A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Company's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard - A substandard loan is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well-defined weaknesses include a project's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the project's failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans. Doubtful classification is considered temporary and short term.

Loss - Loans classified as loss are considered uncollectible and charged off immediately.

The general reserve component of the allowance for credit losses also consists of reserve factors that are based on management's assessment of the following for each portfolio segment: (1) inherent credit risk, (2) historical losses and (3) other qualitative factors including economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan portfolio, and probable losses inherent in the portfolio taken as a whole. Inherent credit risk and qualitative reserve factors are inherently subjective and are driven by the repayment risk associated with each class of loans.

Bank Premises and Equipment - Land is carried at cost. Bank premises and equipment are carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of Bank premises are estimated to be between 20 and 40 years. The useful lives of improvements to Bank premises, furniture, fixtures and equipment are estimated to be three to ten years. Leasehold improvements are amortized over the life of the asset or the term of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred.

The Bank evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Federal Home Loan Bank (FHLB) Stock - The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Investments in Low Income Housing Tax Credit Funds - The Bank has invested in limited partnerships that were formed to develop and operate affordable housing projects for low or moderate income tenants throughout California. Our

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ownership in each limited partnership is less than two percent. In accordance with ASU No. 2014-01, *Investments—Equity Method and Joint Ventures* (Topic 323), we elected to account for the investments in qualified affordable housing tax credit funds using the proportional amortization method. Under the proportional amortization method, the initial cost of the investment is amortized in proportion to the tax credits and other tax benefits received and the net investment performance is recognized as part of income tax expense (benefit). Each of the partnerships must meet the regulatory minimum requirements for affordable housing for a minimum 15-year compliance period to fully utilize the tax credits. If the partnerships cease to qualify during the compliance period, the credit may be denied for any period in which the project is not in compliance and a portion of the credit previously taken is subject to recapture with interest. The Company's investment in Low Income Housing Tax Credit Funds is reported in other assets on the consolidated balance sheet.

Other Real Estate Owned - Other real estate owned (OREO) is comprised of property acquired through foreclosure proceedings or acceptance of deeds-in-lieu of foreclosure. Losses recognized at the time of acquiring property in full or partial satisfaction of debt are charged against the allowance for credit losses. OREO, when acquired, is initially recorded at fair value less estimated disposition costs, establishing a new cost basis. Fair value of OREO is generally based on an independent appraisal of the property. Subsequent to initial measurement, OREO is carried at the lower of the recorded investment or fair value less disposition costs. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through noninterest expense. Revenues and expenses associated with OREO are reported as a component of noninterest expense when incurred.

Foreclosed Assets - Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through operations. Operating costs after acquisition are expensed. Gains and losses on disposition are included in noninterest expense. The carrying value of foreclosed assets was $0 at December 31, 2020 and at December 31, 2019.

Bank Owned Life Insurance - The Company has purchased life insurance policies on certain key executives. Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Business Combinations - The Company accounts for acquisitions of businesses using the acquisition method of accounting. Under the acquisition method, assets and liabilities assumed are recorded at their estimated fair values at the date of acquisition. Management utilizes various valuation techniques included discounted cash flow analyses to determine these fair values. Any excess of the purchase price over amounts allocated to the acquired assets, including identifiable intangible assets, and liabilities assumed is recorded as goodwill.

Goodwill - Business combinations involving the Bank's acquisition of the equity interests or net assets of another enterprise give rise to goodwill. Goodwill represents the excess of the purchase price of acquired businesses over the net fair value of assets, including identified intangible assets, acquired and liabilities assumed in the transactions accounted for under the acquisition method of accounting. The value of goodwill is ultimately derived from the Bank's ability to generate net earnings after the acquisitions. A decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed at least annually for impairment.

The Company has selected September 30 as the date to perform the annual impairment test. Management determined it appropriate to perform a quantitative goodwill impairment test in the third quarter of 2020. A third party valuation specialist was engaged to assist with the performance of the test. Based on this quantitative test, it was determined that the fair value of the reporting unit exceeded the carrying value as of September 30, 2020.

Goodwill is also tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. During the fourth quarter, management performed a qualitative assessment including an evaluation of performance trends, market information and economic data and determined it was more likely than not that the fair value of the reporting unit exceeded the carrying value. As such, no quantitative goodwill impairment test was required as of December 31, 2020. Goodwill is the only intangible asset with an indefinite life on the balance sheet.

Intangible Assets - The intangible assets at December 31, 2020 represent the estimated fair value of the core deposit relationships acquired in business combinations. Core deposit intangibles are being amortized using the straight-line method over an estimated life of five to ten years from the date of acquisition. Management evaluates the remaining useful lives quarterly to determine whether events or circumstances warrant a revision to the remaining periods of amortization. Based on the evaluation, no changes to the remaining useful lives was required. Management performed an annual impairment test on core deposit intangibles as of September 30, 2019 and determined no impairment was necessary. Core deposit intangibles are also tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount. No such events or circumstances arose during the fourth quarter of 2020, so core deposit intangibles were not required to be retested.

Loan Commitments and Related Financial Instruments - Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount of these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Income Taxes - The Company files its income taxes on a consolidated basis with the Bank. The allocation of income tax expense represents each entity's proportionate share of the consolidated provision for income taxes.

Income tax expense represents the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. On the balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is "more likely than not" that all or a portion of the deferred tax assets will not be realized. "More likely than not" is defined as greater than a 50% chance. All available evidence, both positive and negative is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed.

Accounting for Uncertainty in Income Taxes - The Company uses a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the consolidated statement of income.

Retirement Plans - Employee 401(k) plan expense is the amount of employer matching contributions. Profit sharing plan expense is the amount of employer contributions. Contributions to the profit sharing plan are determined at the discretion of the Board of Directors. Deferred compensation and supplemental retirement plan expense is allocated over years of service.

Earnings Per Common Share - Basic earnings per common share (EPS), which excludes dilution, is computed by dividing income available to common shareholders (net income after deducting dividends, if any, on preferred stock and accretion of discount) 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, result in the issuance of common stock which shares in the earnings of the Company. All data with respect to computing earnings per share is retroactively adjusted to reflect stock dividends and splits and the treasury

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

stock method is applied to determine the dilutive effect of stock options in computing diluted EPS.

Comprehensive Income - Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale which are also recognized as separate components of equity.

Loss Contingencies - Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the financial statements.

Restrictions on Cash - Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

Share-Based Compensation - Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes-Merton model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards. Additionally, the compensation expense for the Company's employee stock ownership plan is based on the market price of the shares as they are committed to be released to participant accounts. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Dividend Restriction - Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Company or by the Company to shareholders.

Fair Value of Financial Instruments - Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in *Note 2*. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Recently Issued Accounting Standards:

FASB Accounting Standards Update (ASU) 2016-13 - *Measurement of Credit Losses on Financial Instruments (Subtopic 326)*: *Financial Instruments—Credit Losses,* commonly referred to as "CECL," was issued June 2016. The provisions of the update eliminate the probable initial recognition threshold under current GAAP which requires reserves to be based on an incurred loss methodology. Under CECL, reserves required for financial assets measured at amortized cost will reflect an organization's estimate of all expected credit losses over the contractual term of the financial asset and thereby require the use of reasonable and supportable forecasts to estimate future credit losses. Because CECL encompasses all financial assets carried at amortized cost, the requirement that reserves be established based on an organization's reasonable and supportable estimate of expected credit losses extends to held to maturity ("HTM") debt securities. Under the provisions of the update, credit losses recognized on available for sale ("AFS") debt securities will be presented as an allowance as opposed to a write-down. In addition, CECL will modify the accounting for purchased loans, with credit deterioration since origination, so that reserves are established at the date of acquisition for purchased loans. Under current GAAP a purchased loan's contractual balance is adjusted to fair value through a credit discount and no reserve is recorded on the purchased loan upon acquisition. Since under CECL, reserves will be established for purchased loans at the time of acquisition, the accounting for purchased loans is made more comparable to the accounting for originated loans. Finally, increased disclosure requirements under CECL require organizations to present the currently required credit quality disclosures disaggregated by the year of origination or vintage. The FASB expects that the evaluation of underwriting standards and credit quality trends by financial statement users will be enhanced with the additional vintage disclosures.

On August 15, 2019, the FASB issued a proposed Accounting Standards Update (ASU), "Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates," that would provide private entities and certain small public companies additional time to implement the standards of CECL, leases, and hedging. The final ASU extends the effective date for SEC filers, such as the Company, that are classified as smaller reporting companies to January 1, 2023.

The Company has formed an internal task force that is responsible for oversight of the Company's implementation strategy for compliance with provisions of the new standard. The Company has also established a project management governance process to manage the implementation across affected disciplines. An external provider specializing in community bank loss driver and CECL reserving model design as well as other related consulting services has been retained, and we have begun to evaluate potential CECL modeling alternatives. As part of this process, the Company has determined potential loan pool segmentation and sub-segmentation under CECL, as well as begun to evaluate the key economic loss drivers for each segment. Further, the Company has begun developing internal controls around the CECL process, data, calculations and implementation. The Company presently plans to generate and evaluate model scenarios under CECL in tandem with its current reserving processes for interim and annual reporting periods during 2021 due to the fact the Company elected to delay implementation of the CECL process as allowed by FASB. While the Company is currently unable to reasonably estimate the impact of adopting this new guidance, management expects the impact of adoption will be significantly influenced by the composition and quality of the Company's loans as well as the economic conditions as of the date of adoption. The Company also anticipates changes to the processes and procedures for calculating the reserve for credit losses and continues to evaluate the potential impact on our consolidated financial statements.

FASB Accounting Standards Update (ASU) 2018-13 - *Fair Value Measurement (Subtopic 820)*: *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement,* was issued August 2018. The primary focus of ASU 2018-13 is to improve the effectiveness of the disclosure requirements for fair value measurements. The changes affect all companies that are required to include fair value measurement disclosures. In general, the amendments in ASU 2018-13 are effective for all entities for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019. The Company adopted this ASU effective January 1, 2020 and it did not have a material impact on the Company's consolidated financial statements and disclosures.

FASB Accounting Standards Update (ASU) 2020-04 - *Reference Rate Reform (Subtopic 848)*: *Facilitation of the Effects of Reference Rate Reform on Financial Reporting,* was issued March 2020. This ASU provides optional expedients and exceptions for contracts, hedging relationships, and other transactions that reference LIBOR or other reference rates expected to be discontinued because of reference rate reform. The ASU is effective for all entities as of March 12, 2020 through December 31, 2022. The Company is in the process of evaluating the provisions of this ASU and its effects on our consolidated financial statements. The Company believes the adoption of this guidance on activities subsequent to December 31,2020 through December 31, 2022 will not have a material impact on the consolidated financial statements.

In April 2020, various regulatory agencies, including the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, ("the agencies") issued a revised interagency statement encouraging financial institutions to work with customers affected by COVID-19 and providing additional information regarding loan modifications. The revised interagency statement clarifies the interaction between the interagency statement issued on March 22, 2020 and the temporary relief provided by Section 4013 of the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. Section 4013 allows financial institutions to suspend the requirements to classify certain loan modifications as troubled debt restructurings ("TDRs"). The revised statement also provides supervisory interpretations on past due and nonaccrual regulatory reporting of loan modification programs and regulatory capital. This interagency guidance is expected to reduce the number of TDRs that will be reported in future periods; however, the amount is indeterminable and will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic.

2. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level - 1 Quoted market prices (unadjusted) for identical instruments traded in active markets that the entity has the ability to access as of the measurement date.

Level - 2 Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level - 3 Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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.

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

	December 31, 2020				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$ 34,175	$ 34,175	$ -	$ -	$ 34,175
Interest-earning deposits in other banks	36,103	36,103	-	-	36,103
Available-for-sale investment securities	710,092	-	710,092	-	710,092
Equity securities	7,634	7,634	-	-	7,634
Loans, net	1,089,432	-	-	1,087,124	1,087,124
Federal Home Loan Bank stock	5,595	N/A	N/A	N/A	N/A
Accrued interest receivable	8,834	9	3,617	5,208	8,834
Financial liabilities:					
Deposits	1,722,710	1,691,647	90,008	-	1,781,655
Junior subordinated deferrable interest debentures	5,155	-	-	3,693	3,693
Accrued interest payable	65	-	41	24	65

	December 31, 2019				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$ 24,195	$ 24,195	$ -	$ -	$ 24,195
Interest-earning deposits in other banks	28,379	28,379	-	-	28,379
Available-for-sale investment securities	470,746	-	470,746	-	470,746
Equity securities	7,472	7,472	-	-	7,472
Loans, net	934,250	-	-	928,807	928,807
Federal Home Loan Bank stock	6,062	N/A	N/A	N/A	N/A
Accrued interest receivable	5,591	33	1,798	3,760	5,591
Financial liabilities:					
Deposits	1,333,285	1,160,224	93,395	-	1,253,619
Short-term borrowings	-	-	-	-	-
Junior subordinated deferrable interest debentures	5,155	-	-	3,976	3,976
Accrued interest payable	176	-	129	47	176

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 methods and assumptions used to estimate fair values are described as follows:

(a) Cash and Cash Equivalents - The carrying amounts of cash and due from banks, interest-earning deposits in other banks, and Federal funds sold approximate fair values and are classified as Level 1.

(b) Investment Securities - Investment 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 investment securities classified in Level 2 are based on quoted market prices for similar securities in active markets. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators.

(c) Loans - Fair values of loans are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Purchased credit impaired (PCI) loans are measured at estimated fair value on the date of acquisition. Carrying value is calculated as the present value of expected cash flows and approximates fair value and included in Level 3. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are initially valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for credit losses. For collateral dependent real estate loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's

2. **FAIR VALUE MEASUREMENTS** (Continued)

historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly. The estimated fair values of financial instruments disclosed above a follow the guidance in ASU 2016-01 which prescribes an "exit price" approach in estimating and disclosing fair value of financial instruments incorporating discounts for credit, liquidity, and marketability factors.

(d) FHLB Stock - It is not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability.

(e) Deposits - Fair value of demand deposit, savings, and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 1 classification. Fair value for fixed and variable 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 resulting in a Level 2 classification.

(f) Short-Term Borrowings - The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings, generally maturing within ninety days, approximate their fair values resulting in a Level 2 classification.

The fair values of the Company's Subordinated Debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

(g) Accrued Interest Receivable/Payable - The fair value of accrued interest receivable and payable is based on the fair value hierarchy of the related asset or liability.

(h) Off-Balance Sheet Instruments - Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

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 December 31, 2020:

Recurring Basis

The Company is required or permitted to record the following assets at fair value on a recurring basis under other accounting pronouncements (in thousands):

	Fair Value	Level 1	Level 2	Level 3
Available-for-sale investment securities				
Debt Securities:				
U.S. Government agencies	$ 680	$ -	$ 680	$ -
Obligations of states and political subdivisions	379,565	-	379,565	-
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	216,298	-	216,298	-
Private label mortgage and asset backed securities	83,508	-	83,508	-
Corporate debt securities	30,041	-	30,041	-
Equity Securities	7,634	7,634	-	-
Total assets measured at fair value on a recurring basis	$ 717,726	$ 7,634	$ 710,092	$ -

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 in active markets. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators.

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 year ended December 31, 2020, no transfers between levels occurred.

There were no Level 3 assets measured at fair value on a recurring basis at December 31, 2020. Also there were no liabilities measured at fair value on a recurring basis at December 31, 2020.

Non-recurring Basis

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a non-recurring basis. These include the following assets and liabilities that are measured at the lower of cost or fair value that were recognized at fair value which was below cost at December 31, 2020 (in thousands):

	Fair Value	Level 1	Level 2	Level 3
Impaired loans:				
Real estate:				
Real estate-construction and other land loans	$ 1,260	$ -	$ -	$ 1,260
Total assets measured at fair value on a non-recurring basis	$ 1,260	$ -	$ -	$ 1,260

At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for credit losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. The fair value of impaired loans is based on the fair value of the collateral. Impaired loans were determined to be collateral dependent and categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements. Impaired loans evaluated under the discounted cash flow method are excluded from the table above. The discounted cash flow method as prescribed by ASC 310 is not a fair value measurement since the discount rate utilized is the loan's effective interest rate which is not a market rate. There were no changes in valuation techniques used during the year ended December 31, 2020.

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value is compared with independent data sources such as recent market data or industry-wide statistics.

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans had a principal balance of $1,528,000 with a valuation allowance of $268,000 at December 31, 2020, and a resulting fair value of $1,260,000. The valuation allowance represents specific allocations for the allowance for credit losses for impaired loans.

During the year ended December 31, 2020 specific allocation for the allowance for credit losses related to loans carried at fair value was $268,000,

2. FAIR VALUE MEASUREMENTS (Continued)

compared to $0 during the year ended December 31, 2019. There were no net charge-offs related to loans carried at fair value at December 31, 2020 and 2019.

The following two tables present information about the Company's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2019:

Recurring Basis

The Company is required or permitted to record the following assets at fair value on a recurring basis under other accounting pronouncements (in thousands):

	Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities				
Debt Securities:				
U.S. Government agencies	$ 14,494	$ -	$ 14,494	$ -
Obligations of states and political subdivisions	91,111	-	91,111	-
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	196,719	-	196,719	-
Private label residential mortgage and asset backed securities	159,378	-	159,378	-
Corporate debt securities	9,044	-	9,044	-
Equity Securities	7,472	7,472	-	-
Total assets measured at fair value on a recurring basis	$ 478,218	$ 7,472	$ 470,746	$ -

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 in active markets. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators.

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 year ended December 31, 2019, no transfers between levels occurred.

There were no Level 3 assets measured at fair value on a recurring basis at December 31, 2019. Also there were no liabilities measured at fair value on a recurring basis at December 31, 2019.

Non-recurring Basis

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a non-recurring basis. As of December 31, 2019 there were no impaired loans or assets that were measured at the lower of cost or fair value.

There were no liabilities measured at fair value on a non-recurring basis at December 31, 2019.

3. INVESTMENT SECURITIES

The fair value of the available-for-sale investment portfolio reflected an unrealized gain of $21,091,000 at December 31, 2020 compared to an unrealized gain of $3,999,000 at December 31, 2019. The unrealized gain recorded is net of $6,235,000 and $1,182,000 in tax liabilities as accumulated other comprehensive income within shareholders' equity at December 31, 2020 and 2019, respectively.

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

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities				
Debt Securities:				
U.S. Government agencies	$ 651	$ 29	$ -	$ 680
Obligations of states and political subdivisions	361,734	18,170	(339)	379,565
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	214,203	3,575	(1,480)	216,298
Private label mortgage and asset backed securities	82,413	1,337	(242)	83,508
Corporate debt securities	30,000	260	(219)	30,041
	$ 689,001	$ 23,371	$ (2,280)	$ 710,092

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities				
Debt Securities:				
U.S. Government agencies	$ 14,740	$ 12	$ (258)	$ 14,494
Obligations of states and political subdivisions	89,574	2,965	(1,428)	91,111
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	198,125	1,409	(2,815)	196,719
Private label mortgage and asset backed securities	155,308	4,223	(153)	159,378
Corporate debt securities	9,000	79	(35)	9,044
	$ 466,747	$ 8,688	$ (4,689)	$ 470,746

Proceeds and gross realized gains (losses) on investment securities for the years ended December 31, 2020, 2019, and 2018 are shown below (in thousands):

	Years Ended December 31,		
	2020	2019	2018
Available-for-Sale Securities			
Proceeds from sales or calls	$ 283,956	$ 281,906	$ 246,824
Gross realized gains from sales or calls	$ 7,123	$ 5,319	$ 1,976
Gross realized losses from sales or calls	$ (2,871)	$ (120)	$ (662)

Losses recognized in 2020, 2019, and 2018 were incurred in order to reposition the investment securities portfolio based on the current rate environment. The securities which were sold at a loss were acquired when the rate environment was not as volatile. The securities which were sold were primarily purchased several years ago to serve a purpose in the rate environment in which the securities were purchased. The Company addressed risks in the security portfolio by selling these securities and using the proceeds to purchase securities that fit with the Company's current risk profile.

The provision for income taxes includes $1,257,000, $1,537,000, and $388,000 income tax impact from the reclassification of unrealized net gains on available-for-sale securities to realized net gains on available-for-sale securities for the years ended December 31, 2020, 2019, and 2018, respectively.

3. INVESTMENT SECURITIES (Continued)

Investment securities with unrealized losses at December 31, 2020 and 2019 are summarized and classified according to the duration of the loss period as follows (in thousands):

	December 31, 2020					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities						
Debt Securities:						
Obligations of states and political subdivisions	$ 36,209	$ (339)	$ -	$ -	$ 36,209	$ (339)
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	30,755	(385)	77,337	(1,095)	108,092	(1,480)
Private label residential mortgage and asset backed securities	25,407	(242)	-	-	25,407	(242)
Corporate debt securities	12,881	(119)	3,900	(100)	16,781	(219)
	$ 105,252	$ (1,085)	$ 81,237	$ (1,195)	$ 186,489	$ (2,280)

	December 31, 2019					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities						
Debt Securities:						
U.S. Government agencies	$ -	$ -	$ 13,713	$ (258)	$ 13,713	$ (258)
Obligations of states and political subdivisions	65,606	(1,428)	-	-	65,606	(1,428)
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	71,650	(932)	69,518	(1,883)	141,168	(2,815)
Private label residential mortgage backed securities	17,811	(81)	5,624	(72)	23,435	(153)
Corporate debt securities	3,965	(35)	-	-	3,965	(35)
	$ 159,032	$ (2,476)	$ 88,855	$ (2,213)	$ 247,887	$ (4,689)

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. 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 original yield expected at time of purchase.

As of December 31, 2020, 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 investment securities with an unrealized loss at December 31, 2020, and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at December 31, 2020 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.

For those bonds that met the evaluation criteria, management obtained and reviewed the most recently published national credit ratings for those bonds. There were no OTTI losses recorded during the twelve months ended December 31, 2020, 2019, or 2018.

U.S. Government Agencies - At December 31, 2020, the Company held one U.S. Government agency securities of which was in a gain position.

Obligations of States and Political Subdivisions - At December 31, 2020, the Company held 106 obligations of states and political subdivision securities of which six were in a loss position for less than 12 months. 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 December 31, 2020.

U.S. Government Sponsored Entities and Agencies Collateralized by Residential Mortgage Obligations - At December 31, 2020, the Company held 113 U.S. Government sponsored entity and agency securities collateralized by residential mortgage obligation securities of which nine were in a loss position for less than 12 months and 16 have been in a loss position for more than 12 months. The unrealized losses on the Company's investments in U.S. Government sponsored entity and agencies collateralized by residential mortgage obligations were caused by interest rate changes. The contractual cash flows of those investments are guaranteed or supported by an agency or sponsored entity 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 December 31, 2020.

Private Label Mortgage and Asset Backed Securities - At December 31, 2020, the Company had a total of 31 Private Label Mortgage and Asset Backed Securities (PLMBS) with a remaining principal balance of $82,413,000 and a net unrealized gain of approximately $1,095,000. Six of these securities were in a loss position for less than 12 months and none have been in a loss position for more than 12 months at December 31, 2020. Seven of these PLMBS with a remaining principal balance of $812,000 had credit ratings below investment grade. The Company continues to monitor these securities for changes in credit ratings or other indications of credit deterioration. 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 December 31, 2020.

Corporate Debt Securities - At December 31, 2020, the Company held nine corporate debt securities of which three were in a loss position for less than 12 months and one has been in a loss position for more than 12 months. 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 December 31, 2020.

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2020 and 2019 by contractual maturity are shown in the two tables below (in thousands). 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.

	December 31, 2020		December 31, 2019	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	$ 298	$ 305	$ -	$ -
After one year through five years	3,254	3,631	1,561	1,697
After five years through ten years	18,330	20,644	20,280	21,088
After ten years	339,852	354,985	67,733	68,326
	361,734	379,565	89,574	91,111
Investment securities not due at a single maturity date:				
U.S. Government agencies	651	680	14,740	14,494
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	214,203	216,298	198,125	196,719
Private label mortgage and asset backed securities	82,413	83,508	155,308	159,378
Corporate debt securities	30,000	30,041	9,000	9,044
	$ 689,001	$ 710,092	$ 466,747	$ 470,746

Investment securities with amortized costs totaling $178,561,000 and $89,158,000 and fair values totaling $185,053,000 and $91,677,000 were

3. **INVESTMENT SECURITIES** (Continued)

pledged as collateral for borrowing arrangements, public funds and for other purposes at December 31, 2020 and 2019, respectively.

4. **LOANS AND ALLOWANCE FOR CREDIT LOSSES**

Outstanding loans are summarized as follows (in thousands):

Loan Type	December 31, 2020	% of Total loans	December 31, 2019	% of Total loans
Commercial:				
Commercial and industrial	$ 273,994	24.9%	$ 102,541	10.9%
Agricultural production	21,971	2.0%	23,159	2.6%
Total commercial	295,965	26.9%	125,700	13.5%
Real estate:				
Owner occupied	208,843	18.9%	197,946	21.0%
Real estate construction and other land loans	55,419	5.0%	73,718	7.8%
Commercial real estate	338,886	30.7%	329,333	34.9%
Agricultural real estate	84,258	7.6%	76,304	8.1%
Other real estate	28,718	2.6%	31,241	3.3%
	716,124	64.8%	708,542	75.1%
Consumer:				
Equity loans and lines of credit	55,634	5.0%	64,841	6.9%
Consumer and installment	37,236	3.3%	42,782	4.5%
Total consumer	92,870	8.3%	107,623	11.4%
Net deferred origination costs	(2,612)		1,515	
Total gross loans	1,102,347	100.0%	943,380	100.0%
Allowance for credit losses	(12,915)		(9,130)	
Total loans	$ 1,089,432		$ 934,250	

At December 31, 2020 and 2019, loans originated under Small Business Administration (SBA) programs totaling $24,220,000 and $21,910,000, respectively, were included in the real estate and commercial categories. In addition, the Company participated in the SBA Paycheck Protection Program (PPP) to help provide loans to our business customers to provide them with additional working capital. At December 31, 2020, PPP loans totaling $192,916,000 were outstanding and included in the commercial and industrial category above. Approximately $434,983,000 in loans were pledged under a blanket lien as collateral to the FHLB for the Bank's remaining borrowing capacity of $235,371,000 as of December 31, 2020. The Bank's credit limit varies according to the amount and composition of the investment and loan portfolios pledged as collateral.

Salaries and employee benefits totaling $2,782,000, $2,116,000, and $2,453,000 have been deferred as loan origination costs for the years ended December 31, 2020, 2019, and 2018, respectively.

Allowance for Credit Losses

The allowance for credit losses (the "allowance") is a valuation allowance for probable incurred credit losses in the Company's loan portfolio. The allowance is established through a provision for credit losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged-off credits is recorded as a recovery to the allowance. The overall allowance consists of two primary components, specific reserves related to impaired loans and general reserves for probable incurred losses related to loans that are not impaired.

For all portfolio segments, the determination of the general reserve for loans that are not impaired is based on estimates made by management, including but not limited to, consideration of historical losses by portfolio segment (and in certain cases peer loss data) over the most recent 48 quarters, and qualitative factors including economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan portfolio, and probable losses inherent in the portfolio taken as a whole.

Changes in the allowance for credit losses were as follows (in thousands):

	Years Ended December 31,		
	2020	2019	2018
Balance, beginning of year	$ 9,130	$ 9,104	$ 8,778
Provision charged to operations	3,275	1,025	50
Losses charged to allowance	(229)	(1,196)	(210)
Recoveries	739	197	486
Balance, end of year	$ 12,915	$ 9,130	$ 9,104

4. **LOANS AND ALLOWANCE FOR CREDIT LOSSES** (Continued)

The following table shows the summary of activities for the allowance for credit losses as of and for the years ended December 31, 2020, 2019, and 2018 by portfolio segment (in thousands):

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
Beginning balance, January 1, 2020	$ 1,428	$ 6,769	$ 897	$ 36	$ 9,130
Provision charged to operations	100	2,405	175	595	3,275
Losses charged to allowance	(121)	-	(108)	-	(229)
Recoveries	612	-	127	-	739
Ending balance, December 31, 2020	$ 2,019	$ 9,174	$ 1,091	$ 631	$ 12,915
Allowance for credit losses:					
Beginning balance, January 1, 2019	$ 1,671	$ 6,539	$ 826	$ 68	$ 9,104
Provision (reversal) charged to operations	655	230	172	(32)	1,025
Losses charged to allowance	(1,032)	-	(164)	-	(1,196)
Recoveries	134	-	63	-	197
Ending balance, December 31, 2019	$ 1,428	$ 6,769	$ 897	$ 36	$ 9,130
Allowance for credit losses:					
Beginning balance, January 1, 2018	$ 2,071	$ 5,795	$ 825	$ 87	$ 8,778
Provision (reversal) charged to operations	(513)	642	(60)	(19)	50
Losses charged to allowance	(94)	-	(116)	-	(210)
Recoveries	207	102	177	-	486
Ending balance, December 31, 2018	$ 1,671	$ 6,539	$ 826	$ 68	$ 9,104

The following is a summary of the allowance for credit losses by impairment methodology and portfolio segment as of December 31, 2020 and December 31, 2019 (in thousands):

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
Ending balance, December 31, 2020	$ 2,019	$ 9,174	$ 1,091	$ 631	$ 12,915
Ending balance: individually evaluated for impairment	$ 339	$ 271	$ 21	$ -	$ 631
Ending balance: collectively evaluated for impairment	$ 1,680	$ 8,903	$ 1,070	$ 631	$ 12,284
Ending balance, December 31, 2019	$ 1,428	$ 6,769	$ 897	$ 36	$ 9,130
Ending balance: individually evaluated for impairment	$ 2	$ 3	$ 35	$ -	$ 40
Ending balance: collectively evaluated for impairment	$ 1,426	$ 6,766	$ 862	$ 36	$ 9,090

The following table shows the ending balances of loans as of December 31, 2020 and December 31, 2019 by portfolio segment and by impairment methodology (in thousands):

	Commercial	Real Estate	Consumer	Total
Loans:				
Ending balance, December 31, 2020	$ 295,965	$ 716,124	$ 92,870	$ 1,104,959
Ending balance: individually evaluated for impairment	$ 7,402	$ 2,616	$ 1,168	$ 11,186
Ending balance: collectively evaluated for impairment	$ 288,563	$ 713,508	$ 91,702	$ 1,093,773
Loans:				
Ending balance, December 31, 2019	$ 125,700	$ 708,542	$ 107,623	$ 941,865
Ending balance: individually evaluated for impairment	$ 187	$ 2,036	$ 1,511	$ 3,734
Ending balance: collectively evaluated for impairment	$ 125,513	$ 706,506	$ 106,112	$ 938,131

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table shows the loan portfolio by class allocated by management's internal risk ratings at December 31, 2020 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial:					
Commercial and industrial	$ 258,587	$ 5,004	$ 10,403	$ -	$ 273,994
Agricultural production	18,289	377	3,305	-	21,971
Real Estate:					
Owner occupied	197,721	3,870	7,252	-	208,843
Real estate construction and other land loans	50,560	1,622	3,237	-	55,419
Commercial real estate	314,710	14,537	9,639	-	338,886
Agricultural real estate	72,875	10,195	1,188	-	84,258
Other real estate	28,557	161	-	-	28,718
Consumer:					
Equity loans and lines of credit	54,034	640	960	-	55,634
Consumer and installment	37,084	-	152	-	37,236
Total	$ 1,032,417	$ 36,406	$ 36,136	$ -	$ 1,104,959

The following table shows the loan portfolio by class allocated by management's internally assigned risk grade ratings at December 31, 2019 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial:					
Commercial and industrial	$ 86,705	$ 2,635	$ 13,201	$ -	$ 102,541
Agricultural production	18,814	-	4,345	-	23,159
Real Estate:					
Owner occupied	186,370	6,881	4,695	-	197,946
Real estate construction and other land loans	72,142	-	1,576	-	73,718
Commercial real estate	310,982	17,202	1,149	-	329,333
Agricultural real estate	68,032	946	7,326	-	76,304
Other real estate	31,241	-	-	-	31,241
Consumer:					
Equity loans and lines of credit	62,776	519	1,546	-	64,841
Consumer and installment	42,782	-	-	-	42,782
Total	$ 879,844	$ 28,183	$ 33,838	$ -	$ 941,865

The following table shows an aging analysis of the loan portfolio by class and the time past due at December 31, 2020 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days Accruing	Non-accrual
Commercial:								
Commercial and industrial	$ -	$ -	$ 60	$ 60	$ 273,934	$ 273,994	$ -	$ 752
Agricultural production	-	-	-	-	21,971	21,971	-	-
Real estate:								
Owner occupied	-	-	-	-	208,843	208,843	-	370
Real estate construction and other land loans	-	-	-	-	55,419	55,419	-	1,556
Commercial real estate	-	-	-	-	338,886	338,886	-	512
Agricultural real estate	-	-	-	-	84,258	84,258	-	-
Other real estate	-	-	-	-	28,718	28,718	-	-
Consumer:								
Equity loans and lines of credit	-	24	-	24	55,610	55,634	-	-
Consumer and installment	5	-	-	5	37,231	37,236	-	88
Total	$ 5	$ 24	$ 60	$ 89	$ 1,104,870	$ 1,104,959	$ -	$ 3,278

4. **LOANS AND ALLOWANCE FOR CREDIT LOSSES** (Continued)

The following table shows an aging analysis of the loan portfolio by class and the time past due at December 31, 2019 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days Accruing	Non-accrual
Commercial:								
Commercial and industrial	$ 17	$ -	$ -	$ 17	$ 102,524	$ 102,541	$ -	$ 187
Agricultural production	-	-	-	-	23,159	23,159	-	-
Real estate:								
Owner occupied	-	218	-	218	197,728	197,946	-	416
Real estate construction and other land loans	-	-	-	-	73,718	73,718	-	-
Commercial real estate	-	381	-	381	328,952	329,333	-	381
Agricultural real estate	-	-	-	-	76,304	76,304	-	321
Other real estate	-	-	-	-	31,241	31,241	-	-
Consumer:								
Equity loans and lines of credit	-	-	-	-	64,841	64,841	-	388
Consumer and installment	168	-	-	168	42,614	42,782	-	-
Total	$ 185	$ 599	$ -	$ 784	$ 941,081	$ 941,865	$ -	$ 1,693

The following table shows information related to impaired loans by class at December 31, 2020 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial:			
Commercial and industrial	$ 60	$ 61	$ -
Real estate:			
Owner occupied	370	409	-
Real estate construction and other land loans	28	28	-
Commercial real estate	512	561	-
Total real estate	910	998	-
Consumer:			
Equity loans and lines of credit	144	180	-
Total with no related allowance recorded	1,114	1,239	-
With an allowance recorded:			
Commercial:			
Commercial and industrial	7,342	7,373	339
Real estate:			
Real estate construction and other land loans	1,528	1,552	268
Commercial real estate	148	149	3
Agricultural real estate	30	29	-
Total real estate	1,706	1,730	271
Consumer:			
Equity loans and lines of credit	936	936	9
Consumer and installment	88	93	12
Total consumer	1,024	1,029	21
Total with an allowance recorded	10,072	10,132	631
Total	$ 11,186	$ 11,371	$ 631

The recorded investment in loans excludes accrued interest receivable and net loan origination fees, due to immateriality.

The following table shows information related to impaired loans by class at December 31, 2019 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial:			
Commercial and industrial	$ 163	$ 432	$ -
Real estate:			
Owner occupied	416	426	-
Commercial real estate	1,110	1,361	-
Agricultural real estate	321	321	-
Total real estate	1,847	2,108	-
Consumer:			
Equity loans and lines of credit	220	256	-
Total with no related allowance recorded	2,230	2,796	-
With an allowance recorded:			
Commercial:			
Commercial and industrial	24	27	2
Real estate:			
Commercial real estate	152	153	3
Agricultural real estate	37	37	-
Total real estate	189	190	3
Consumer:			
Equity loans and lines of credit	1,291	1,292	35
Total with an allowance recorded	1,504	1,509	40
Total	$ 3,734	$ 4,305	$ 40

The recorded investment in loans excludes accrued interest receivable and net loan origination fees, due to immateriality.

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following presents by class, information related to the average recorded investment and interest income recognized on impaired loans for the years ended December 31, 2020, 2019, and 2018 (in thousands):

	Year Ended December 31, 2020		Year Ended December 31, 2019		Year Ended December 31, 2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:						
Commercial:						
Commercial and industrial	$ 1,322	$ -	$ 214	$ -	$ 311	$ -
Agricultural production	104	-	-	-	-	-
Total commercial	1,426	-	214	-	311	-
Real estate:						
Owner occupied	394	-	223	-	17	-
Real estate construction and other land loans	8	-	1,174	45	2,857	85
Commercial real estate	779	-	1,306	50	1,542	51
Agricultural real estate	146	-	25	-	1,173	159
Other real estate	-	-	-	-	702	-
Total real estate	1,327	-	2,728	95	6,291	295
Consumer:						
Equity loans and lines of credit	216	12	593	13	217	-
Total with no related allowance recorded	2,969	12	3,535	108	6,819	295
With an allowance recorded:						
Commercial:						
Commercial and industrial	6,139	582	57	1	55	4
Agricultural production	430	-	-	-	-	-
Total commercial	6,569	582	57	1	55	4
Real estate:						
Real estate construction and other land loans	586	-	-	-	-	-
Commercial real estate	206	11	325	12	200	12
Agricultural real estate	27	2	42	2	49	3
Other real estate	-	-	-	-	86	-
Total real estate	819	13	367	14	335	15
Consumer:						
Equity loans and lines of credit	1,001	55	1,139	56	1,054	57
Consumer and installment	64	-	20	-	3	-
Total consumer	1,065	55	1,159	56	1,057	57
Total with an allowance recorded	8,453	650	1,583	71	1,447	76
Total	$ 11,422	$ 662	$ 5,118	$ 179	$ 8,266	$ 371

Foregone interest on nonaccrual loans totaled $177,000, $85,000, and $267,000 for the years ended December 31, 2020, 2019, and 2018, respectively. Interest income recognized on cash basis during the years presented above was not considered significant for financial reporting purposes.

Troubled Debt Restructurings:

As of December 31, 2020 and 2019, the Company has a recorded investment in troubled debt restructurings of $7,908,000 and, $2,362,000, respectively. The Company has allocated $20,000 and $38,000 of specific reserves for those loans at December 31, 2020 and 2019, respectively. The Company has committed to lend no additional amounts as of December 31, 2020 to customers with outstanding loans that are classified as troubled debt restructurings.

For the years ended December 31, 2020, 2019, and 2018 the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan or an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk. During the same periods, there were no troubled debt restructurings in which the amount of principal or accrued interest owed from the borrower were forgiven.

As discussed in Note 1 to these financial statements, Section 4013 of the CARES Act and the "*Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised)*" provided banks an option to elect to not account for certain loan modifications related to COVID-19 as TDRs as long as the borrowers were not more than 30 days past due as of December 31, 2019 or at the time of modification program implementation, respectively, and the borrowers meet other applicable criteria. The remaining TDRs disclosed below were not related to COVID-19 modifications. The Company executed loan deferrals on outstanding balances of approximately $25 million resulting from the COVID-19 pandemic that were not classified as a TDRs at December 31, 2020.

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2020 (dollars in thousands):

	Number of Loans	Pre-Modification Outstanding Recorded Investment (1)	Principal Modification	Post Modification Outstanding Recorded Investment (2)	Outstanding Recorded Investment
Troubled Debt Restructurings:					
Commercial:					
Commercial and industrial	1	$ 12,925	$ -	$ 12,925	$ 6,650

(1) Amounts represent the recorded investment in loans before recognizing effects of the TDR, if any.
(2) Balance outstanding after principal modification, if any borrower reduction to recorded investment.

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2019 (dollars in thousands):

	Number of Loans	Pre-Modification Outstanding Recorded Investment (1)	Principal Modification	Post Modification Outstanding Recorded Investment (2)	Outstanding Recorded Investment
Troubled Debt Restructurings:					
Consumer					
Equity loans and line of credit	3	$ 532	$ -	$ 532	$ 446

(1) Amounts represent the recorded investment in loans before recognizing effects of the TDR, if any.
(2) Balance outstanding after principal modification, if any borrower reduction to recorded investment.

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2018 (dollars in thousands):

	Number of Loans	Pre-Modification Outstanding Recorded Investment (1)	Principal Modification	Post Modification Outstanding Recorded Investment (2)	Outstanding Recorded Investment
Troubled Debt Restructurings:					
Commercial:					
Commercial and Industrial	1	$ 38	$ -	$ 38	$ 30
Real Estate:					
Commercial real estate	1	166	-	166	161
Total	2	$ 204	$ -	$ 204	$ 191

(1) Amounts represent the recorded investment in loans before recognizing effects of the TDR, if any.
(2) Balance outstanding after principal modification, if any borrower reduction to recorded investment.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. There were no defaults on troubled debt restructurings within 12 months following the modification during the years ended December 31, 2020, 2019, and 2018.

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following (in thousands):

	December 31,	
	2020	2019
Land	$ 1,131	$ 1,131
Buildings and improvements	6,948	6,948
Furniture, fixtures and equipment	12,473	11,045
Leasehold improvements	4,248	4,198
	24,800	23,322
Less accumulated depreciation and amortization	(16,572)	(15,704)
	$ 8,228	$ 7,618

Depreciation and amortization included in occupancy and equipment expense totaled $881,000, $1,742,000 and $1,703,000 for the years ended December 31, 2020, 2019, and 2018, respectively.

6. GOODWILL AND INTANGIBLE ASSETS

Business combinations involving the Company's acquisition of the equity interests or net assets of another enterprise give rise to goodwill. Total goodwill at December 31, 2020 and 2019 was $53,777,000. Total goodwill at December 31, 2020 consisted of $13,466,000, $10,394,000, $6,340,000, $14,643,000, and $8,934,000 representing the excess of the cost of Folsom Lake Bank, Sierra Vista Bank, Visalia Community Bank, Service 1st Bancorp, and Bank of Madera County, respectively, over the net of the amounts assigned to assets acquired and liabilities assumed in the transactions accounted for under the purchase method of accounting. The value of goodwill is ultimately derived from the Company's ability to generate net earnings after the acquisitions and is not deductible for tax purposes. A decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed at least annually for impairment.

The Company has selected September 30 as the date to perform the annual impairment test. Management determined it appropriate to perform a quantitative goodwill impairment test in the third quarter of 2020. A third party valuation specialist was engaged to assist with the performance of the test. Based on this quantitative test, it was determined that the fair value of the reporting unit exceeded the carrying value as of September 30, 2020. Therefore, there was no impairment of goodwill recorded during the nine months ended September 30, 2020.

Goodwill is also tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. With the economic risks and uncertainties associated with the COVID-19 pandemic continuing during the fourth quarter of 2020, management performed a qualitative assessment including performance trends, market information and economic data and determined it was more likely than not that the fair value of the reporting unit exceeded the carrying value. As such no quantitative goodwill impairment test was required as of December 31, 2020.

The intangible assets at December 31, 2020 represent the estimated fair value of the core deposit relationships acquired in the acquisition of Folsom Lake Bank in 2017 of $1,879,000, Sierra Vista Bank in 2016 of $508,000 and the 2013 acquisition of Visalia Community Bank of $1,365,000. Core deposit intangibles are being amortized using the straight-line method over an estimated life of five to ten years from the date of acquisition. At December 31, 2020, the weighted average remaining amortization period is two years. The carrying value of intangible assets at December 31, 2020 was $1,183,000, net of $2,569,000 in accumulated amortization expense. The carrying value at December 31, 2019 was $1,878,000, net of $1,874,000 in accumulated amortization expense. Management evaluates the remaining useful lives quarterly to determine whether events or circumstances warrant a revision to the remaining periods of amortization. Based on the evaluation, no changes to the remaining useful lives was required. Management performed an annual impairment test on core deposit intangibles as of September 30, 2020 and determined no impairment was necessary. Amortization expense recognized was $695,000 for 2020, $695,000 for 2019, and $455,000 for 2018.

The following table summarizes the Company's estimated core deposit intangible amortization expense for each of the next five years (in thousands):

Years Ending December 31,	Estimated Core Deposit Intangible Amortization
2021	$ 662
2022	455
2023	66
Thereafter	-
Total	$ 1,183

7. DEPOSITS

Interest-bearing deposits consisted of the following (in thousands):

	December 31,	
	2020	2019
Savings	$ 156,190	$ 112,271
Money market	341,088	266,609
NOW accounts	310,697	266,048
Time, $250,000 or more	19,790	22,729
Time, under $250,000	70,056	71,001
	$ 897,821	$ 738,658

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

Years Ending December 31,	
2021	$ 76,436
2022	8,372
2023	2,699
2024	760
2025	693
Thereafter	886
	$ 89,846

Interest expense recognized on interest-bearing deposits consisted of the following (in thousands):

	Years Ended December 31,		
	2020	2019	2018
Savings	$ 25	$ 28	$ 37
Money market	542	656	419
NOW accounts	316	538	414
Time certificates of deposit	582	706	283
	$ 1,465	$ 1,928	$ 1,153

8. BORROWING ARRANGEMENTS

Federal Home Loan Bank Advances - As of December 31, 2020 and December 31, 2019 , the Company had no Federal Home Loan Bank (FHLB) of San Francisco advances. Approximately $434,983,000 in loans were pledged under a blanket lien as collateral to the FHLB for the Bank's remaining borrowing capacity of $235,371,000 as of December 31, 2020. FHLB advances are also secured by investment securities with amortized costs totaling $169,000 and $248,000 and market values totaling $178,000 and $256,000 at December 31, 2020 and 2019, respectively. The Bank's credit limit varies according to the amount and composition of the investment and loan portfolios pledged as collateral.

Lines of Credit - The Bank had unsecured lines of credit with its correspondent banks which, in the aggregate, amounted to $110,000,000 and $70,000,000 at December 31, 2020 and 2019, respectively, at interest rates which vary with market conditions. As of December 31, 2020 and 2019, the Company had no Federal funds purchased.

Federal Reserve Line of Credit - The Bank has a line of credit in the amount of $13,323,000 and $4,931,000 with the Federal Reserve Bank of San Francisco (FRB) at December 31, 2020 and 2019, respectively, which bears interest at the prevailing discount rate collateralized by investment securities with amortized costs totaling $13,538,000 and $5,065,000 and market values totaling $13,703,000 and $5,036,000, respectively. At December 31, 2020 and 2019, the Bank had no outstanding borrowings with the FRB.

9. LEASES

Leases - The Bank leases certain of its branch facilities and administrative offices under noncancelable operating leases with terms extending through 2028. Leases with an initial term of twelve months or less are not recorded on the balance sheet. Operating lease cost is comprised of lease expense recognized on a straight-line basis, the amortization of the right-of-use asset and the implicit interest accreted on the operating lease liability. Operating lease cost is included in occupancy and equipment expense on our consolidated statements of income. We evaluate the lease term by assuming the exercise of options to extend that are reasonably assured and those option periods covered by an option to terminate the lease, if deemed not reasonably certain to be exercised. The lease term is used to determine the straight-line expense and limits the depreciable life of any related leasehold improvements. Certain leases require us to pay real estate taxes, insurance, maintenance and other operating expenses associated with the leased premises. These expenses are classified in occupancy and equipment expense on our consolidated statements of income, consistent with similar costs for owned locations, but is not included in operating lease cost below. We calculate the lease liability using a discount rate that represents our incremental borrowing rate at the lease commencement date.

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2020 are as follows (in thousands):

Years Ending December 31,		
2021	$	1,753
2022		1,843
2023		1,721
2024		1,383
2025		1,023
Thereafter		1,944
Total lease payments		9,667
Less: imputed interest		(786)
Present value of operating lease liabilities	$	8,881

The table below summarizes the total lease cost for the period ending:

(Dollars in thousands)		December 31, 2020		December 31, 2019
Operating lease cost	$	2,243	$	2,226
Short-term lease cost		13		68
Variable lease cost		288		375
Total lease cost	$	2,544	$	2,669

The table below summarizes other information related to our operating leases:

	December 31, 2020	December 31, 2019
Weighted average remaining lease term, in years	6	7
Weighted average discount rate	2.77%	2.93%

The table below shows operating lease right of use assets and operating lease liabilities as of :

(Dollars in thousands)		December 31, 2020		December 31, 2019
Operating lease right-of-use assets	$	8,195	$	9,735
Operating lease liabilities	$	8,881	$	10,418

The right-of-use-assets and lease liabilities are included with other assets and other liabilities on the balance sheet, respectively.

10. JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

Service 1st Capital Trust I is a Delaware business trust formed by Service 1st. The Company succeeded to all of the rights and obligations of Service 1st in connection with the merger with Service 1st as of November 12, 2008. The Trust was formed on August 17, 2006 for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by Service 1st. Under applicable regulatory guidance, the amount of trust preferred securities that is eligible as Tier 1 capital is limited to 25% of the Company's Tier 1 capital on a pro forma basis. At December 31, 2020, all of the trust preferred securities that have been issued qualify as Tier 1 capital. The trust preferred securities mature on October 7, 2036, are redeemable at the Company's option, and require quarterly distributions by the Trust to the holder of the trust preferred securities at a variable interest rate which will adjust quarterly to equal the three month LIBOR plus 1.60%.

The Trust used the proceeds from the sale of the trust preferred securities to purchase approximately $5,155,000 in aggregate principal amount of Service 1st's junior subordinated notes (the Notes). The Notes bear interest at the same variable interest rate during the same quarterly periods as the trust preferred securities. The Notes are redeemable by the Company on any January 7, April 7, July 7, or October 7 or at any time within 90 days following the occurrence of certain events, such as: (i) a change in the regulatory capital treatment of the Notes (ii) in the event the Trust is deemed an investment company or (iii) upon the occurrence of certain adverse tax events. In each such case, the Company may redeem the Notes for their aggregate principal amount, plus any accrued but unpaid interest.

The Notes may be declared immediately due and payable at the election of the trustee or holders of 25% of the aggregate principal amount of outstanding Notes in the event that the Company defaults in the payment of any interest following the nonpayment of any such interest for 20 or more consecutive quarterly periods.

Holders of the trust preferred securities are entitled to a cumulative cash distribution on the liquidation amount of $1,000 per security. For each January 7, April 7, July 7 or October 7 of each year, the rate will be adjusted to equal the three month LIBOR plus 1.60%. As of December 31, 2020, the rate was 1.84%. Interest expense recognized by the Company for the years ended

10. JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES (Continued)

December 31, 2020, 2019, and 2018 was $130,000, $210,000 and $199,000, respectively.

11. INCOME TAXES

The provision for income taxes for the years ended December 31, 2020, 2019, and 2018 consisted of the following (in thousands):

	Federal	State	Total
2020			
Current	$ 4,915	$ 3,050	$ 7,965
Deferred	(656)	(395)	(1,051)
Provision for income taxes	$ 4,259	$ 2,655	$ 6,914
2019			
Current	$ 5,747	$ 3,351	$ 9,098
Deferred	(387)	(202)	(589)
Provision for income taxes	$ 5,360	$ 3,149	$ 8,509
2018			
Current	$ 3,995	$ 2,689	$ 6,684
Deferred	(140)	76	(64)
Provision for income taxes	$ 3,855	$ 2,765	$ 6,620

Deferred tax assets (liabilities) consisted of the following (in thousands):

	December 31,	
	2020	2019
Deferred tax assets:		
Allowance for credit losses	$ 3,818	$ 2,638
Deferred compensation	4,729	4,490
Net operating loss carryovers	2,148	2,266
Mark-to-market adjustment	21	58
Other deferred tax assets	303	374
Other-than-temporary impairment	192	192
Loan and investment impairment	851	1,158
Operating lease liabilities	2,625	3,080
Partnership income	105	200
State taxes	674	692
Total deferred tax assets	15,466	15,148
Deferred tax liabilities:		
Operating lease right-of-use assets	(2,423)	(2,878)
Finance leases	(275)	(175)
Unrealized gain on available-for-sale investment securities	(6,235)	(1,182)
Core deposit intangible	(350)	(555)
FHLB stock	(191)	(234)
Loan origination costs	(849)	(925)
Bank premises and equipment	(405)	(459)
Total deferred tax liabilities	(10,728)	(6,408)
Net deferred tax assets	$ 4,738	$ 8,740

The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is more likely than not that all or a portion of the deferred tax asset will not be realized. More likely than not is defined as greater than a 50% chance. All available evidence, both positive and negative is considered to determine whether, based on the weight of the evidence, a valuation allowance is needed. Thus, management concludes no valuation allowance is necessary against deferred tax assets as of December 31, 2020 and 2019.

The provision for income taxes differs from amounts computed by applying the statutory Federal income tax rates to operating income before income taxes. The significant items comprising these differences for the years ended December 31, 2020, 2019, and 2018 consisted of the following:

	2020	2019	2018
Federal income tax, at statutory rate	21.0 %	21.0 %	21.0 %
State taxes, net of Federal tax benefit	7.7 %	8.3 %	7.8 %
Tax exempt investment security income, net	(1.5)%	(0.9)%	(2.7)%
Bank owned life insurance, net	(1.2)%	(0.4)%	(0.6)%
Compensation—Stock Compensation	(0.2)%	(0.2)%	(0.6)%
Change in uncertain tax positions	- %	- %	(0.3)%
Other	(0.4)%	0.6 %	(0.9)%
Effective tax rate	25.4 %	28.4 %	23.7 %

As of December 31, 2020, the Company had Federal and California net operating loss ("NOL") carry-forwards of $7,093,000 and $7,692,000, respectively. These NOLs were acquired through business combinations and are subject to IRC 382 will begin expiring at various dates between 2029 and 2035, for federal purposes and various dates between 2029 and 2036 for California purposes. While they are subject to IRC Section 382, management has determined that all of the NOLs are more than likely than not to be utilized before they expire.

The Company and its subsidiary file income tax returns in the U.S. federal, California, and Georgia jurisdictions. The Company conducts all of its business activities in the State of California. There are no pending U.S. federal or state income tax examinations by those taxing authorities. The Company is no longer subject to the examination by U.S. federal taxing authorities for the years ended before December 31, 2017 and by the state taxing authorities for the years ended before December 31, 2016.

As of December 31, 2020, the Company has no unrecognized tax benefits and does not expect any material changes in the next 12 months.

During the years ended December 31, 2020 and 2019, the Company recorded no interest or penalties related to uncertain tax positions.

12. COMMITMENTS AND CONTINGENCIES

Federal Reserve Requirements - Banks are required to maintain reserves with the Federal Reserve Bank equal to a percentage of their reservable deposits. The amount of such reserve balances required at December 31, 2020 was zero.

Correspondent Banking Agreements - The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. Uninsured deposits totaled $9,628,000 at December 31, 2020.

Financial Instruments With Off-Balance-Sheet Risk - The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and standby letters of credit as it does for loans included on the balance sheet.

12. COMMITMENTS AND CONTINGENCIES (Continued)

The following financial instruments represent off-balance-sheet credit risk (in thousands):

	December 31,	
	2020	2019
Commitments to extend credit	$ 314,774	$ 289,465
Standby letters of credit	$ 11,405	$ 1,717

Commitments to extend credit consist primarily of unfunded commercial loan commitments and revolving lines of credit, single-family residential equity lines of credit and commercial and residential real estate construction loans. Construction loans are established under standard underwriting guidelines and policies and are secured by deeds of trust, with disbursements made over the course of construction. Commercial revolving lines of credit have a high degree of industry diversification. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are generally secured and are issued by the Bank to guarantee the financial obligation or performance of a customer to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2020 and 2019. The Company recognizes these fees as revenue over the term of the commitment or when the commitment is used.

At December 31, 2020, commercial loan commitments represent 48% of total commitments and are generally secured by collateral other than real estate or unsecured. Real estate loan commitments represent 42% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 80%. Consumer loan commitments represent the remaining 10% of total commitments and are generally unsecured. In addition, the majority of the Bank's loan commitments have variable interest rates.

At December 31, 2020 and 2019, the balance of a contingent allocation for probable loan loss experience on unfunded obligations was $250,000. The contingent allocation for probable loan loss experience on unfunded obligations is calculated by management using an appropriate, systematic, and consistently applied process. While related to credit losses, this allocation is not a part of the ALLL and is considered separately as a liability for accounting and regulatory reporting purposes. Changes in this contingent allocation are recorded in other non-interest expense.

Concentrations of Credit Risk - At December 31, 2020, in management's judgment, a concentration of loans existed in commercial loans and real-estate-related loans, representing approximately 96.7% of total loans of which 26.9% were commercial and 69.8% were real-estate-related.

At December 31, 2019, in management's judgment, a concentration of loans existed in commercial loans and real-estate-related loans, representing approximately 95.5% of total loans of which 13.5% were commercial and 82% were real-estate-related.

Management believes the loans within these concentrations have no more than the typical risks of collectability. However, in light of the current economic environment, additional declines in the performance of the economy in general, or a continued decline in real estate values or drought-related decline in agricultural business in the Company's primary market area could have an adverse impact on collectability, 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, results of operations and cash flows of the Company.

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

13. SHAREHOLDERS' EQUITY

Regulatory Capital - The Company and the Bank are subject to certain regulatory capital requirements administered by the Board of Governors of the Federal Reserve System and the FDIC. Failure to meet these minimum capital requirements could result in mandatory or, discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

The Company and the Bank each meet specific capital guidelines that involve quantitative measures of their respective assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Bank is also subject to additional capital guidelines under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. The most recent notification from the FDIC categorized the Bank as well capitalized under these guidelines. Management knows of no conditions or events since that notification that would change the Bank's category.

Capital ratios are reviewed by Management on a regular basis to ensure that capital exceeds the prescribed regulatory minimums and is adequate to meet our anticipated future needs. For all periods presented, the Bank's ratios exceed the regulatory definition of well capitalized under the regulatory framework for prompt correct action and the Company's ratios exceed the required minimum ratios for capital adequacy purposes.

Effective August 30, 2018, bank holding companies with consolidated assets of $3 billion or more and banks like Central Valley Community Bank must comply with minimum capital ratio requirements which consist of the following: (i) a new common equity Tier 1 capital to total risk weighted assets ratio of 4.5%; (ii) a Tier 1 capital to total risk weighted assets ratio of 6%; (iii) a total capital to total risk weighted assets ratio of 8% (unchanged from current rules); and (iv) a Tier 1 capital to adjusted average total assets ("leverage") ratio of 4%.

In addition, a "capital conversation buffer" is established which requires maintenance of a minimum of 2.5% of common equity Tier 1 capital to total risk weighted assets in excess of the regulatory minimum capital ratio requirements described above. The 2.5% buffer increases the minimum capital ratios to (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. If the capital ratio levels of a banking organization fall below the capital conservation buffer amount, the organization will be subject to limitations on (i) the payment of dividends; (ii) discretionary bonus payments; (iii) discretionary payments under Tier 1 instruments; and (iv) engaging in share repurchases.

Management believes that the Company and the Bank met all their capital adequacy requirements as of December 31, 2020 and 2019. There are no conditions or events since those notifications that management believes have changed those categories. The capital ratios for the Company and the Bank are presented in the table below (exclusive of the capital conservation buffer).

The following table presents the Company's and the Bank's actual capital ratios as of December 31, 2020 and December 31, 2019, as well as the minimum capital ratios for capital adequacy for the Bank.

(Dollars in thousands)	Actual Ratio	
December 31, 2020	Amount	Ratio
Tier 1 Leverage Ratio	$ 178,407	9.28%
Common Equity Tier 1 Ratio (CET 1)	$ 173,407	14.10%
Tier 1 Risk-Based Capital Ratio	$ 178,407	14.50%
Total Risk-Based Capital Ratio	$ 191,572	15.58%
December 31, 2019		
Tier 1 Leverage Ratio	$ 172,945	11.38%
Common Equity Tier 1 Ratio (CET 1)	$ 167,945	14.55%
Tier 1 Risk-Based Capital Ratio	$ 172,945	14.98%
Total Risk-Based Capital Ratio	$ 182,325	15.79%

13. SHAREHOLDERS' EQUITY (Continued)

The following table presents the Bank's regulatory capital ratios as of December 31, 2020 and December 31, 2019.

(Dollars in thousands)	Actual Ratio		Minimum regulatory requirement (1)	
December 31, 2020	Amount	Ratio	Amount	Ratio
Tier 1 Leverage Ratio	$ 177,269	9.23%	$ 76,852	4.00%
Common Equity Tier 1 Ratio (CET 1)	$ 177,269	14.41%	$ 55,346	7.00%
Tier 1 Risk-Based Capital Ratio	$ 177,269	14.41%	$ 73,795	8.50%
Total Risk-Based Capital Ratio	$ 190,434	15.48%	$ 98,394	10.50%
December 31, 2019				
Tier 1 Leverage Ratio	$ 171,332	11.27%	$ 60,810	4.00%
Common Equity Tier 1 Ratio (CET 1)	$ 171,332	14.85%	$ 51,930	7.00%
Tier 1 Risk-Based Capital Ratio	$ 171,332	14.85%	$ 69,240	8.50%
Total Risk-Based Capital Ratio	$ 180,712	15.66%	$ 92,320	10.50%

(1) The minimum regulatory requirement threshold includes the capital conservation buffer of 2.50%.

Dividends - During 2020, the Bank declared and paid cash dividends to the Company in the amount of $15,622,000 in connection with the cash dividends to the Company's shareholders approved by the Company's Board of Directors. The Company declared and paid a total of $5,530,000 or $0.44 per common share cash dividend to shareholders of record during the year ended December 31, 2020. During the year ended December 31, 2020, the Company repurchased and retired common stock in the amount of $11,052,000.

During 2019, the Bank declared and paid cash dividends to the Company in the amount of $20,100,000, in connection with the cash dividends to the Company's shareholders approved by the Company's Board of Directors. The Company declared and paid a total of $5,805,000 or $0.43 per common share cash dividend to shareholders of record during the year ended December 31, 2019. During the year ended December 31, 2019, the Company repurchased and retired common stock in the amount of $15,619,000.

During 2018, the Bank declared and paid cash dividends to the Company in the amount of $2,850,000, in connection with the cash dividends to the Company's shareholders approved by the Company's Board of Directors. The Company declared and paid a total of $4,270,000 or $0.31 per common share cash dividend to shareholders of record during the year ended December 31, 2018. During the year ended December 31, 2018, the Company repurchased and retired common stock in the amount of $894,000.

The Company's primary source of income with which to pay cash dividends is dividends from the Bank. The California Financial Code restricts the total amount of dividends payable by a bank at any time without obtaining the prior approval of the California Department of Business Oversight to the lesser of (1) the Bank's retained earnings or (2) the Bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. At December 31, 2020, $26,191,000 of the Bank's retained earnings were free of these restrictions.

A reconciliation of the numerators and denominators of the basic and diluted earnings per common share computations is as follows (in thousands, except share and per-share amounts):

	For the Years Ended December 31,		
	2020	2019	2018
Basic Earnings Per Common Share:			
Net income	$ 20,347	$ 21,443	$ 21,289
Weighted average shares outstanding	12,534,078	13,415,118	13,699,823
Net income per common share	$ 1.62	$ 1.60	$ 1.55
Diluted Earnings Per Common Share:			
Net income	$ 20,347	$ 21,443	$ 21,289
Weighted average shares outstanding	12,534,078	13,415,118	13,699,823
Effect of dilutive stock options and warrants	42,241	98,489	125,185
Weighted average shares of common stock and common stock equivalents	12,576,319	13,513,607	13,825,008
Net income per diluted common share	$ 1.62	$ 1.59	$ 1.54

No outstanding options and restricted stock awards were anti-dilutive at December 31, 2020, 2019, and 2018.

14. EQUITY-BASED COMPENSATION

On December 31, 2020, the Company had four equity-based compensation plans, which are described below. The Plans do not provide for the settlement of awards in cash and new shares are issued upon option exercise or restricted share grants.

The Central Valley Community Bancorp 2005 Omnibus Incentive Plan (2005 Plan) was adopted in May 2005 and expired March 16, 2015. While outstanding arrangements to issue shares under this plan, including options, continue in force until their expiration, no new options will be granted under this plan. The plan requires that the exercise price may not be less than the fair market value of the stock at the date the option is granted, and that the option price must be paid in full at the time it is exercised. The options and awards under the plan expire on dates determined by the Board of Directors, but not later than ten years from the date of grant. The vesting period for the options, restricted common stock awards and option related stock appreciation rights is determined by the Board of Directors and is generally over five years.

In May 2015, the Company adopted the Central Valley Community Bancorp 2015 Omnibus Incentive Plan (2015 Plan). The plan provides for awards in the form of incentive stock options, non-statutory stock options, stock appreciation rights, and restricted stock. The plan also allows for performance awards that may be in the form of cash or shares of the Company's common stock, including restricted stock. The 2015 plan requires that the exercise price may not be less than the fair market value of the stock at the date the option is granted, and that the option price must be paid in full at the time it is exercised. The options and awards under the plan expire on dates determined by the Board of Directors, but not later than ten years from the date of grant. The vesting period for the options, restricted common stock awards and option related stock appreciation rights is determined by the Board of Directors and is over one to five years. The maximum number of shares that can be issued with respect to all awards under the plan is 875,000. Currently under the 2015 Plan, 768,560 shares remain reserved for future grants as of December 31, 2020.

14. EQUITY-BASED COMPENSATION (Continued)

Effective June 2, 2017, the Company adopted an Employee Stock Purchase Plan whereby our employees may purchase Company common shares through payroll deductions of between one percent and 15 percent percent of pay in each pay period. Shares are purchased at the end of an offering period at a discount of ten percent from the lower of the closing market price on the Offering Date (first trading day of each offering period) or the Investment Date (last trading day of each offering period). The plan calls for 500,000 common shares to be set aside for employee purchases, and there were 457,928 shares available for future purchase under the plan as of December 31, 2020.

In October 2017, the Company adopted the Folsom Lake Bank 2007 Equity Incentive Plan (2007 Plan). The plan provides for awards in the form of incentive stock options, non-statutory stock options, stock appreciation rights, and restricted stock. While outstanding arrangements to issue shares under this plan, including options, continue in force until their expiration, no new options will be granted under this plan. The options and awards under the plan expire on dates determined by the Board of Directors, but not later than ten years from the date of grant. The vesting period for the options, restricted common stock awards and option related stock appreciation rights is determined by the Board of Directors and is generally over five years. The maximum number of shares that can be issued with respect to all awards under the plan is 38,400.

For the years ended December 31, 2020, 2019, and 2018, the compensation cost recognized for share-based compensation was $470,000, $555,000, and $482,000, respectively. The recognized tax benefit for share-based compensation expense was $76,000, $46,000, and $142,000 for 2020, 2019, and 2018 respectively.

Stock Options - 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 and level of estimated forfeitures of the Company's options are based on the Company's own historical experience. 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 granted during the years ending December 31, 2020, 2019 and 2018 from any of the Company's stock based compensation plans.

A summary of the combined activity of the Plans during the years then ended is presented below (dollars in thousands, except per-share amounts):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2018	232,870	$ 9.13		
Options exercised	(74,030)	$ 9.97		
Options forfeited	(4,400)	$ 10.85		
Options outstanding at December 31, 2018	154,440	$ 8.68	2.81	$ 1,554
Options exercised	(32,120)	$ 8.59		
Options forfeited	(1,200)	$ 5.55		
Options outstanding at December 31, 2019	121,120	$ 8.73	2.06	$ 1,567
Options exercised	(43,500)	$ 6.39		
Options forfeited	(550)	$ 7.40		
Options outstanding at December 31, 2020	77,070	$ 10.06	1.51	$ 382,291
Options vested or expected to vest at December 31, 2020	77,070	$ 10.06	1.51	$ 382,291
Options exercisable at December 31, 2020	77,070	$ 10.06	1.51	$ 382,291

Information related to the stock option plan during each year follows (in thousands):

	2020	2019	2018
Intrinsic value of options exercised	$ 433	$ 366	$ 767
Cash received from options exercised	$ 279	$ 276	$ 738
Excess tax benefit realized for option exercises	$ 76	$ 46	$ 142

As of December 31, 2020, there is no unrecognized compensation cost related to stock options granted under all Plans. All options are fully vested.

Restricted Common Stock Awards - The 2005 Plan and 2015 Plan provide for the issuance of shares to directors and officers. Restricted common stock grants typically vest over a one to five-year period. Restricted common stock (all of which are shares of our common stock) is subject to forfeiture if employment terminates prior to vesting. The cost of these awards is recognized over the vesting period of the awards based on the fair value of our common stock on the date of the grant.

14. EQUITY-BASED COMPENSATION (Continued)

The following table presents the restricted common stock activity during the years presented:

	Shares	Weighted Average Grant Date Fair Value
Nonvested outstanding shares at January 1, 2018	63,768	$ 13.33
Vested	(20,733)	$ 13.09
Forfeited	(1,710)	$ 14.37
Nonvested outstanding shares at December 31, 2018	63,529	$ 15.98
Granted	25,420	$ 19.77
Vested	(40,159)	$ 16.61
Forfeited	(3,630)	$ 18.06
Nonvested outstanding shares at December 31, 2019	45,160	$ 17.38
Granted	21,397	$ 16.42
Vested	(34,703)	$ 18.23
Forfeited	(1,841)	$ 19.16
Nonvested outstanding shares at December 31, 2020	30,013	$ 15.60

The shares awarded to employees and directors under the restricted stock agreements vest on applicable vesting dates only to the extent the recipient of the shares is then an employee or a director of the Company or one of its subsidiaries, and each recipient will forfeit all of the shares that have not vested on the date his or her employment or service is terminated.

As of December 31, 2020, there were 30,013 shares of restricted stock that are nonvested and expected to vest. Share-based compensation cost charged against income for restricted stock awards was $449,000, $533,000, and $459,000 for the year ended December 31, 2020, 2019, and 2018 respectively.

As of December 31, 2020, there was $225,000 of total unrecognized compensation cost related to nonvested restricted common stock. Restricted stock compensation expense is recognized on a straight-line basis over the vesting period. This cost is expected to be recognized over a weighted average remaining period of 0.85 years and will be adjusted for subsequent changes in estimated forfeitures. Restricted common stock awards had an intrinsic value of $2,507,000 at December 31, 2020.

15. EMPLOYEE BENEFITS

401(k) and Profit Sharing Plan - The Bank has established a 401(k) and profit sharing plan. The 401(k) plan covers substantially all employees who have completed a one-month employment period. Participants in the profit sharing plan are eligible to receive employer contributions after completion of 2 years of service. Bank contributions to the profit sharing plan are determined at the discretion of the Board of Directors. Participants are automatically vested 100% in all employer contributions. The Bank contributed $370,000, $750,000, and $900,000 to the profit sharing plan in 2020, 2019, and 2018, respectively.

Additionally, the Bank may elect to make a matching contribution to the participants' 401(k) plan accounts. The amount to be contributed is announced by the Bank at the beginning of the plan year. For the years ended December 31, 2020 and 2019, the Bank made a 100% matching contribution on all deferred amounts up to 5% of eligible compensation. For the year ended December 31, 2018, the Bank made a 100% matching contribution on all deferred amounts up to 3% of eligible compensation and a 50% matching contribution on all deferred amounts above 3% to a maximum of 5%. For the years ended December 31, 2020, 2019, and 2018, the Bank made matching contributions totaling $1,008,000, $959,000, and $748,000, respectively.

Deferred Compensation Plans - The Bank has a nonqualified Deferred Compensation Plan which provides directors with an unfunded, deferred compensation program. Under the plan, eligible participants may elect to defer some or all of their current compensation or director fees. Deferred amounts earn interest at an annual rate determined by the Board of Directors (2.49% at December 31, 2020). At December 31, 2020 and 2019, the total net deferrals included in accrued interest payable and other liabilities were $4,292,000 and $4,177,000, respectively.

In connection with the implementation of the above plan, single premium universal life insurance policies on the life of each participant were purchased by the Bank, which is the beneficiary and owner of the policies. The cash surrender value of the policies totaled $9,464,000 and $9,686,000 and at December 31, 2020 and 2019, respectively. Income recognized on these policies, net of related expenses, for the years ended December 31, 2020, 2019, and 2018, was $245,000, $250,000, and $249,000, respectively.

In October 2015, the Board of Directors of the Company and the Bank adopted a board resolution to create the Central Valley Community Bank Executive Deferred Compensation Plan (the Executive Plan). Pursuant to the Executive Plan, all eligible executives of the Bank may elect to defer up to 50 percent of their compensation for each deferral year. Deferred amounts earn interest at an annual rate determined by the Board of Directors (2.49% at December 31, 2020). At December 31, 2020 and 2019, the total net deferrals included in accrued interest payable and other liabilities were $209,000 and $145,000, respectively.

Salary Continuation Plans - The Board of Directors has approved salary continuation plans for certain key executives. Under these plans, the Bank is obligated to provide the executives with annual benefits for 10-15 years after retirement. In connection with the acquisitions of Folsom Lake Bank (FLB), Service 1st Bank, and Visalia Community Bank (VCB), the Bank assumed a liability for the estimated present value of future benefits payable to former key executives of FLB, Service 1st, and VCB. The liability relates to change in control benefits associated with their salary continuation plans. The benefits are payable to the individuals when they reach retirement age. These benefits are substantially equivalent to those available under split-dollar life insurance policies purchased by the Bank on the life of the executives. The expense recognized under these plans for the years ended December 31, 2020, 2019, and 2018, totaled $1,624,000, $1,465,000, and $15,000, respectively. Accrued compensation payable under the salary continuation plans totaled $11,389,000 and $10,716,000 at December 31, 2020 and 2019, respectively. These benefits are substantially equivalent to those available under split-dollar life insurance policies acquired.

In connection with these plans, the Bank purchased single-premium life insurance policies with cash surrender values totaling $19,249,000 and $20,544,000 at December 31, 2020 and 2019, respectively. Income recognized on these policies, net of related expense, for the years ended December 31, 2020, 2019, and 2018 totaled $466,000, $478,000, and $446,000, respectively.

Employee Stock Purchase Plan - During 2017, the Company adopted an Employee Stock Purchase Plan which allows employees to purchase the Company's stock at a discount to fair market value as of the date of purchase. The Company bears all costs of administering the plan, including broker's fees, commissions, postage and other costs actually incurred.

16. LOANS TO RELATED PARTIES

During the normal course of business, the Bank enters into loans with related parties, including executive officers and directors. The following is a summary of the aggregate activity involving related-party borrowers (in thousands):

Balance, January 1, 2020	$ 11,111
Disbursements	240
Effects of changes in composition of related parties	(1)
Amounts repaid	(855)
Balance, December 31, 2020	$ 10,495
Undisbursed commitments to related parties, December 31, 2020	$ 269

17. PARENT ONLY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS
December 31, 2020 and 2019
(In thousands)

	2020	2019
ASSETS		
Cash and cash equivalents	$ 896	$ 1,675
Investment in Bank subsidiary	249,037	231,671
Other assets	354	220
Total assets	$ 250,287	$ 233,566
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Junior subordinated debentures due to subsidiary grantor trust	$ 5,155	$ 5,155
Other liabilities	111	283
Total liabilities	5,266	5,438
Shareholders' equity:		
Common stock	79,416	89,379
Retained earnings	150,749	135,932
Accumulated other comprehensive income, net of tax	14,856	2,817
Total shareholders' equity	245,021	228,128
Total liabilities and shareholders' equity	$ 250,287	$ 233,566

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the Years Ended December 31, 2020, 2019, and 2018
(In thousands)

	2020	2019	2018
Income:			
Dividends declared by Subsidiary—eliminated in consolidation	$ 15,622	$ 20,100	$ 2,850
Other income	4	6	6
Total income	15,626	20,106	2,856
Expenses:			
Interest on junior subordinated deferrable interest debentures	130	210	199
Professional fees	283	209	217
Other expenses	555	437	548
Total expenses	968	856	964
Income before equity in undistributed net income of Subsidiary	14,658	19,250	1,892
Equity in undistributed net income of Subsidiary, net of distributions	5,328	1,932	19,075
Income before income tax benefit	19,986	21,182	20,967
Benefit from income taxes	361	261	322
Net income	$ 20,347	$ 21,443	$ 21,289
Comprehensive income	$ 32,386	$ 28,667	$ 13,912

17. **PARENT ONLY CONDENSED FINANCIAL STATEMENTS** (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020, 2019, and 2018
(In thousands)

	2020	2019	2018
Cash flows from operating activities:			
Net income	$ 20,347	$ 21,443	$ 21,289
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed net income of subsidiary, net of distributions	(5,328)	(1,932)	(19,075)
Equity-based compensation	470	555	482
Net (increase) decrease in other assets	(208)	136	372
Net (decrease) increase in other liabilities	(31)	69	166
Benefit for deferred income taxes	75	10	11
Net cash provided by operating activities	15,325	20,281	3,245
Cash flows used in investing activities:			
Investment in subsidiary	-	-	-
Cash flows from financing activities:			
Cash dividend payments on common stock	(5,530)	(5,805)	(4,270)
Purchase and retirement of common stock	(11,052)	(15,619)	(894)
Proceeds from exercise of stock options	279	276	738
Proceeds from stock issued under employee stock purchase plan	199	216	211
Net cash used in financing activities	(16,104)	(20,932)	(4,215)
Decrease in cash and cash equivalents	(779)	(651)	(970)
Cash and cash equivalents at beginning of year	1,675	2,326	3,296
Cash and cash equivalents at end of year	$ 896	$ 1,675	$ 2,326
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the year for interest	$ 153	$ 215	$ 185

Supplementary
Financial Information

The following supplementary financial information is not a part of the Company's financial statements.

Unaudited Quarterly Statement of Operations Data
(In thousands, except per share amounts)

	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Net interest income	$ 16,777	$ 16,043	$ 15,574	$ 16,029	$ 15,786	$ 16,205	$ 15,946	$ 15,835
Provision for (Reversal of) credit losses	(1,700)	600	3,000	1,375	500	250	300	(25)
Net interest income after provision for credit losses	18,477	15,443	12,574	14,654	15,286	15,955	15,646	15,860
Other non-interest income	3,083	2,014	2,105	2,343	2,006	2,037	2,139	1,924
Net realized gains on investment securities	55	57	(58)	4,198	3	1,685	2,459	1,052
Total non-interest expense	12,379	11,728	11,499	12,078	11,127	11,534	11,772	11,667
Provision for income taxes	2,157	1,442	821	2,494	1,719	2,452	2,385	1,953
Net income	$ 7,079	$ 4,344	$ 2,301	$ 6,623	$ 4,449	$ 5,691	$ 6,087	$ 5,216
Basic earnings per share	$ 0.57	$ 0.35	$ 0.18	$ 0.52	$ 0.34	$ 0.43	$ 0.45	$ 0.38
Diluted earnings per share	$ 0.57	$ 0.35	$ 0.18	$ 0.52	$ 0.34	$ 0.42	$ 0.45	$ 0.38

Report of Independent Registered Public Accounting Firm

The Shareholders and Board of Directors
Central Valley Community Bancorp and Subsidiary
Fresno, California

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Central Valley Community Bancorp and Subsidiary (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinions

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Credit Losses—Qualitative Factors and General Reserve Allocation

As described in Notes 1—Summary of Significant Accounting Policies and 4—Loans and Allowance for Credit Losses to the consolidated financial statements, the allowance for credit losses is a valuation allowance for probable incurred credit losses in the Company's loan portfolio. At December 31, 2020, the allowance for credit losses was $12.9 million, which consists of two primary components, $0.6 million of specific reserves related to impaired loans and $12.3 million of general reserves for probable incurred losses related to loans that are not impaired. The determination of the allowance for credit losses involves significant assumptions which require a high degree of judgment relating to the Company's loan portfolio and the evaluation of the general economic conditions and other qualitative factors, and how those assumptions impact the probable incurred losses within the loan portfolio.

Changes in these assumptions could have a material effect on the Company's financial results. The qualitative factors for the general reserve allocation include consideration of economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan portfolio, and probable losses inherent in the portfolio taken as a whole.

Auditing management's determination of the qualitative factor component within the general reserve allocation was identified as a critical audit matter because of the significant auditor judgments needed to evaluate the significant subjective and complex judgments made by management.

The primary procedures we performed to address this critical audit matter included:

- Evaluation of the completeness and accuracy of data inputs used as a basis for the adjustments relating to qualitative general reserve factors.
- Evaluation of the reasonableness of management's judgments related to the data and assumptions used in the determination of qualitative factors.
- Analytically evaluating the qualitative factors year over year for directional consistency and testing for reasonableness.
- Testing the mathematical accuracy of the allowance calculation, including the application of the qualitative factors.
- Analytical evaluation of the overall adequacy of the allowance for credit losses, including the qualitative factors.

Goodwill Impairment Evaluation

As described in Note 1—Summary of Significant Accounting Policies and Note 6—Goodwill and Intangible Assets to the consolidated financial statements, the Company's goodwill balance was $53.8 million at December 31, 2020, which is allocated to the Company's single reporting unit. Goodwill is assessed for impairment in the third quarter of each year, or on an interim basis if there are conditions that could more likely than not reduce the fair value of the Company below its carrying value. The Company engaged a third party valuation specialist to assist in performing a quantitative goodwill impairment test. The estimated fair value of the reporting unit was calculated by weighting results from various market approaches and the income approach. Significant assumptions inherent in the valuation methodologies for goodwill that were employed included, but were not limited to, prospective financial information, growth rates, terminal value, discount rates, and comparable multiples from publicly traded companies in the Company's industry. The calculation to test for goodwill impairment involves significant estimates and subjective assumptions, which require a high degree of management judgment.

Auditing the quantitative goodwill impairment test was identified as a critical audit matter as the audit procedures used to evaluate the methodologies and assumptions used involved a high degree of auditor judgment and the level of complexity required the use of more experienced audit personnel and valuation specialists.

The primary procedures we performed to address this critical audit matter included:

- Testing the completeness and accuracy of data inputs used in, and the mathematical accuracy of, the valuation analysis.
- Utilization of Crowe LLP employed valuation specialists to assist in the evaluation of the appropriateness of the methodologies and assumptions utilized in management's valuation, including the reasonableness of significant assumptions, weighting allocation and the reasonableness of the overall fair value.
- Evaluating the sensitivity of the fair value based on various forecasted scenarios.
- Evaluating the knowledge, skill and ability of the Company's specialist related to the analysis performed.

We have served as the Company's auditor since 2011.

Crowe LLP

Sacramento, California
March 10, 2021

Selected
Consolidated Financial Data

	Years Ended December 31, (In thousands, except per-share amounts)				
Statements of Income	**2020**	**2019**	**2018**	**2017**	**2016**
Total interest income	$ 66,018	$ 66,331	$ 64,187	$ 57,376	$ 46,676
Total interest expense	1,595	2,559	1,484	1,137	1,096
Net interest income before provision for credit losses	64,423	63,772	62,703	56,239	45,580
Provision for (reversal of) credit losses	3,275	1,025	50	(1,150)	(5,850)
Net interest income after provision for credit losses	61,148	62,747	62,653	57,389	51,430
Non-interest income	13,797	13,305	10,324	10,836	9,591
Non-interest expenses	47,684	46,100	45,068	44,406	38,922
Income before provision for income taxes	27,261	29,952	27,909	23,819	22,099
Provision for income taxes	6,914	8,509	6,620	9,793	6,917
Net income	$ 20,347	$ 21,443	$ 21,289	$ 14,026	$ 15,182
Basic earnings per share	$ 1.62	$ 1.60	$ 1.55	$ 1.12	$ 1.34
Diluted earnings per share	$ 1.62	$ 1.59	$ 1.54	$ 1.10	$ 1.33
Cash dividends declared per common share	$ 0.44	$ 0.43	$ 0.31	$ 0.24	$ 0.24

	December 31, (In thousands)				
Balances at end of year:	**2020**	**2019**	**2018**	**2017**	**2016**
Investment securities, Federal funds sold and deposits in other banks	$ 753,829	$ 506,597	$ 477,932	$ 604,801	$ 558,132
Net loans	1,089,432	934,250	909,591	891,901	747,302
Total deposits	1,722,710	1,333,285	1,282,298	1,425,687	1,255,979
Total assets	2,004,096	1,596,755	1,537,836	1,661,655	1,443,323
Shareholders' equity	245,021	228,128	219,738	209,559	164,033
Earning assets	1,837,402	1,450,347	1,406,987	1,505,436	1,319,065
Average balances:					
Investment securities, Federal funds sold and deposits in other banks	$ 623,117	$ 494,455	$ 526,606	$ 568,426	$ 560,860
Net loans	1,043,470	921,546	903,204	784,085	636,475
Total deposits	1,568,194	1,295,780	1,333,754	1,284,305	1,144,231
Total assets	1,832,987	1,574,089	1,577,410	1,491,696	1,321,007
Shareholders' equity	229,807	228,352	211,324	182,507	154,325
Earning assets	1,676,567	1,423,015	1,435,025	1,358,930	1,205,142

Data from 2017 reflects the partial year impact of the acquisition of Folsom Lake Bank on October 1, 2017. Data from 2016 reflects the partial year impact of the acquisition of Sierra Vista Bank on October 1, 2016.

Management's discussion and analysis should be read in conjunction with the Company's audited Consolidated Financial Statements, including the Notes thereto, in Item 8 of this Annual Report.

Certain matters discussed in this report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained herein that are not historical facts, such as statements regarding the Company's current business strategy and the Company's plans for future development and operations, are based upon current expectations. These statements are forward-looking in nature and involve a number of risks and uncertainties. Such risks and uncertainties include, but are not limited to (1) significant increases in competitive pressure in the banking industry; (2) the impact of changes in interest rates; (3) a decline in economic conditions in the Central Valley and the Greater Sacramento Region; (4) the Company's ability to continue its internal growth at historical rates; (5) the Company's ability to maintain its net interest margin; (6) the decline in quality of the Company's earning assets; (7) a decline in credit quality; (8) changes in the regulatory environment; (9) fluctuations in the real estate market; (10) changes in business conditions and inflation; (11) changes in securities markets (12) risks associated with acquisitions, relating to difficulty in integrating combined operations and related negative impact on earnings, and incurrence of substantial expenses; (13) political developments, uncertainties or instability, catastrophic events, acts of war or terrorism, or natural disasters, such as earthquakes, drought, pandemic diseases or extreme weather events, any of which may affect services we use or affect our customers, employees or third parties with which we conduct business; (14) the uncertainties related to the Covid-19 pandemic including, but not limited to, the potential adverse effect of the pandemic on the economy, our employees and customers, and our financial performance; and (15) the impact of the federal CARES Act and the significant additional lending activities undertaken by the Company in connection with the Small Business Administration's Paycheck Protection Program enacted thereunder, including risks to the Company with respect to the uncertain application by the Small Business Administration of new borrower and loan eligibility, forgiveness and audit criteria. Therefore, the information set forth in such forward-looking statements should be carefully considered when evaluating the business prospects of the Company.

When the Company uses in this Annual Report the words "anticipate," "estimate," "expect," "project," "intend," "commit," "believe" and similar expressions, the Company intends to identify forward-looking statements. Such statements are not guarantees of performance and are subject to certain risks, uncertainties and assumptions, including those described in this Annual Report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected, projected, intended, committed or believed. The future results and shareholder values of the Company may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results and values are beyond the Company's ability to control or predict. For those statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. See also the discussion of risk factors in Item 1A, "Risk Factors."

We are not able to predict all the factors that may affect future results. You should not place undue reliance on any forward looking statement, which speaks only as of the date of this Report on Form 10-K. Except as required by applicable laws or regulations, we do not undertake any obligation to update or revise any forward looking statement, whether as a result of new information, future events or otherwise.

INTRODUCTION

Central Valley Community Bancorp (NASDAQ: CVCY) (the Company) was incorporated on February 7, 2000. The formation of the holding company offered the Company more flexibility in meeting the long-term needs of customers, shareholders, and the communities it serves. The Company currently has one bank subsidiary, Central Valley Community Bank (the Bank) and one business trust subsidiary, Service 1st Capital Trust 1. The Company's market area includes the central valley area from Sacramento, California to Bakersfield, California.

During 2020, we focused on managing the COVID-19 affects on businesses, customers and employees. We also focused on assuring that competitive products and services were made available to our clients while adjusting to the many new laws and regulations that affect the banking industry.

As of December 31, 2020, the Bank operated 20 full-service offices. Additionally, the Bank maintains a Commercial Real Estate Division, an Agribusiness Center and a SBA Lending Division. The Real Estate Division processes or assists in processing the majority of the Bank's real estate related transactions, including interim construction loans for single family residences and commercial buildings. We offer permanent single family residential loans through our mortgage broker services.

ECONOMIC CONDITIONS

For the years leading up to 2020, the economy, as evidenced by the California, Central Valley, and Greater Sacrament Region unemployment rates, and housing prices, were showing moderate and steady improvement.

During 2020, the outbreak of COVID-19 has adversely impacted a broad range of industries in which the Company's customers operate and could impair their ability to fulfill their financial obligations to the Company. The World Health Organization has declared COVID-19 to be a global pandemic indicating that almost all public commerce and related business activities must be, to varying degrees, curtailed with the goal of decreasing the rate of new infections. The pandemic has resulted in temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in California, including our primary market area. As a result, the demand for our products and services has been and may continue to be significantly impacted. The spread of the outbreak has caused significant disruptions in the U.S. economy and has disrupted banking and other financial activity in the areas in which the Company operates.

The Company's business is dependent upon the willingness and ability of its employees and customers to conduct banking and other financial transactions. While there has been no material impact to the Company's employees to date, COVID-19 could also potentially create widespread business continuity issues for the Company. If the global response to contain COVID-19 escalates further or is unsuccessful, the Company could experience an adverse effect on its business, financial condition and results of operations.

Agriculture and agricultural-related businesses remain a critical part of the Central Valley's economy. The Valley's agricultural production is widely diversified, producing nuts, vegetables, fruit, cattle, dairy products, and cotton. The continued future success of agriculture related businesses is highly dependent on the availability of water and is subject to fluctuation in worldwide commodity prices, currency exchanges, and demand. From time to time, California experiences severe droughts or adverse weather issues, which could significantly harm the business of our customers and the credit quality of the loans to those customers. We closely monitor the water resources and the related issues affecting our customers, and will remain vigilant for signs of deterioration within the loan portfolio in an effort to manage credit quality and work with borrowers where possible to mitigate any losses.

OVERVIEW

Diluted earnings per share (EPS) for the year ended December 31, 2020 was $1.62 compared to $1.59 and $1.54 for the years ended December 31, 2019 and 2018, respectively. Net income for 2020 was $20,347,000 compared to $21,443,000 and $21,289,000 for the years ended December 31, 2019 and 2018, respectively. The decrease in net income for 2020 compared to 2019 was primarily due to an increase in provision for credit losses, a decrease in net realized gains on sales and calls of investment securities, a decrease in service charge income, and an increase in non-interest expense, partially offset by an increase in net interest income, an increase in loan placement fees, and a decrease in the provision for income taxes. Total assets at December 31, 2020 were $2,004,096,000 compared to $1,596,755,000 at December 31, 2019.

Return on average equity ("ROE") for 2020 was 8.85% compared to 9.39% and 10.07% for 2019 and 2018, respectively. Return on average assets ("ROA") for 2020 was 1.11% compared to 1.36% and 1.35% for 2019 and 2018, respectively. Total equity was $245,021,000 at December 31, 2020 compared to $228,128,000 at December 31, 2019. The increase in shareholders' equity is the result of an increase in retained earnings from our net income of $20,347,000,

OVERVIEW (Continued)

the exercise of stock options in the amount of $279,000, the effect of share-based compensation expense of $470,000, stock issued under our employee stock purchase plan of $199,000, and an increase in accumulated other comprehensive income (AOCI) of $12,039,000, partially offset by the payment of common stock cash dividends of $5,530,000 and the repurchase and retirement of common stock of $11,052,000.

Average total loans increased $124,829,000 or 13.41% to $1,055,712,000 in 2020 compared to $930,883,000 in 2019. In 2020, we recorded a provision for credit losses of $3,275,000 compared to a provision of $1,025,000 in 2019 and a provision of $50,000 in 2018. The Company had nonperforming assets consisting of $3,278,000 in nonaccrual loans at December 31, 2020. At December 31, 2019, nonperforming assets totaled $1,693,000. Net loan loss recoveries for 2020 were $510,000 compared to net loan loss charge-offs in the amount of $999,000 for 2019 and net loan loss recoveries of $276,000 for 2018. Refer to "Asset Quality" below for further information.

Dividend Declared

The Company declared a $0.11 per common share cash dividend, payable on February 26, 2021 to shareholders of record on February 12, 2021.

Key Factors in Evaluating Financial Condition and Operating Performance

In evaluating our financial condition and operating performance, we focus on several key factors including:

- Return to our shareholders;
- Return on average assets;
- Development of revenue streams, including net interest income and non-interest income;
- Asset quality;
- Asset growth;
- Capital adequacy;
- Operating efficiency; and
- Liquidity.

Return to Our Shareholders

One measure of our return to our shareholders is the return on average equity (ROE), which is a ratio that measures net income divided by average shareholders' equity. Our ROE was 8.85% for the year ended 2020 compared to 9.39% and 10.07% for the years ended 2019 and 2018, respectively.

Our net income for the year ended December 31, 2020 decreased $1,096,000 compared to 2019 and increased $154,000 in 2019 compared to 2018. Contributing to the decrease during 2020 compared to 2019 was an increase in provision for credit losses, a decrease in net realized gains on sales and calls of investment securities, a decrease in service charge income, and an increase in non-interest expense, partially offset by an increase in net interest income, an increase in loan placement fees, and a decrease in the provision for income taxes. During 2019, net income compared to 2018 was positively impacted by an increase in net interest income and an increase in net realized gains on sales and calls of investment securities. During 2018 net income was positively impacted by the decrease in tax expense.

Net interest income increased primarily because of increases in loan and fee income, decreases in interest expense, partially offset by decreases in interest income on investments. The impact to interest income from the accretion of the loan marks on acquired loans was an increase of $1,321,000 and $989,000 for the year ended December 31, 2020 and 2019, respectively. For 2020, our net interest margin (NIM) decreased 64 basis points to 3.87% compared to 2019 as a result of yield changes and asset mix changes. The decrease in net interest margin in the period-to-period comparison resulted primarily from the decrease in the effective yield on interest-earning deposits in other banks and Federal Funds sold, the decrease in the effective yield on average investment securities, and the decrease in the yield on the Company's loan portfolio. The decrease in the loan yield was impacted by the Company's issuance of low-interest PPP loans. Net interest income during 2020 was positively impacted by from the accretion of the loan marks on acquired loans in the amount of $1,321,000 and $989,000 for the year ended December 31, 2020 and 2019, respectively. In addition, net interest income before the provision for credit losses for the year ended December 31, 2020 benefited by approximately $805,000 in nonrecurring income from prepayment penalties and payoff of loans, as compared to $619,000 in nonrecurring income for the year ended December 31, 2019. Excluding these reversals and benefits, net interest income for the year ended December 31, 2020 decreased by $133,000 compared to the year ended December 31, 2019.

Non-interest income increased 3.70% in 2020 compared to 2019 primarily due to an increase in loan placement fees of $1,313,000, an increase of $1,059,000 in other income, partially offset by a $947,000 decrease in net realized gains on sales and calls of investment securities, a decrease in service charge income of $685,000, and a $132,000 decrease in Federal Home Loan Bank dividends. The increase in other income resulted from a $1,167,000 gain related to the collection of tax-exempt life insurance proceeds.

Non-interest expenses increased $1,584,000 or 3.44% to $47,684,000 in 2020 compared to $46,100,000 in 2019. The net increase year over year resulted from increases in salaries and employee benefits of $1,949,000, professional services of $1,093,000, data processing of $489,000, regulatory assessments of $239,000, and operating losses of $40,000, offset by decreases in occupancy and equipment expenses of $813,000, information technology of $220,000, amortization of software of $227,000, internet banking of $166,000, credit card expenses of $114,000, and directors' expenses of $95,000, in 2020 compared to 2019. The Company recorded an income tax provision of $6,914,000 for the year ended December 31, 2020, compared to $8,509,000 for the year ended December 31, 2019, and $6,620,000 for the year ended December 31, 2018. Basic EPS was $1.62 for 2020 compared to $1.60 and $1.55 for 2019 and 2018, respectively. Diluted EPS was $1.62 for 2020 compared to $1.59 and $1.54 for 2019 and 2018, respectively.

Return on Average Assets

Our ROA is a ratio that measures our performance compared with other banks and bank holding companies. Our ROA for the year ended 2020 was 1.11% compared to 1.36% and 1.35% for the years ended December 31, 2019 and 2018, respectively. The 2020 decrease in ROA is primarily due to the decrease in net income and an increase in average assets. Annualized ROA for our peer group was 1.06% at December 31, 2020. Peer group information from S&P Global Market Intelligence data includes bank holding companies in central California with assets from $1 billion to $3.5 billion.

Development of Revenue Streams

Over the past several years, we have focused on not only our net income, but improving the consistency of our revenue streams in order to create more predictable future earnings and reduce the effect of changes in our operating environment on our net income. Specifically, we have focused on net interest income through a variety of strategies, including increases in average interest earning assets, and minimizing the effects of the recent interest rate changes on our net interest margin by focusing on core deposits and managing our cost of funds. Our net interest margin (fully tax equivalent basis) was 3.87% for the year ended December 31, 2020, compared to 4.51% and 4.44% for the years ended December 31, 2019 and 2018, respectively. The decrease in 2020 net interest margin compared to 2019, resulted from the decrease in the effective yield on interest earning deposits in other banks and Federal Funds sold, the decrease in the effective yield on average investment securities, and the decrease in the yield on the Company's loan portfolio. The effective tax equivalent yield on total earning assets decreased 72 basis points, while the cost of total interest-bearing liabilities decrease 15 basis points to 0.19% for the year ended December 31, 2020. Our cost of total deposits in 2020 and 2019 was 0.09% and 0.15%, respectively, compared to 0.09% for the same period in 2018. Our net interest income before provision for credit losses increased $651,000 or 1.02% to $64,423,000 for the year ended 2020 compared to $63,772,000 and $62,703,000 for the years ended 2019 and 2018, respectively.

Our non-interest income is generally made up of service charges and fees on deposit accounts, fee income from loan placements, appreciation in cash surrender value of bank-owned life insurance, and net gains from sales and calls of investment securities. Non-interest income in 2020 increased $492,000 or 3.70% to $13,797,000 compared to $13,305,000 in 2019 and $10,324,000 in

OVERVIEW (Continued)

2018. The increase resulted primarily from an increase in loan placement fees, and an increase in other income, partially offset by a decrease in net realized gains on sales and calls of investment securities, a decrease in service charge income, and a decrease in FHLB dividends compared to 2019. Further detail on non-interest income is provided below.

Asset Quality

For all banks and bank holding companies, asset quality has a significant impact on the overall financial condition and results of operations. Asset quality is measured in terms of classified and nonperforming loans, and is a key element in estimating the future earnings of a company. Total nonperforming assets were $3,278,000 and $1,693,000 at December 31, 2020 and 2019, respectively. Nonperforming assets totaled 0.30% of gross loans as of December 31, 2020 and 0.18% of gross loans as of December 31, 2019. Nonperforming loans were $3,278,000 and $1,693,000 at December 31, 2020 and 2019, respectively. The Company had no other real estate owned at December 31, 2020, or December 31, 2019. No foreclosed assets were recorded at December 31, 2020 or December 31, 2019. Management maintains certain loans that have been brought current by the borrower (less than 30 days delinquent) on nonaccrual status until such time as management has determined that the loans are likely to remain current in future periods.

The ratio of nonperforming loans to total loans was 0.30% as of December 31, 2020 and 0.18% as of December 31, 2019. The allowance for credit losses as a percentage of outstanding loan balance was 1.17% as of December 31, 2020 and 0.97% as of December 31, 2019. The ratio of net recoveries (charge-offs) to average loans was 0.05% as of December 31, 2020 and (0.11)% as of December 31, 2019.

Asset Growth

As revenues from both net interest income and non-interest income are a function of asset size, the continued growth in assets has a direct impact in increasing net income and therefore ROE and ROA. The majority of our assets are loans and investment securities, and the majority of our liabilities are deposits, and therefore the ability to generate deposits as a funding source for loans and investments is fundamental to our asset growth. Total assets increased 25.51% during 2020 to $2,004,096,000 as of December 31, 2020 from $1,596,755,000 as of December 31, 2019. Total gross loans increased 16.85% to $1,102,347,000 as of December 31, 2020, compared to $943,380,000 at December 31, 2019. Total investment securities increased 50.08% to $717,726,000 as of December 31, 2020 compared to $478,218,000 as of December 31, 2019. Total deposits increased 29.21% to $1,722,710,000 as of December 31, 2020 compared to $1,333,285,000 as of December 31, 2019. Our loan to deposit ratio at December 31, 2020 was 63.99% compared to 70.76% at December 31, 2019. The loan to deposit ratio of our peers was 80.00% at December 31, 2020. Peer group information from S&P Global Market Intelligence data includes bank holding companies in central California with assets from $1 billion to $3.5 billion.

Capital Adequacy

At December 31, 2020, we had a total capital to risk-weighted assets ratio of 15.58%, a Tier 1 risk-based capital ratio of 14.50%, common equity Tier 1 ratio of 14.10%, and a leverage ratio of 9.28%. At December 31, 2019, we had a total capital to risk-weighted assets ratio of 15.79%, a Tier 1 risk-based capital ratio of 14.98%, common equity Tier 1 ratio of 14.55%, and a leverage ratio of 11.38%. At December 31, 2020, on a stand-alone basis, the Bank had a total risk-based capital ratio of 15.48%, a Tier 1 risk based capital ratio of 14.41%, common equity Tier 1 ratio of 14.41%, and a leverage ratio of 9.23%. At December 31, 2019, the Bank had a total risk-based capital ratio of 15.66%, Tier 1 risk-based capital of 14.85% and a leverage ratio of 11.27%. *Note 13* of the audited Consolidated Financial Statements provides more detailed information concerning the Company's capital amounts and ratios. As of January 1, 2015, bank holding companies with consolidated assets of $1 billion or more ($3 Billion or more effective August 30, 2018) and banks like Central Valley Community Bank became subject to new capital requirements, and certain provisions of the new rules were phased in through 2019 under the Dodd-Frank Act and Basel III. As of December 31, 2020, the Bank met or exceeded all of their capital requirements inclusive of the capital buffer. The Bank's capital ratios exceeded the regulatory guidelines for a well-capitalized financial institution under the Basel III regulatory requirements at December 31, 2020.

Operating Efficiency

Operating efficiency is the measure of how efficiently earnings before taxes are generated as a percentage of revenue. A lower ratio represents greater efficiency. The Company's efficiency ratio (operating expenses, excluding amortization of intangibles and foreclosed property expense, divided by net interest income plus non-interest income, excluding net gains and losses from sale of securities) was 64.08% for 2020 compared to 62.77% for 2019 and 61.23% for 2018. The slight increase in the efficiency ratios in 2020 and 2019 was due to the growth in non-interest expense outpacing the growth in non-interest income. The Company's net interest income before provision for credit losses plus non-interest income increased 1.48% to $78,220,000 in 2020 compared to $77,077,000 in 2019 and $73,027,000 in 2018, while operating expenses increased 3.44% in 2020, 2.29% in 2019, and 1.49% in 2018.

Liquidity

Liquidity management involves our ability to meet cash flow requirements arising from fluctuations in deposit levels and demands of daily operations, which include providing for customers' credit needs, funding of securities purchases, and ongoing repayment of borrowings. Our liquidity is actively managed on a daily basis and reviewed periodically by our management and Directors' Asset/Liability Committee. This process is intended to ensure the maintenance of sufficient funds to meet our needs, including adequate cash flows for off-balance sheet commitments. Our primary sources of liquidity are derived from financing activities which include the acceptance of customer and, to a lesser extent, broker deposits, Federal funds facilities and advances from the Federal Home Loan Bank of San Francisco. We have available unsecured lines of credit with correspondent banks totaling approximately $110,000,000 and secured borrowing lines of approximately $235,371,000 with the Federal Home Loan Bank. These funding sources are augmented by collection of principal and interest on loans, the routine maturities and pay downs of securities from our investment securities portfolio, the stability of our core deposits, and the ability to sell investment securities. Primary uses of funds include origination and purchases of loans, withdrawals of and interest payments on deposits, purchases of investment securities, and payment of operating expenses.

We had liquid assets (cash and due from banks, interest-earning deposits in other banks, Federal funds sold, equity securities, and available-for-sale securities) totaling $788,004,000 or 39.32% of total assets at December 31, 2020 and $530,792,000 or 33.24% of total assets as of December 31, 2019.

RESULTS OF OPERATIONS

NET INCOME

Net income was $20,347,000 in 2020 compared to $21,443,000 and $21,289,000 in 2019 and 2018, respectively. Basic earnings per share was $1.62, $1.60, and $1.55 for 2020, 2019, and 2018, respectively. Diluted earnings per share was $1.62, $1.59, and $1.54 for 2020, 2019, and 2018, respectively. ROE was 8.85% for 2020 compared to 9.39% for 2019 and 10.07% for 2018. ROA for 2020 was 1.11% compared to 1.36% for 2019 and 1.35% for 2018.

The decrease in net income for 2020 compared to 2019 was primarily due to an increase in provision for credit losses, a decrease in net realized gains on sales and calls of investment securities, a decrease in service charge income, and an increase in non-interest expense, partially offset by an increase in net interest income, an increase in loan placement fees, and a decrease in the provision for income taxes. The increase in net income for 2019 compared to 2018 was primarily due to an increase in net interest income and an increase in net realized gains on sales and calls of investment securities, partially offset by an increase in non-interest expense, an increase in the provision for credit losses, and an increase in the provision for income taxes.

INTEREST INCOME AND EXPENSE

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

The following table sets forth a summary of average balances with corresponding interest income and interest expense as well as average yield and cost information for the periods presented. Average balances are derived from daily balances, and nonaccrual loans are not included as interest-earning assets for purposes of this table.

INTEREST INCOME AND EXPENSE (Continued)

SCHEDULE OF AVERAGE BALANCES, AVERAGE YIELDS AND RATES (Dollars in thousands)	Year Ended December 31, 2020			Year Ended December 31, 2019			Year Ended December 31, 2018		
	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	$ 76,924	$ 246	0.32%	$ 17,893	$ 375	2.10%	$ 24,095	$ 460	1.91%
Securities									
Taxable securities	479,894	11,740	2.45%	438,042	13,197	3.01%	391,549	10,254	2.62%
Non-taxable securities (1)	66,299	2,489	3.75%	38,520	1,639	4.25%	110,962	4,478	4.04%
Total investment securities	546,193	14,229	2.61%	476,562	14,836	3.11%	502,511	14,732	2.93%
Total securities and interest-earning deposits	623,117	14,475	2.32%	494,455	15,211	3.08%	526,606	15,192	2.88%
Loans (2) (3)	1,053,450	52,066	4.94%	928,560	51,464	5.54%	908,419	49,936	5.50%
Total interest-earning assets	1,676,567	$ 66,541	3.97%	1,423,015	$ 66,675	4.69%	1,435,025	$ 65,128	4.54%
Allowance for credit losses	(12,242)			(9,337)			(8,924)		
Nonaccrual loans	2,262			2,323			3,709		
Cash and due from banks	27,575			25,726			27,199		
Bank premises and equipment	7,476			7,983			9,148		
Other assets	131,349			124,379			111,253		
Total average assets	$ 1,832,987			$ 1,574,089			$ 1,577,410		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
Savings and NOW accounts	$ 433,742	$ 341	0.08%	$ 370,378	$ 566	0.15%	$ 383,667	$ 451	0.12%
Money market accounts	300,603	542	0.18%	270,918	656	0.24%	285,568	419	0.15%
Time certificates of deposit	89,610	582	0.65%	97,136	706	0.73%	111,214	283	0.25%
Total interest-bearing deposits	823,955	1,465	0.18%	738,432	1,928	0.26%	780,449	1,153	0.15%
Other borrowed funds	5,155	130	2.52%	21,943	631	2.88%	12,180	331	2.72%
Total interest-bearing liabilities	829,110	$ 1,595	0.19%	760,375	$ 2,559	0.34%	792,629	$ 1,484	0.19%
Non-interest bearing demand deposits	744,239			557,348			553,305		
Other liabilities	29,831			28,014			20,152		
Shareholders' equity	229,807			228,352			211,324		
Total average liabilities and shareholders' equity	$ 1,832,987			$ 1,574,089			$ 1,577,410		
Interest income and rate earned on average earning assets		$ 66,541	3.97%		$ 66,675	4.69%		$ 65,128	4.54%
Interest expense and interest cost related to average interest-bearing liabilities		1,595	0.19%		2,559	0.34%		1,484	0.19%
Net interest income and net interest margin (4)		$ 64,946	3.87%		$ 64,116	4.51%		$ 63,644	4.44%

(1) Interest income is calculated on a fully tax equivalent basis, which includes Federal tax benefits relating to income earned on municipal bonds totaling $523, $344, and $940 in 2020, 2019, and 2018, respectively.

(2) Loan interest income includes loan fees of $2,234 in 2020, $164 in 2019, and $397 in 2018.

(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.

INTEREST INCOME AND EXPENSE (Continued)

The following table sets forth a summary of the changes in interest income and interest expense due to changes in average asset and liability balances (volume) and changes in average interest rates for the periods indicated. The change in interest due to both rate and volume has been allocated to the change in rate.

(In thousands) Changes in Volume/Rate	For the Years Ended December 31, 2020 Compared to 2019			For the Years Ended December 31, 2019 Compared to 2018		
	Volume	Rate	Net	Volume	Rate	Net
Increase (decrease) due to changes in:						
Interest income:						
Interest-earning deposits in other banks	$ 1,237	$ (1,366)	$ (129)	$ (118)	$ 34	$ (84)
Investment securities:						
Taxable	1,260	(2,717)	(1,457)	1,218	1,725	2,943
Non-taxable (1)	1,181	(331)	850	(2,923)	84	(2,839)
Total investment securities	2,441	(3,048)	(607)	(1,705)	1,809	104
Loans	6,921	(6,319)	602	1,107	421	1,528
Total earning assets (1)	10,599	(10,733)	(134)	(716)	2,264	1,548
Interest expense:						
Deposits:						
Savings, NOW and MMA	167	(506)	(339)	(36)	388	352
Time certificate of deposits	(54)	(70)	(124)	(35)	458	423
Total interest-bearing deposits	113	(576)	(463)	(71)	846	775
Other borrowed funds	(483)	(18)	(501)	265	35	300
Total interest bearing liabilities	(370)	(594)	(964)	194	881	1,075
Net interest income (1)	$ 10,969	$ (10,139)	$ 830	$ (910)	$ 1,383	$ 473

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

Interest and fee income from loans increased $602,000 or 1.17% in 2020 compared to 2019. Interest and fee income from loans increased $1,528,000 or 3.06% in 2019 compared to 2018. The increase in 2020 is primarily attributable to an increase in average total loans outstanding, offset by a decrease in the yield on loans of 60 basis points. The decrease in the loan yield was impacted by the Company's issuance of low-interest PPP loans.

Average total loans for 2020 increased $124,829,000 to $1,055,712,000 compared to $930,883,000 for 2019 and $912,128,000 for 2018. The yield on loans for 2020 was 4.94% compared to 5.54% and 5.50% for 2019 and 2018, respectively. The impact to interest income from the accretion of the loan marks on acquired loans was an increase of $1,321,000 and $989,000 for the years ended December 31, 2020 and 2019, respectively.

Interest income from total investments on a non tax-equivalent basis, (total investments include investment securities, Federal funds sold, interest-bearing deposits in other banks, and other securities), decreased $915,000 or 6.15% in 2020 compared to 2019. The yield on average investments decreased 76 basis points to 2.32% for the year ended December 31, 2020 from 3.08% for the year ended December 31, 2019. Average total investments increased $128,662,000 to $623,117,000 in 2020 compared to $494,455,000 in 2019. In 2019, total investment income on a non tax-equivalent basis increased $616,000 or 4.32% compared to 2018.

Our investment portfolio consists primarily of securities issued by U.S. Government sponsored entities and agencies collateralized by mortgage backed obligations and obligations of states and political subdivision securities. However, a significant portion of the investment portfolio is mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs). At December 31, 2020, we held $299,806,000 or 42.22% of the total market value of the investment portfolio in MBS and CMOs with an average yield of 2.15%. We invest in CMOs and MBS as part of our overall strategy to increase our net interest margin. CMOs and MBS by their nature are affected by prepayments which are impacted by changes in interest rates. In a normal declining rate environment, prepayments from MBS and CMOs would be expected to increase and the expected life of the investment would be expected to shorten. Conversely, if interest rates increase, prepayments normally would be expected to decline and the average life of the MBS and CMOs would be expected to extend. Premium amortization and discount accretion of these investments affects our net interest income. Our management monitors the prepayment trends of these investments and adjusts premium amortization and discount accretion based on several factors. These factors include the type of investment, the investment structure, interest rates, interest rates on new mortgage loans, expectation of interest rate changes, current economic conditions, the level of principal remaining on the bond, the bond coupon rate, the bond origination date, and volume of available bonds in market. The calculation of premium amortization and discount accretion is by nature inexact, and represents management's best estimate of principal pay downs inherent in the total investment portfolio.

The cumulative net-of-tax effect of the change in market value of the available-for-sale investment portfolio as of December 31, 2020 was an unrealized gain of $14,856,000 and is reflected in the Company's equity. At December 31, 2020, the effective duration of the investment portfolio was 4.65 years and the market value reflected a pre-tax unrealized gain of $21,091,000. Management reviews market value declines on individual investment securities to determine whether they represent other-than-temporary impairment (OTTI). For the years ended December 31, 2020, 2019, and 2018, no OTTI was recorded. Future deterioration in the market values of our investment securities may require the Company to recognize additional OTTI losses.

A component of the Company's strategic plan has been to use its investment portfolio to offset, in part, its interest rate risk relating to variable rate loans. Measured at December 31, 2020, an immediate rate increase of 200 basis points would result in an estimated decrease in the market value of the investment portfolio by approximately $72,000,000. Conversely, with an immediate rate decrease of 200 basis points, the estimated increase in the market value of the investment portfolio would be $66,000,000. The modeling environment assumes management would take no action during an immediate shock of 200 basis points. However, the Company uses those increments to measure its interest rate risk in accordance with regulatory requirements and to measure the possible future risk in the investment portfolio. For further discussion of the Company's market risk, refer to Quantitative and Qualitative Disclosures about Market Risk.

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

Total interest income in 2020 decreased $313,000 to $66,018,000 compared to $66,331,000 in 2019 and $64,187,000 in 2018, respectively. The decrease in 2020 was the result of yield changes, decrease in interest rates, and asset mix changes. The tax-equivalent yield on interest earning assets decreased to 3.97% for the year ended December 31, 2020 from 4.69% for the year ended December 31, 2019. Average interest earning assets increased to $1,676,567,000 for the year ended December 31, 2020 compared to $1,423,015,000 for the year ended December 31, 2019. Average interest-earning deposits in other banks increased $59,031,000 in 2020 compared to 2019. Average yield on these deposits was 0.32% compared to 2.10% on December 31, 2020 and December 31, 2019 respectively. Average investments and interest-earning deposits increased $128,662,000 but the tax equivalent yield on those assets decreased 76 basis points. Average total loans increased $124,829,000 and the yield on average loans decreased 60 basis points.

The increase in total interest income for 2019 was the result of yield changes and asset mix changes. The tax-equivalent yield on interest-earning assets increased to 4.69% for the year ended December 31, 2019 from 4.54% for the year ended December 31, 2018. Average interest-earning assets decrease to $1,423,015,000 for the year ended December 31, 2019 compared to $1,435,025,000 for the year ended December 31, 2018. Average total loans increased and the yield on average loans increased four basis points.

Interest expense on deposits in 2020 decreased $463,000 or 24.01% to $1,465,000 compared to $1,928,000 in 2019 and increased $312,000 as

INTEREST INCOME AND EXPENSE (Continued)

compared to 2018. The yield on interest-bearing deposits decreased 8 basis points to 0.18% in 2020 from 0.26% in 2019. The yield on interest-bearing deposits increased 11 basis points to 0.26% in 2019 from 0.15% in 2018. Average interest-bearing deposits were $823,955,000 for 2020 compared to $738,432,000 and $780,449,000 for 2019 and 2018, respectively.

Average other borrowings were $5,155,000 with an effective rate of 2.52% for 2020 compared to $21,943,000 with an effective rate of 2.88% for 2019. In 2018, the average other borrowings were $12,180,000 with an effective rate of 2.72%. Included in other borrowings are the junior subordinated deferrable interest debentures acquired from Service 1st, advances on lines of credit, advances from the Federal Home Loan Bank (FHLB), and overnight borrowings. The debentures carry a floating rate based on the three month LIBOR plus a margin of 1.60%. The rate was 1.84% for 2020, 3.59% for 2019, and 4.04% for 2018.

The cost of all interest-bearing liabilities was 0.19% and 0.34% basis points for 2020 and 2019, respectively, compared to 0.19% for 2018. The cost of total deposits decreased to 0.09% for the year ended December 31, 2020, compared to 0.15% and 0.09% for the years ended December 31, 2019 and 2018, respectively. Average demand deposits increased 33.53% to $744,239,000 in 2020 compared to $557,348,000 for 2019 and $553,305,000 for 2018. The ratio of average non-interest demand deposits to average total deposits increased to 47.46% for 2020 compared to 43.01% and 41.48% for 2019 and 2018, respectively.

NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES

Net interest income before provision for credit losses for 2020 increased $651,000 or 1.02% to $64,423,000 compared to $63,772,000 for 2019 and $62,703,000 for 2018. The increase in 2020 was a result of yield changes, asset mix changes, and an increase in average earning assets, offset by an increase in average interest bearing liabilities. Our net interest margin (NIM) decreased 64 basis points. Yield on interest earning assets decreased 72 basis points. The decrease in net interest margin in the period-to-period comparison resulted primarily from the decrease in the effective yield on interest earning deposits in other banks and Federal Funds sold, the decrease in the effective yield on average investment securities, and the decrease in the yield on the Company's loan portfolio. Net interest income before provision for credit losses increased $1,069,000 in 2019 compared to 2018, primarily due to the increase in average earning assets, asset mix changes, and a decrease in average interest bearing liabilities. Average interest-earning assets were $1,676,567,000 for the year ended December 31, 2020 with a NIM of 3.87% compared to $1,423,015,000 with a NIM of 4.51% in 2019, and $1,435,025,000 with a NIM of 4.44% in 2018. For a discussion of the repricing of our assets and liabilities, refer to Quantitative and Qualitative Disclosure about Market Risk.

PROVISION FOR CREDIT LOSSES

Credit risk is inherent in the business of making loans. The Company establishes an allowance for credit losses on loans through charges to earnings, which are presented in the statements of income as the provision for credit losses on loans. Specifically identifiable and quantifiable known losses are promptly charged off against the allowance.

The provision for credit losses on loans is determined by conducting a quarterly evaluation of the adequacy of the Company's allowance for credit losses on loans and charging the shortfall or excess, if any, to the current quarter's expense. This has the effect of creating variability in the amount and frequency of charges to the Company's earnings. The provision for credit losses on loans and level of allowance for each period are dependent upon many factors, including loan growth, net charge offs, changes in the composition of the loan portfolio, delinquencies, management's assessment of the quality of the loan portfolio, the valuation of problem loans and the general economic conditions in the Company's market area.

The establishment of an adequate credit allowance is based on an allowance model that utilizes qualitative and quantitative factors, historical losses, loan level risk ratings and portfolio management tools. The Board of Directors has established initial responsibility for the accuracy of credit risk ratings with the individual credit officer and oversight from Credit Administration who ensures the accuracy of the risk ratings. Quarterly, the credit officers must certify the current risk ratings of the loans in their portfolio. Credit Administration reviews the certifications and reports to the Board of Directors Audit Committee. At least annually the loan portfolio, including risk ratings, is reviewed by a third party credit reviewer. Regulatory agencies also review the loan portfolio on a periodic basis. See *"Allowance for Credit Losses"* for more information on the Company's Allowance for Loan Loss.

During the year ended December 31, 2020, the Company recorded a provision for credit losses of $3,275,000 compared to a provision of $1,025,000 and $50,000 for the same periods in 2019 and 2018, respectively. The recorded provisions to the allowance for credit losses are primarily the result of our assessment of the overall adequacy of the allowance for credit losses considering a number of factors as discussed in the "Allowance for Credit Losses" section.

During the years ended December 31, 2020, 2019 and 2018 the Company had net charge-offs (recoveries) totaling $(510,000), $999,000, and $(276,000), respectively. The net charge-off (recovery) ratio, which reflects net charge-offs (recoveries) to average loans, was (0.05)%, 0.11% and (0.03)% for 2020, 2019, and 2018, respectively.

Economic pressures may negatively impact the financial condition of borrowers to whom the Company has extended credit and as a result when negative economic conditions are anticipated, we may be required to make significant provisions to the allowance for credit losses. The Bank conducts banking operation principally in California's Central Valley. The Central Valley is largely dependent on agriculture. The agricultural economy in the Central Valley is therefore important to our business, financial performance and results of operations. We are also dependent in a large part upon the business activity, population growth, income levels and real estate activity in this market area. A downturn in agriculture and the agricultural related businesses could have a material adverse effect our business, results of operations and financial condition. The agricultural industry has been affected by declines in prices and the changes in yields on various crops and other agricultural commodities. Similarly, weaker prices could reduce the cash flows generated by farms and the value of agricultural land in our local markets and thereby increase the risk of default by our borrowers or reduce the foreclosure value of agricultural land and equipment that serve as collateral of our loans. Further declines in commodity prices or collateral values may increase the incidence of default by our borrowers. Moreover, weaker prices might threaten farming operations in the Central Valley, reducing market demand for agricultural lending. In particular, farm income has seen recent declines, and in line with the downturn in farm income, farmland prices are coming under pressure.

We have been and will continue to be proactive in looking for signs of deterioration within the loan portfolio in an effort to manage credit quality and work with borrowers where possible to mitigate losses. As of December 31, 2020, there were $36.1 million in classified loans of which $1.2 million related to agricultural real estate, $10.4 million to commercial and industrial loans, $7.3 million to real estate owner occupied, $3.3 million to agricultural production, $3.2 million to real estate construction, and $9.6 million to commercial real estate. This compares to $33.8 million in classified loans as of December 31, 2019 of which $7.3 million related to agricultural real estate, $1.6 million to real estate construction, $13.2 million to commercial and industrial, $4.3 million to agricultural production, $1.1 million to commercial real estate, and $4.7 million to real estate owner occupied.

As of December 31, 2020, we believe, based on all current and available information, the allowance for credit losses is adequate to absorb probable incurred losses within the loan portfolio; however, no assurance can be given that we may not sustain charge-offs which are in excess of the allowance in any given period. Refer to "Allowance for Credit Losses" below for further information.

NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES

Net interest income, after the provision for credit losses was $61,148,000 for 2020 compared to $62,747,000 and $62,653,000 for 2019 and 2018, respectively.

NON-INTEREST INCOME

Non-interest income is comprised of customer service charges, gains on sales and calls of investment securities, income from appreciation in cash surrender value of bank owned life insurance, loan placement fees, Federal Home Loan Bank dividends, and other income. Non-interest income was $13,797,000 in 2020 compared to $13,305,000 and $10,324,000 in 2019 and 2018, respectively. The $492,000 or 3.70% increase in non-interest income in 2020 primarily driven by an increase in loan placement fees, and an increase in other income, partially offset by a decrease in net realized gains on sales and calls of investment securities, a decrease in service charge income, and a decrease in FHLB dividends. The $2,981,000 or 28.87% increase in non-interest income in 2019 resulted primarily from increases in net realized gains on sales and calls of investment securities, loan placement fees, appreciation in cash surrender value of the bank owned life insurance, partially offset by a decrease in service charge income, net gain on the sale of the Company's credit card portfolio, interchange fees, and Federal Home Loan bank dividends compared to 2018.

Customer service charges decreased $685,000 to $2,071,000 in 2020 compared to $2,756,000 in 2019 and $2,986,000 in 2018. The decreases in 2020 and 2019 resulted from decreases in our NSF fees and lower analysis service charge income.

During the year ended December 31, 2020, we realized net gains on sales and calls of investment securities of $4,252,000, compared to $5,199,000 in 2019 and $1,314,000 in 2018. The net gains in 2020, 2019, and 2018 were the results of partial restructuring of the investment portfolio designed to improve the future performance of the portfolio. See *Note 3* to the audited Consolidated Financial Statements for more detail.

Income from the appreciation in cash surrender value of bank owned life insurance (BOLI) totaled $711,000 in 2020 compared to $728,000 and $695,000 in 2019 and 2018, respectively. The Bank's salary continuation and deferred compensation plans and the related BOLI are used as retention tools for directors and key executives of the Bank.

Interchange fees totaled $1,347,000 in 2020 compared to $1,446,000 and $1,462,000 in 2019 and 2018, respectively.

We earn loan placement fees from the brokerage of single-family residential mortgage loans provided for the convenience of our customers. Loan placement fees increased $1,313,000 in 2020 to $2,291,000 compared to $978,000 in 2019 and $708,000 in 2018.

The Bank holds stock from the Federal Home Loan Bank in relationship with its borrowing capacity and generally receives quarterly dividends. As of December 31, 2020 and 2019, we held FHLB stock totaling $5,595,000 and $6,062,000, respectively. Dividends in 2020 decreased to $323,000 compared to $455,000 in 2019 and $590,000 in 2018.

Other income increased to $2,802,000 in 2020 compared to $1,743,000 and $2,107,000 in 2019 and 2018, respectively. The increase in other income during the year ended December 31, 2020 resulted from a $1,167,000 gain related to the collection of tax-exempt life insurance proceeds. A net gain of $462,000 on the sale of the Company's credit card portfolio was recorded during the year ended December 31, 2018.

NON-INTEREST EXPENSES

Salaries and employee benefits, occupancy and equipment, regulatory assessments, acquisition and integration-related expenses, data processing expenses, ATM/Debit card expenses, license and maintenance contract expenses, information technology, and professional services (consisting of audit, accounting, consulting and legal fees) are the major categories of non-interest expenses. Non-interest expenses increased $1,584,000 or 3.44% to $47,684,000 in 2020 compared to $46,100,000 in 2019, and $45,068,000 in 2018.

Our efficiency ratio, measured as the percentage of non-interest expenses (exclusive of amortization of core deposit intangibles, other real estate owned, and repossessed asset expenses) to net interest income before provision for credit losses plus non-interest income (exclusive of realized gains or losses on sale and calls of investments) was 64.08% for 2020 compared to 62.77% for 2019 and 61.23% for 2018. The increase in the efficiency ratio in 2020 and 2019 was due to the growth in non-interest expense outpacing the growth in non-interest income.

Salaries and employee benefits increased $1,949,000 or 7.31% to $28,603,000 in 2020 compared to $26,654,000 in 2019 and $26,221,000 in 2018. Full time equivalents were 273 for the year ended December 31, 2020 compared to 281 for the year ended December 31, 2019. The increase in salaries and employee benefits in 2020 compared to 2019 was the result of an increase of $2,426,000 in salaries and benefits (of which $525,000 related to the payment of employee incentive compensation), as well as an increase of $185,000 for directors' and officers' expenses related to the change in the discount rate used to calculate the liability for salary continuation, deferred compensation, and split-dollar plans; offset by higher loan origination costs of approximately $913,000 relating to the PPP loans processed during the second quarter of 2020.

For the years ended December 31, 2020, 2019, and 2018, the compensation cost recognized for equity-based compensation was $470,000, $555,000 and $482,000, respectively. As of December 31, 2020, there was $225,000 of total unrecognized compensation cost related to non-vested equity-based compensation arrangements granted under all plans. The cost is expected to be recognized over a weighted average period of 0.85 years. See *Notes 1 and 14* to the audited Consolidated Financial Statements for more detail. No options to purchase shares of the Company's common stock were issued during the years ending December 31, 2020 and 2019. Restricted common stock awards of 21,397 and 25,420 shares were awarded in 2020 and 2019, respectively.

Occupancy and equipment expense decreased $813,000 or 14.95% to $4,626,000 in 2020 compared to $5,439,000 in 2019 and $5,972,000 in 2018. The Company made no changes in its depreciation expense methodology. The Company operated 20 full-service offices at December 31,2020 and at December 31, 2019. The Company closed two banking offices, one in Rancho Cordova and one in Fair Oaks, and consolidated both branches into a newly opened banking office in Gold River during the second quarter of 2019.

Regulatory assessments were $490,000 in 2020 compared to $251,000 and $619,000 in 2019 and 2018, respectively. The assessment base for calculating the amount owed is based on the formula of average assets minus average tangible equity. The 2019 lower assessments were the result of the Company receiving its small business bank credit.

Information technology expense decreased $220,000 to $2,391,000 for the year ended December 31, 2020 compared to $2,611,000 and $1,113,000 in 2019 and 2018, respectively. Data processing expenses were $2,046,000 in 2020 compared to $1,557,000 in 2019 and $1,666,000 in 2018. No acquisition and integration expenses related to the Folsom Lake Bank ("FLB") and Sierra Vista Bank ("SVB") mergers were recorded in 2020 or 2019, compared to $217,000 in 2018. Professional services increased $1,093,000 in 2020 compared to 2019 due to higher legal expenses and consulting fees.

Amortization of core deposit intangibles was $695,000 for 2020, $695,000 for 2019, and $455,000 for 2018. During 2020, amortization expense related to FLB core deposit intangibles ("CDI") was $423,000, amortization expense related to SVB CDI was $135,000, and amortization expense related to Visalia Community Bank ("VCB") CDI was $137,000. During 2019, amortization expense related to FLB CDI was $423,000, amortization expense related to SVB CDI was $135,000, and amortization expense related to VCB CDI was $137,000. During 2018, amortization expense related to FLB CDI was $247,000, amortization expense related to SVB CDI was $72,000, and amortization expense related to VCB CDI was $136,000.

ATM/Debit card expenses decreased $101,000 to $819,000 for the year ended December 31, 2020 compared to $920,000 in 2019 and $739,000 in 2018. Other non-interest expenses decreased $698,000 or 15.91% to $3,688,000 in 2020 compared to $4,386,000 in 2019 and $4,636,000 in 2018.

NON-INTEREST EXPENSES (Continued)

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

	For the years ended December 31,					
	Other Expense 2020	% Average Assets	Other Expense 2019	% Average Assets	Other Expense 2018	% Average Assets
	(Dollars in thousands)					
Stationery/supplies	$ 228	0.01%	$ 240	0.02%	$ 281	0.02%
Amortization of software	123	0.01%	350	0.02%	303	0.02%
Telephone	193	0.01%	342	0.02%	217	0.01%
Alarm	115	0.01%	100	0.01%	101	0.01%
Postage	191	0.01%	218	0.01%	209	0.01%
Armored courier fees	280	0.02%	284	0.02%	274	0.02%
Risk management expense	149	0.01%	232	0.01%	195	0.01%
Donations	152	0.01%	212	0.01%	243	0.02%
Personnel other	161	0.01%	177	0.01%	167	0.01%
Credit card expense	-	-%	114	0.01%	121	0.01%
Education/training	156	0.01%	155	0.01%	172	0.01%
Loan related expenses	58	-%	52	-%	77	-%
General insurance	171	0.01%	165	0.01%	165	0.01%
Travel and mileage expense	127	0.01%	256	0.02%	267	0.02%
Operating losses	142	0.01%	102	0.01%	452	0.03%
Shareholder services	109	0.01%	101	0.01%	129	0.01%
Other	1,333	0.07%	1,286	0.08%	1,263	0.08%
Total other non-interest expense	$ 3,688	0.20%	$ 4,386	0.28%	$ 4,636	0.29%

PROVISION FOR INCOME TAXES

Our effective income tax rate was 25.4% for 2020 compared to 28.4% for 2019 and 23.7% for 2018. The Company reported an income tax provision of $6,914,000, $8,509,000, and $6,620,000 for the years ended December 31, 2020, 2019, and 2018, respectively. With the Tax Cuts and Jobs Act (the "Act") enacted on December 22, 2017, the Company's federal income tax rate changed from 35% to 21% effective as of the beginning of 2018. The decrease in the 2018 effective tax rate was the result of the change in the federal rate offset by a sizable decrease in tax-exempt interest. As part of the Act for tax years beginning after December 31, 2017, alternative minimum tax credit carryforwards are refundable and are expected to be fully refunded by 2022. As such, they are not dependent on future taxable income to be realized and have been classified as an other receivable.

Some items of income and expense are recognized in different years for tax purposes than when applying generally accepted accounting principles leading to timing differences between the Company's actual tax liability, and the amount accrued for this liability based on book income. These temporary differences comprise the "deferred" portion of the Company's tax expense or benefit, which is accumulated on the Company's books as a deferred tax asset or deferred tax liability until such time as they reverse.

Realization of the Company's deferred tax assets is primarily dependent upon the Company generating sufficient future taxable income to obtain benefit from the reversal of net deductible temporary differences and the utilization of tax credit carryforwards and the net operating loss carryforwards for Federal and California state income tax purposes. The amount of deferred tax assets considered realizable is subject to adjustment in future periods based on estimates of future taxable income. Under generally accepted accounting principles, a valuation allowance is required to be recognized if it is "more likely than not" that the deferred tax assets will not be realized. The determination of the realization of the deferred tax assets is highly subjective and dependent upon judgment concerning management's evaluation of both positive and negative evidence, including forecasts of future income, cumulative losses, applicable tax-planning strategies, and assessments of current and future economic and business conditions.

The Company had the net deferred tax assets of $4.74 million and $8.74 million at December 31, 2020 and 2019, respectively. After consideration of the matters in the preceding paragraph, the Company determined that it is more likely than not that the net deferred tax assets at December 31, 2020 and 2019 will be fully realized in future years.

FINANCIAL CONDITION

SUMMARY OF CHANGES IN CONSOLIDATED BALANCE SHEETS

Total assets were $2,004,096,000 as of December 31, 2020, compared to $1,596,755,000 as of December 31, 2019, an increase of 25.51% or $407,341,000. Total gross loans were $1,102,347,000 as of December 31, 2020, compared to $943,380,000 as of December 31, 2019, an increase of $158,967,000 or 16.85%. The total investment portfolio (including Federal funds sold and interest-earning deposits in other banks) increased 48.80% or $247,232,000 to $753,829,000. Total deposits increased 29.21% or $389,425,000 to $1,722,710,000 as of December 31, 2020, compared to $1,333,285,000 as of December 31, 2019. Shareholders' equity increased $16,893,000 or 7.41% to $245,021,000 as of December 31, 2020, compared to $228,128,000 as of December 31, 2019. The increase in shareholders' equity was driven by the retention of earnings, net of dividends paid, and an increase in net unrealized gains on available-for-sale (AFS) securities recorded, net of estimated taxes, in accumulated other comprehensive income (AOCI), offset by the decrease in common stock as a result of the share repurchase program. Accrued interest payable and other liabilities were $31,210,000 as of December 31, 2020, compared to $30,187,000 as of December 31, 2019, an increase of $1,023,000.

FAIR VALUE

The Company measures the fair value of its financial instruments utilizing a hierarchical framework associated with the level of observable pricing scenarios utilized in measuring financial instruments at fair value. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of the observable pricing scenario. Financial instruments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of observable pricing and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no observable pricing and a higher degree of judgment utilized in measuring fair value. Observable pricing scenarios are impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction.

See *Note 2* of the Notes to Consolidated Financial Statements for additional information about the level of pricing transparency associated with financial instruments carried at fair value.

INVESTMENTS

The following table reflects the balances for each category of securities at year end:

Available-for-Sale Securities (In thousands)	Amortized Cost at December 31, 2020	2019	2018
U.S. Government agencies	$ 651	$ 14,740	$ 21,723
Obligations of states and political subdivisions	361,734	89,574	79,886
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	214,203	198,125	239,388
Private label mortgage and asset backed securities	82,413	155,308	129,165
Corporate debt securities	30,000	9,000	—
Total Available-for-Sale Securities	$ 689,001	$ 466,747	$ 470,162

Our investment portfolio consists primarily of U.S. Government sponsored entities and agencies collateralized by mortgage backed obligations and obligations of states and political subdivision securities and are classified at the date of acquisition as available-for-sale or held-to-maturity. As of December 31, 2020, investment securities with a fair value of $185,053,000, or 26.06% of our investment securities portfolio, were held as collateral for public funds, short and long-term borrowings, treasury, tax, and for other purposes. Our investment

INVESTMENTS (Continued)

policies are established by the Board of Directors and implemented by our Investment/Asset Liability Committee. They are designed primarily to provide and maintain liquidity, to enable us to meet our pledging requirements for public money and borrowing arrangements, to generate a favorable return on investments without incurring undue interest rate and credit risk, and to complement our lending activities.

Our investment portfolio as a percentage of total assets is generally higher than our peers due primarily to our comparatively low loan-to-deposit ratio. Our loan-to-deposit ratio at December 31, 2020 was 63.99% compared to 70.76% at December 31, 2019. The loan to deposit ratio of our peers was 80.00% at December 31, 2020. Peer group information from S&P Global Market Intelligence data includes bank holding companies in central California with assets from $1 billion to $3.5 billion. The total investment portfolio, including Federal funds sold and interest-earning deposits in other banks, increased 48.80% or $247,232,000 to $753,829,000 at December 31, 2020, from $506,597,000 at December 31, 2019. The market value of the portfolio reflected an unrealized gain of $21,091,000 at December 31, 2020, compared to an unrealized gain of $3,999,000 at December 31, 2019.

Losses recognized in 2020, 2019, and 2018 were incurred in order to reposition the investment securities portfolio based on the current rate environment. As market interest rates or risks associated with a security's issuer continue to change and impact the actual or perceived values of investment securities, the Company may determine that selling these securities and using proceeds to purchase securities that fit with the Company's current risk profile is appropriate and beneficial to the Company.

The Board and management have had periodic discussions about our strategy for risk management in dealing with potential losses should interest rates begin to rise. We have been managing the portfolio with an objective of optimizing risk and return in various interest rate scenarios. We do not attempt to predict future interest rates, but we analyze the cash flows of our investment portfolio in different interest rate scenarios in connection with the rest of our balance sheet to design an investment portfolio that optimizes performance.

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. 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 original yield expected at time of purchase.

As of December 31, 2020, 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 investment securities with an unrealized loss at December 31, 2020, and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at December 31, 2020 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.

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 obligations of states and political subdivisions 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. There were no OTTI losses recorded during the twelve months ended December 31, 2020, 2019, or 2018.

At December 31, 2020, the Company had a total of 31 Private Label Mortgage and Asset Backed Securities (PLMBS) with a remaining principal balance of $82,413,000 and a net unrealized gain of approximately $1,095,000. Seven of these PLMBS with a remaining principal balance of $812,000 had credit ratings below investment grade. The Company continues to monitor these securities for changes in credit ratings or other indications of credit deterioration. No credit related OTTI charges related to PLMBS were recorded during the years ended December 31, 2020 or December 31, 2019.

INVESTMENTS (Continued)

The amortized cost, maturities and weighted average yield of investment securities at December 31, 2020 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(1)										
U.S. Government agencies	$ -	-	$ -	-	$ -	-	$ 651	4.25%	$ 651	4.25%
Obligations of states and political subdivisions (2)	298	-	3,254	-	18,330	3.68%	339,852	3.86%	361,734	3.81%
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	-	-	54	5.85%	7,062	1.68%	207,087	2.16%	214,203	2.15%
Private label residential mortgage and asset backed securities	47	4.75%	7,683	3.99%	8,932	0.86%	65,751	2.54%	82,413	2.50%
Corporate debt securities	-	-	-	-	30,000	5.10%	-	-	30,000	5.10%
	$ 345	0.65%	$10,991	2.82%	$64,324	3.73%	$613,341	3.15%	$689,001	3.20%

(1) 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.

(2) Not computed on a tax equivalent basis.

LOANS

Total gross loans increased $158,967,000 or 16.85% to $1,102,347,000 as of December 31, 2020, compared to $943,380,000 as of December 31, 2019.

LOANS (Continued)

The following table sets forth information concerning the composition of our loan portfolio as of December 31, 2020, 2019, 2018, 2017, and 2016.

Loan Type (Dollars in thousands)	2020 Amount	2020 % of Total Loans	2019 Amount	2019 % of Total Loans	2018 Amount	2018 % of Total Loans	2017 Amount	2017 % of Total Loans	2016 Amount	2016 % of Total Loans
Commercial:										
Commercial and industrial	$ 273,994	24.9%	$ 102,541	10.9%	$ 101,533	11.1%	$ 100,856	11.2%	$ 88,652	11.7%
Agricultural production	21,971	2.0%	23,159	2.6%	7,998	0.9%	14,956	1.7%	25,509	3.4%
Total commercial	295,965	26.9%	125,700	13.5%	109,531	12.0%	115,812	12.9%	114,161	15.1%
Real estate:										
Owner occupied	208,843	18.9%	197,946	21.0%	183,169	19.9%	204,452	22.7%	191,665	25.3%
Real estate-construction and other land loans	55,419	5.0%	73,718	7.8%	101,606	11.1%	96,460	10.7%	69,200	9.1%
Commercial real estate	338,886	30.7%	329,333	34.9%	305,118	33.2%	269,254	29.9%	184,225	24.3%
Agricultural real estate	84,258	7.6%	76,304	8.1%	76,884	8.4%	76,081	8.4%	86,761	11.5%
Other real estate	28,718	2.6%	31,241	3.3%	32,799	3.6%	31,220	3.5%	18,945	2.7%
Total real estate	716,124	64.8%	708,542	75.1%	699,576	76.2%	677,467	75.2%	550,796	72.9%
Consumer:										
Equity loans and lines of credit	55,634	5.0%	64,841	6.9%	69,958	7.6%	76,404	8.5%	64,494	8.5%
Consumer and installment	37,236	3.3%	42,782	4.5%	38,038	4.2%	29,637	3.4%	25,910	3.5%
Total consumer	92,870	8.3%	107,623	11.4%	107,996	11.8%	106,041	11.9%	90,404	12.0%
Deferred loan fees, net	(2,612)		1,515		1,592		1,359		1,267	
Total gross loans (1)	1,102,347	100.0%	943,380	100.0%	918,695	100.0%	900,679	100.0%	756,628	100.0%
Allowance for credit losses	(12,915)		(9,130)		(9,104)		(8,778)		(9,326)	
Total loans (1)	$ 1,089,432		$ 934,250		$ 909,591		$ 891,901		$ 747,302	
(1) Includes nonaccrual loans of:	$ 3,278		$ 1,693		$ 2,740		$ 2,875		$ 2,180	

At December 31, 2020, loans acquired in the FLB, SVB and VCB acquisitions had a balance of $127,186,000, of which $2,529,000 were commercial loans, $110,616,000 were real estate loans, and $14,041,000 were consumer loans, and at December 31, 2019, the acquired loans had a balance of $152,735,000, of which $4,009,000 were commercial loans, $130,656,000 were real estate loans, and $18,070,000 were consumer loans.

At December 31, 2020, in management's judgment, a concentration of loans existed in commercial loans and real-estate-related loans, representing approximately 96.7% of total loans of which 26.9% were commercial and 69.8% were real-estate-related. This level of concentration is consistent with 95.5% at December 31, 2019. Although we believe the loans within this concentration have no more than the normal risk of collectability, a substantial decline in the performance of the economy in general or a decline in real estate values in our primary market areas, in particular, could have an adverse impact on collectability, 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 our business, financial condition, results of operations and cash flows. The Company was not involved in any sub-prime mortgage lending activities during the years ended December 31, 2020 and 2019.

We believe that our commercial real estate loan underwriting policies and practices result in prudent extensions of credit, but recognize that our lending activities result in relatively high reported commercial real estate lending levels. Commercial real estate loans include certain loans which represent low to moderate risk and certain loans with higher risks. Contributing to the commercial and industrial loan growth was the issuance of PPP loans. As of December 31, 2020, gross loans included $192,916,000 in PPP loans which are fully guaranteed by the SBA.

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

LOAN MATURITIES

The following table presents information concerning loan maturities and sensitivity to changes in interest rates of the indicated categories of our loan portfolio, as well as loans in those categories maturing after one year that have fixed or floating interest rates at December 31, 2020.

(In thousands) (net of deferred costs)	One Year or Less	After One Through Five Years	After Five Years	Total
Loan Maturities:				
Commercial and agricultural	$ 243,230	$ 29,128	$ 23,607	$ 295,965
Real estate construction and other land loans	12,717	9,431	33,271	55,419
Other real estate	85,485	126,413	448,806	660,704
Consumer and installment	6,319	14,256	72,296	92,871
	$ 347,751	$ 179,228	$ 577,980	$ 1,104,959
Sensitivity to Changes in Interest Rates:				
Loans with fixed interest rates	$ 64,324	$ 119,241	$ 103,716	$ 287,281
Loans with floating interest rates (1)	283,427	59,987	474,264	817,678
	$ 347,751	$ 179,228	$ 577,980	$ 1,104,959
(1) Includes floating rate loans which are currently at their floor rate in accordance with their respective loan agreement	$ 46,111	$ 43,401	$ 370,460	$ 459,972

NONPERFORMING ASSETS

Nonperforming assets consist of nonperforming loans, other real estate owned (OREO), and repossessed assets. Nonperforming loans are those loans which have (i) been placed on nonaccrual status; (ii) been classified as doubtful under our asset classification system; or (iii) become contractually past due 90 days or more with respect to principal or interest and have not been restructured or otherwise placed on nonaccrual status. A loan is classified as nonaccrual when 1) it is maintained on a cost recovery method because of deterioration in the financial condition of the borrower; 2) payment in full of principal or interest under the original contractual terms is not expected; or 3) principal or interest has been in default for a period of 90 days or more unless the loan is both well secured and in the process of collection. We measure all loans placed on nonaccrual status for impairment based on the fair value of the underlying collateral or the net present value of the expected cash flows.

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

Loans are placed on nonaccrual status and any accrued but unpaid interest income is reversed and charged against income when the payment of interest or principal is 90 days or more past due. Loans in the nonaccrual category are treated as nonaccrual loans even though we may ultimately recover all or a portion of the interest due. These loans return to accrual status when the loan becomes contractually current, future collectability of amounts due is reasonably assured, and a minimum of six months of satisfactory principal repayment performance has occurred. See *Note 4* of the Company's audited Consolidated Financial Statements in *Item 8* of this Annual Report.

At December 31, 2020, total nonperforming assets totaled $3,278,000, or 0.16% of total assets, compared to $1,693,000, or 0.11% of total assets at December 31, 2019. Nonperforming assets totaled 0.30% of gross loans as of December 31, 2020 and 0.18% of gross loans as of December 31, 2019. Total nonperforming assets at December 31, 2020, included nonaccrual loans totaling $3,278,000, no OREO, and no repossessed assets. Nonperforming assets at December 31, 2019 consisted of $1,693,000 in nonaccrual loans, no OREO, and no repossessed assets. At December 31, 2020, we had no loan considered a troubled debt restructuring ("TDR") included in nonaccrual loans compared to one TDR totaling $322,000 at December 31, 2019. See *Note 4* of the Company's audited Consolidated Financial Statements in *Item 8* of this Annual Report concerning our recorded investment in loans for which impairment has been recognized.

A summary of nonaccrual, restructured, and past due loans at December 31, 2020, 2019, 2018, 2017, and 2016 is set forth below. The Company had no loans past due more than 90 days and still accruing interest at December 31, 2020 and 2019. Management is not aware of any potential problem loans, which were current and accruing at December 31, 2020, where serious doubt exists as to the ability of the borrower to comply with the present repayment terms. Management can give no assurance that nonaccrual and other nonperforming loans will not increase in the future.

NONPERFORMING ASSETS (Continued)

Composition of Nonaccrual, Past Due and Restructured Loans

(As of December 31, Dollars in thousands)	2020	2019	2018	2017	2016
Nonaccrual Loans:					
Commercial and industrial	$ 752	$ 187	$ 298	$ 356	$ 447
Owner occupied real estate	370	416	215	-	87
Real estate construction and other land loans	1,556	-	1,439	1,397	-
Agricultural real estate	-	321	-	-	-
Commercial real estate	512	381	418	976	1,082
Equity loans and line of credit	-	66	320	87	526
Consumer and installment	88	-	-	-	18
Restructured loans (non-accruing):					
Owner occupied	-	-	-	-	20
Equity loans and line of credit	-	322	50	59	-
Total nonaccrual	3,278	1,693	2,740	2,875	2,180
Accruing loans past due 90 days or more	-	-	-	-	-
Total nonperforming loans	$ 3,278	$ 1,693	$ 2,740	$ 2,875	$ 2,180
Interest foregone	$ 177	$ 85	$ 267	$ 210	$ 245
Nonperforming loans to total loans	0.30%	0.18%	0.30%	0.32%	0.29%
Accruing loans past due 90 days or more	$ -	$ -	$ -	$ -	$ -
Accruing troubled debt restructurings	$ 7,908	$ 2,040	$ 3,170	$ 3,491	$ 3,089
Ratio of nonperforming loans to allowance for credit losses	25.38%	18.54%	30.10%	32.75%	23.38%
Loans considered to be impaired	$ 11,186	$ 3,734	$ 5,909	$ 6,366	$ 5,269
Related allowance for credit losses on impaired loans	$ 631	$ 40	$ 90	$ 36	$ 307

As of December 31, 2020 and 2019, we had impaired loans totaling $11,186,000 and $3,734,000, respectively. We measure our impaired loans by using the fair value of the collateral if the loan is collateral dependent and the present value of the expected future cash flows discounted at the loan's original contractual interest rate if the loan is not collateral dependent. Impaired loans are identified from internal credit review reports, past due reports, overdraft listings, and third party 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. 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 principal and interest, according to the contractual terms of the original agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Loans determined to be impaired are individually evaluated for impairment. When a loan is impaired, the Company measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, it may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral. For collateral dependent loans secured by real estate, we obtain external appraisals which are updated periodically, but generally no less than annually to determine the fair value of the collateral, and we record an immediate charge-off for the difference between the book value of the loan and the net realizable value, which is generally defined as appraised value less costs to dispose of the collateral. We perform quarterly internal reviews on all criticized and classified loans.

We place loans on nonaccrual status and classify them as impaired when it becomes probable that we will not receive the full amount of interest and principal under the original contractual terms, or when loans are delinquent 90 days or more, unless the loan is both well secured and in the process of collection. Management maintains certain loans that have been brought current by the borrower (less than 30 days delinquent) on nonaccrual status until such time as management has determined that the loans are likely to remain current in future periods. Foregone interest on nonaccrual loans totaled $177,000 for the year ended December 31, 2020 of which none was attributable to troubled debt restructurings. Foregone interest on nonaccrual loans totaled $85,000 for the year ended December 31, 2019 of which none was attributable to troubled debt restructurings. Foregone interest on nonaccrual loans totaled $267,000 for the year ended December 31, 2018, of which $4,000 was attributable to troubled debt restructurings.

NONPERFORMING ASSETS (Continued)

The following table provides a reconciliation of the change in non-accrual loans for the year ended December 31, 2020.

(In thousands)	Balances December 31, 2019	Additions to Nonaccrual Loans	Net Pay Downs	Transfer to Foreclosed Collateral	Returns to Accrual Status	Charge-Offs	Balances December 31, 2020
Non-accrual loans:							
Commercial and industrial	$ 187	$ 798	$ (69)	$ -	$ (164)	$ -	$ 752
Real estate	797	532	(447)	-	-	-	882
Real estate construction and other land loans	-	1,769	(213)	-	-	-	1,556
Agricultural real estate	321	-	(321)	-	-	-	-
Equity loans and lines of credit	66	-	(24)	-	(42)	-	-
Consumer	-	95	(7)	-	-	-	88
Restructured loans (non-accruing):							
Equity loans and lines of credit	322	-	(322)	-	-	-	-
Total non-accrual	$ 1,693	$ 3,194	$ (1,403)	$ -	$ (206)	$ -	$ 3,278

OREO represents real property taken either through foreclosure or through a deed in lieu thereof from the borrower. OREO is carried at the lesser of cost or fair market value less selling costs. As of December 31, 2020, 2019, and 2018, the Bank had no OREO properties. The Company held no repossessed assets at December 31, 2020, 2019, and 2018, which is included in other assets on the consolidated balance sheets.

ALLOWANCE FOR CREDIT LOSSES

We have established a methodology for determining the adequacy of the allowance for credit losses made up of general and specific allocations. The methodology is set forth in a formal policy and takes into consideration the need for an overall allowance for credit losses as well as specific allowances that are tied to individual loans. The allowance for credit losses is an estimate of probable incurred credit losses in the Company's loan portfolio. The allowance consists of two primary components, specific reserves related to impaired loans and general reserves for probable incurred losses related to loans that are not impaired.

For all portfolio segments, the determination of the general reserve for loans that are not impaired is based on estimates made by management including, but not limited to, consideration of historical losses by portfolio segment (and in certain cases peer loss data) over the most recent 48 quarters, and qualitative and quantitative factors including economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan portfolio, and probable losses incurred in the portfolio taken as a whole. Management has determined that the most recent 48 quarters was an appropriate look-back period based on several factors including the current global economic uncertainty and various national and local economic indicators, and a time period sufficient to capture enough data due to the size of the portfolio to produce statistically accurate historical loss calculations. We believe this period is an appropriate look-back period.

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

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

The allowance for credit losses is an estimate of the probable incurred credit losses in our loan and lease portfolio. The allowance is based on principles of accounting: (1) losses accrued for on loans when they are probable of occurring and can be reasonably estimated and (2) losses accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

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

ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table summarizes the Company's loan loss experience, as well as provisions and recoveries (charge-offs) to the allowance and certain pertinent ratios for the periods indicated:

(Dollars in thousands)	2020	2019	2018	2017	2016
Loans outstanding at December 31,	$ 1,104,959	$ 941,865	$ 917,103	$ 899,320	$ 755,361
Average loans outstanding during the year	$ 1,055,712	$ 930,883	$ 912,128	$ 793,343	$ 646,573
Allowance for credit losses:					
Balance at beginning of year	$ 9,130	$ 9,104	$ 8,778	$ 9,326	$ 9,610
Deduct loans charged off:					
Commercial and industrial	(121)	(1,032)	(94)	(197)	(621)
Agricultural production	-	-	-	(10)	-
Owner occupied	-	-	-	(22)	-
Consumer loans	(108)	(164)	(116)	(235)	(262)
Total loans charged off	(229)	(1,196)	(210)	(464)	(883)
Add recoveries of loans previously charged off:					
Commercial and industrial	612	134	207	850	3,656
Agricultural production	-	-	-	10	1,631
Owner occupied	-	-	21	49	-
Real estate construction and other land loans	-	-	-	-	702
Commercial real estate	-	-	81	17	283
Consumer loans	127	63	177	140	177
Total recoveries	739	197	486	1,066	6,449
Net (charge-offs) recoveries	510	(999)	276	602	5,566
Provision (reversal) charged to credit losses	3,275	1,025	50	(1,150)	(5,850)
Balance at end of year	$ 12,915	$ 9,130	$ 9,104	$ 8,778	$ 9,326
Allowance for credit losses as a percentage of outstanding loan balance	1.17%	0.97%	0.99%	0.98%	1.23%
Net recoveries (charge-offs) to average loans outstanding	0.05%	(0.11)%	0.03%	0.08%	0.86%

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

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

ALLOWANCE FOR CREDIT LOSSES (Continued)

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

Loan Type (Dollars in thousands)	2020 Amount	2020 Percent of Loans in Each Category to Total Loans	2019 Amount	2019 Percent of Loans in Each Category to Total Loans	2018 Amount	2018 Percent of Loans in Each Category to Total Loans	2017 Amount	2017 Percent of Loans in Each Category to Total Loans	2016 Amount	2016 Percent of Loans in Each Category to Total Loans
Commercial:										
Commercial and industrial	$ 1,764	24.9%	$ 1,115	10.9%	$ 1,604	11.1%	$ 1,784	11.2%	$ 1,884	11.7%
Agricultural production	255	2.0%	313	2.6%	67	0.9%	287	1.7%	296	3.4%
Real estate:										
Owner occupied	2,128	18.9%	1,319	21.0%	1,131	19.9%	1,252	22.7%	1,408	25.3%
Real estate construction and other land loans	1,204	5.0%	932	7.8%	1,271	11.1%	1,004	10.7%	698	9.1%
Commercial real estate	4,781	30.7%	3,453	34.9%	3,017	33.2%	1,958	29.9%	1,969	24.3%
Agricultural real estate	838	7.6%	925	8.1%	947	8.4%	1,441	8.4%	1,969	11.5%
Other real estate	223	2.6%	140	3.3%	173	3.6%	140	3.5%	156	2.7%
Consumer:										
Equity loans and lines of credit	457	5.0%	425	6.9%	419	7.6%	464	8.5%	483	8.5%
Consumer and installment	634	3.3%	472	4.5%	407	4.2%	361	3.4%	369	3.5%
Unallocated reserves	631		36		68		87		94	
Total allowance for credit losses	$ 12,915	100.0%	$ 9,130	100.0%	$ 9,104	100.0%	$ 8,778	100.0%	$ 9,326	100.0%

Loans are charged to the allowance for credit losses when the loans are deemed uncollectible. It is the policy of management to make additions to the allowance so that it remains adequate to cover all probable loan charge-offs that exist in the portfolio at that time. We assign qualitative and quantitative factors (Q factors) to each loan category. Q factors include reserves held for the effects of lending policies, experience, economic trends, and portfolio trends along with other dynamics which may cause additional stress to the portfolio.

As of December 31, 2020, the allowance for credit losses (ALLL) was $12,915,000, compared to $9,130,000 at December 31, 2019, a net increase of $3,785,000. The net increase in the ALLL reflected the provisioning and net recoveries during the year ended December 31, 2020 which was necessitated by management's observations and assumptions about the existing credit quality of the loan portfolio. Net recoveries totaled $510,000 while the provision for credit losses was $3,275,000 for the year ended December 31, 2020. The Company's provision for credit losses during the year ended December 31, 2020 is primarily due to an increase in qualitative factors related to the economic uncertainties caused by the COVID-19 pandemic. The balance of classified loans and loans graded special mention, totaled $36,136,000 and $36,406,000 at December 31, 2020 and $33,838,000 and $28,183,000 at December 31, 2019, respectively. The balance of undisbursed commitments to extend credit on construction and other loans and letters of credit was $326,179,000 as of December 31, 2020, compared to $291,182,000 as of December 31, 2019. At December 31, 2020 and 2019, the balance of a contingent allocation for probable loan loss experience on unfunded obligations was $250,000. The contingent allocation for probable loan loss experience on unfunded obligations is calculated by management using appropriate, systematic, and consistently applied processes. While related to credit losses, this allocation is not a part of ALLL and is considered separately as a liability for accounting and regulatory reporting purposes. Risks and uncertainties exist in all lending transactions and our management and Directors' Loan Committee have established reserve levels based on economic uncertainties and other risks that exist as of each reporting period.

The ALLL as a percentage of total loans was 1.17% at December 31, 2020, and 0.97% at December 31, 2019. Total loans include FLB, SVB and VCB loans that were recorded at fair value in connection with the acquisitions of $127,186,000 at December 31, 2020 and $152,735,000 at December 31, 2019. Excluding these acquired loans from the calculation, the ALLL to total gross loans was 1.32% and 1.15% as of December 31, 2020 and 2019, respectively, and general reserves associated with non-impaired loans to total non-impaired loans was 1.59% and 1.16%, respectively. The loan portfolio acquired in the mergers was booked at fair value with no associated allocation in the ALLL. The size of the fair value discount remains adequate for all non-impaired acquired loans; therefore, there is no associated allocation in the ALLL.

The Company's loan portfolio balances in 2020 increased from 2019 through organic growth and through participation in the PPP loan program. The PPP loans held in the loan portfolio are backed by the SBA at 100%; thus, no allowance is required. Management believes that the change in the allowance for credit losses to total loans ratios is directionally consistent with the composition of loans and the level of nonperforming and classified loans, and by the general economic conditions experienced in the central California communities serviced by the Company, partially offset by recent improvements in real estate collateral values.

Assumptions regarding the collateral value of various under-performing loans may affect the level and allocation of the allowance for credit losses in future periods. The allowance may also be affected by trends in the amount of charge-offs experienced or expected trends within different loan portfolios. However, the total reserve rates on non-impaired loans include qualitative and quantitative factors which are systematically derived and consistently applied to reflect conservatively estimated losses from loss contingencies at the date of the financial statements. Based on the above considerations and given recent changes in historical charge-off rates included in the ALLL modeling and the changes in other factors, management determined that the ALLL was appropriate as of December 31, 2020.

Non-performing loans totaled $3,278,000 as of December 31, 2020, and $1,693,000 as of December 31, 2019. Nonperforming loans as a percentage of total loans were 0.30% at December 31, 2020 compared to 0.18% at December 31, 2019. The Company had no other real estate owned at December 31, 2020, December 31, 2019, and December 31, 2018. No foreclosed assets were recorded at December 31, 2020, December 31, 2019, and December 31, 2018. The allowance for credit losses as a percentage of nonperforming loans was 393.99% and 539.28% as of December 31, 2020 and December 31, 2019, respectively. In addition, management believes that the likelihood of recoveries on previously charged-off loans continues to improve based on the collection efforts of management combined with improvements in the value of real estate which serves as the primary source of collateral for loans. Management believes the allowance at December 31, 2020 is adequate based upon its ongoing analysis of the loan portfolio, historical loss trends and other factors. However, no assurance can be given that the Company may not sustain charge-offs which are in excess of the allowance in any given period.

GOODWILL AND INTANGIBLE ASSETS

Business combinations involving the Bank's acquisition of the equity interests or net assets of another enterprise give rise to goodwill. Total goodwill at December 31, 2020 was $53,777,000 consisting of $13,466,000, $10,394,000, $6,340,000, $14,643,000 and $8,934,000 representing the excess of the cost of FLB, SVB, VCB, Service 1st Bancorp, and Bank of Madera County, respectively, over the net amounts assigned to assets acquired and liabilities assumed in the transactions accounted for under the purchase method of accounting. The value of goodwill is ultimately derived from the Company's ability to generate net earnings after the acquisitions and is not deductible for tax purposes. The fair values of assets acquired and liabilities assumed are subject to adjustment during the first twelve months after the acquisition date if additional information becomes available to indicate a more accurate or appropriate value for an asset or liability. A significant decline in net earnings, among other factors, could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed at least annually for impairment.

During March 2020, the COVID-19 pandemic emerged and began impacting the state and local economies in our market due to local shelter-in-place orders and restrictions on businesses which caused many nonessential businesses to close and workers to be temporarily unemployed. Goodwill is assessed for impairment between annual tests if a triggering event occurs or circumstances change that may cause the fair value of a reporting unit to decline below its carrying amount. Management considers the entire Company to be one reporting unit. Management considered the COVID-19 related economic downturn to be such a triggering event and therefore performed qualitative assessments at the end of the first and second quarters of 2020. Based upon this assessment, it was determined that it was more likely than not that the fair value of the Company was more than its carrying value and therefore no quantitative impairment test was required. Given the continued economic impact of the pandemic, management determined it appropriate to perform a quantitative test as of September 30, 2020. Management engaged a third party valuation specialist to assist with the performance of the quantitative goodwill impairment test in the third quarter of 2020. The third party specialist estimated the fair value of the reporting unit by weighting results from various market approaches and the income approach. Significant assumptions inherent in the valuation methodologies for goodwill that were employed included, but were not limited to, prospective financial information, growth rates, terminal value, discount rates, and comparable multiples from publicly traded companies in our industry. Based on this quantitative test, it was determined that the fair value of the reporting unit exceeded the carrying value as of September 30, 2020. Therefore, there was no impairment of goodwill recorded during the nine months ended September 30, 2020. Changes in the economic environment, operations of the reporting unit or other adverse events could result in future impairment charges which could have a material adverse impact on the Company's operating results.

Goodwill is also tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. With the economic risks and uncertainties associated with the COVID-19 pandemic continuing during the fourth quarter of 2020, management assessed qualitative factors including performance trends and noted no factors indicating goodwill impairment as of December 31, 2020.

The intangible assets at December 31, 2020 represent the estimated fair value of the core deposit relationships acquired in the 2017 acquisition of FLB of $1,879,000, the 2016 acquisition of SVB of $508,000 and the 2013 acquisition of VCB of $1,365,000. Core deposit intangibles are being amortized using the straight-line method over an estimated life of five to ten years from the date of acquisition. The carrying value of intangible assets at December 31, 2020 was $1,183,000, net of $2,569,000 in accumulated amortization expense. The carrying value at December 31, 2019 was $1,878,000, net of $1,874,000 in accumulated amortization expense. Management evaluates the remaining useful lives quarterly to determine whether events or circumstances warrant a revision to the remaining periods of amortization. Based on the evaluation, no changes to the remaining useful lives was required. Management performed an annual impairment test on core deposit intangibles as of September 30, 2020 and determined no impairment was necessary. In addition, management determined that no events had occurred between the annual evaluation date and December 31, 2020 which would necessitate further analysis. Amortization expense recognized was $695,000 for 2020, $695,000 for 2019 and $455,000 for 2018.

The following table summarizes the Company's estimated core deposit intangible amortization expense for each of the next five years (in thousands):

Years Ending December 31,	Estimated Core Deposit Intangible Amortization
2021	$ 662
2022	455
2023	66
Thereafter	-
Total	$ 1,183

DEPOSITS AND BORROWINGS

The Bank's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to applicable legal limits. All of a depositor's accounts at an insured depository institution, including all non-interest bearing transactions accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount of $250,000 for each deposit insurance ownership category.

Total deposits increased $389,425,000 or 29.21% to $1,722,710,000 as of December 31, 2020, compared to $1,333,285,000 as of December 31, 2019. Interest-bearing deposits increased $159,163,000 or 21.55% to $897,821,000 as of December 31, 2020, compared to $738,658,000 as of December 31, 2019. Non-interest bearing deposits increased $230,262,000 or 38.72% to $824,889,000 as of December 31, 2020, compared to $594,627,000 as of December 31, 2019. The Company's deposit balances for the year ended December 31, 2020 increased through organic growth and PPP loan proceeds retained in customer deposit accounts. Average non-interest bearing deposits to average total deposits was 47.46% for the year ended December 31, 2020 compared to 43.01% for the same period in 2019. Based on FDIC deposit market share information published as of June 2020, our total market share of deposits in Fresno, Madera, San Joaquin, and Tulare counties was 3.40% in 2020 compared to 3.31% in 2019. Our total market share in the other counties we operate in (El Dorado, Merced, Placer, Sacramento, and Stanislaus), was less than 1.00% in 2020 and 2019.

The composition of the deposits and average interest rates paid at December 31, 2020 and December 31, 2019 is summarized in the table below.

(Dollars in thousands)	December 31, 2020	% of Total Deposits	Effective Rate	December 31, 2019	% of Total Deposits	Effective Rate
NOW accounts	$ 310,697	18.0%	0.11%	$ 266,048	20.0%	0.21%
MMA accounts	341,088	19.8%	0.18%	266,609	20.0%	0.24%
Time deposits	89,846	5.2%	0.65%	93,730	7.0%	0.73%
Savings deposits	156,190	9.1%	0.02%	112,271	8.4%	0.02%
Total interest-bearing	897,821	52.1%	0.18%	738,658	55.4%	0.26%
Non-interest bearing	824,889	47.9%		594,627	44.6%	
Total deposits	$ 1,722,710	100.0%		$ 1,333,285	100.0%	

We have no known foreign deposits. The following table sets forth the average amount of and the average rate paid on certain deposit categories which were in excess of 10% of average total deposits for the years ended December 31, 2020, 2019, and 2018.

(Dollars in thousands)	2020 Balance	2020 Rate	2019 Balance	2019 Rate	2018 Balance	2018 Rate
Savings and NOW accounts	$ 433,742	0.08%	$ 370,378	0.15%	$ 383,667	0.12%
Money market accounts	$ 300,603	0.18%	$ 270,918	0.24%	$ 285,568	0.15%
Non-interest bearing demand	$ 744,239	-	$ 557,348	-	$ 553,305	-
Total deposits	$ 1,568,194	0.09%	$ 1,295,780	0.15%	$ 1,333,754	0.09%

DEPOSITS AND BORROWINGS (Continued)

The following table sets forth the maturity of time certificates of deposit and other time deposits of $100,000 or more at December 31, 2020.

(In thousands)	
Three months or less	$ 28,113
Over 3 through 6 months	10,542
Over 6 through 12 months	15,756
Over 12 months	8,385
	$ 62,796

As of December 31, 2020 and 2019, the Company had no short-term or long-term Federal Home Loan Bank (FHLB) of San Francisco advances. We maintain a line of credit with the FHLB collateralized by government securities and loans. Refer to *Liquidity* section below for further discussion of FHLB advances. The Bank had unsecured lines of credit with its correspondent banks which, in the aggregate, amounted to $110,000,000 and $70,000,000 at December 31, 2020 and 2019, respectively, at interest rates which vary with market conditions. As of December 31, 2020 and 2019, the Company had no overnight borrowings outstanding under these credit facilities.

CAPITAL RESOURCES

Capital serves as a source of funds and helps protect depositors and shareholders against potential losses. Historically, the primary sources of capital for the Company have been internally generated capital through retained earnings and the issuance of common and preferred stock.

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

Our shareholders' equity was $245,021,000 as of December 31, 2020, compared to $228,128,000 as of December 31, 2019. The increase in shareholders' equity is the result of an increase in retained earnings from our net income of $20,347,000, the exercise of stock options in the amount of $279,000, the effect of share-based compensation expense of $470,000, stock issued under our employee stock purchase plan of $199,000, and an increase in accumulated other comprehensive income (AOCI) of $12,039,000, partially offset by the payment of common stock cash dividends of $5,530,000 and the repurchase and retirement of common stock of $11,052,000.

During 2020, the Bank declared and paid cash dividends to the Company in the amount of $15,622,000 in connection with the cash dividends to the Company's shareholders approved by the Company's Board of Directors. The Company declared and paid a total of $5,530,000 or $0.44 per common share cash dividend to shareholders of record during the year ended December 31, 2020. During the year ended December 31, 2020, the Company repurchased and retired common stock in the amount of $11,052,000.

During 2019, the Bank declared and paid cash dividends to the Company in the amount of $20,100,000 in connection with the cash dividends to the Company's shareholders approved by the Company's Board of Directors. The Company declared and paid a total of $5,805,000 or $0.43 per common share cash dividend to shareholders of record during the year ended December 31, 2019. During the year ended December 31, 2019, the Company repurchased and retired common stock in the amount of $15,619,000.

During 2018 the Bank declared and paid cash dividends to the Company in the amount of $2,850,000 in connection with the cash dividends to the Company's shareholders approved by the Company's Board of Directors. The Company declared and paid a total of $4,270,000 or $0.31 per common share cash dividend to shareholders of record during the year ended December 31, 2018. During the year ended December 31, 2018, the Company repurchased and retired common stock in the amount of $894,000.

The following table sets forth certain financial ratios for the years ended December 31, 2020, 2019, and 2018.

	2020	2019	2018
Net income:			
To average assets	1.11%	1.36%	1.35%
To average shareholders' equity	8.85%	9.39%	10.07%
Dividends declared per share to net income per share	26.99%	26.22%	20.00%
Average shareholders' equity to average assets	12.54%	14.51%	13.40%

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

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.

The following table presents the Company's regulatory capital ratios as of December 31, 2020 and December 31, 2019.

	Actual Ratio	
	Amount	Ratio
	(Dollars in thousands)	
December 31, 2020		
Tier 1 Leverage Ratio	$ 178,407	9.28%
Common Equity Tier 1 Ratio (CET 1)	$ 173,407	14.10%
Tier 1 Risk-Based Capital Ratio	$ 178,407	14.50%
Total Risk-Based Capital Ratio	$ 191,572	15.58%
December 31, 2019		
Tier 1 Leverage Ratio	$ 172,945	11.38%
Common Equity Tier 1 Ratio (CET 1)	$ 167,945	14.55%
Tier 1 Risk-Based Capital Ratio	$ 172,945	14.98%
Total Risk-Based Capital Ratio	$ 182,325	15.79%

CAPITAL RESOURCES (Continued)

The following table presents the Bank's regulatory capital ratios as of December 31, 2020 and December 31, 2019

	Actual Ratio		Minimum regulatory requirement (1)		Minimum requirement for "Well-Capitalized" Institution	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2020						
Tier 1 Leverage Ratio	$ 177,269	9.23%	$ 76,852	4.00%	$ 96,065	5.00%
Common Equity Tier 1 Ratio (CET 1)	$ 177,269	14.41%	$ 55,346	7.00%	$ 79,945	6.50%
Tier 1 Risk-Based Capital Ratio	$ 177,269	14.41%	$ 73,795	8.50%	$ 98,394	8.00%
Total Risk-Based Capital Ratio	$ 190,434	15.48%	$ 98,394	10.50%	$ 122,992	10.00%
December 31, 2019						
Tier 1 Leverage Ratio	$ 171,332	11.27%	$ 60,810	4.00%	$ 76,012	5.00%
Common Equity Tier 1 Ratio (CET 1)	$ 171,332	14.85%	$ 51,930	7.00%	$ 75,010	6.50%
Tier 1 Risk-Based Capital Ratio	$ 171,332	14.85%	$ 69,240	8.50%	$ 92,320	8.00%
Total Risk-Based Capital Ratio	$ 180,712	15.66%	$ 92,320	10.50%	$ 115,400	10.00%

(1) The minimum regulatory requirement threshold includes the capital conservation buffer of 2.50%.

The Company succeeded to all of the rights and obligations of the Service 1st Capital Trust I, a Delaware business trust, in connection with the acquisition of Service 1st as of November 12, 2008. The Trust was formed on August 17, 2006 for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by Service 1st. Under applicable regulatory guidance, the amount of trust preferred securities that is eligible as Tier 1 capital is limited to 25% of the Company's Tier 1 capital on a pro forma basis. At December 31, 2020, all of the trust preferred securities that have been issued qualify as Tier 1 capital. The trust preferred securities mature on October 7, 2036, are redeemable at the Company's option beginning five years after issuance, and require quarterly distributions by the Trust to the holder of the trust preferred securities at a variable interest rate which will adjust quarterly to equal the three-month LIBOR plus 1.60%.

The Trust used the proceeds from the sale of the trust preferred securities to purchase approximately $5,155,000 in aggregate principal amount of Service 1st's junior subordinated notes (the Notes). The Notes bear interest at the same variable interest rate during the same quarterly periods as the trust preferred securities. The Notes are redeemable by the Company on any January 7, April 7, July 7, or October 7 on or after October 7, 2012 or at any time within 90 days following the occurrence of certain events, such as: (i) a change in the regulatory capital treatment of the Notes (ii) in the event the Trust is deemed an investment company or (iii) upon the occurrence of certain adverse tax events. In each such case, the Company may redeem the Notes for their aggregate principal amount, plus any accrued but unpaid interest.

The Notes may be declared immediately due and payable at the election of the trustee or holders of 25% of the aggregate principal amount of outstanding Notes in the event that the Company defaults in the payment of any interest following the nonpayment of any such interest for 20 or more consecutive quarterly periods. Holders of the trust preferred securities are entitled to a cumulative cash distribution on the liquidation amount of $1,000 per security. For each January 7, April 7, July 7 or October 7 of each year, the rate will be adjusted to equal the three month LIBOR plus 1.60%. As of December 31, 2020, the rate was 1.84%. Interest expense recognized by the Company for the years ended December 31, 2020, 2019, and 2018 was $130,000, $210,000 and $199,000, respectively.

LIQUIDITY

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

Our primary sources of liquidity are derived from financing activities which include the acceptance of customer and, to a lesser extent, broker deposits, Federal funds facilities and advances from the Federal Home Loan Bank of San Francisco (FHLB). These funding sources are augmented by payments of principal and interest on loans, the routine maturities and pay downs of securities from the securities portfolio, the stability of our core deposits and the ability to sell investment securities. As of December 31, 2020, the Company had unpledged securities totaling $532,673,000 available as a secondary source of liquidity and total cash and cash equivalents of $70,278,000. Cash and cash equivalents at December 31, 2020 increased 33.67% compared to December 31, 2019. Primary uses of funds include withdrawal of and interest payments on deposits, origination and purchases of loans, purchases of investment securities, and payment of operating expenses.

To augment our liquidity, we have established Federal funds lines with various correspondent banks. At December 31, 2020, our available borrowing capacity includes approximately $110,000,000 in Federal funds lines with our correspondent banks and $235,371,000 in unused FHLB advances. At December 31, 2020, we were not aware of any information that was reasonably likely to have a material effect on our liquidity position.

The following table reflects the Company's credit lines, balances outstanding, and pledged collateral at December 31, 2020 and 2019:

Credit Lines (In thousands)	December 31, 2020	December 31, 2019
Unsecured Credit Lines (interest rate varies with market):		
Credit limit	$ 110,000	$ 70,000
Balance outstanding	$ -	$ -
Federal Home Loan Bank (interest rate at prevailing interest rate):		
Credit limit	$ 235,371	$ 304,987
Balance outstanding	$ -	$ -
Collateral pledged	$ 435,152	$ 446,742
Fair value of collateral	$ 379,831	$ 410,788
Federal Reserve Bank (interest rate at prevailing discount interest rate):		
Credit limit	$ 13,323	$ 4,931
Balance outstanding	$ -	$ -
Collateral pledged	$ 13,538	$ 5,065
Fair value of collateral	$ 13,703	$ 5,036

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

OFF-BALANCE SHEET ITEMS

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received. The balance of commitments to extend credit on undisbursed construction and other loans and letters of credit was $326,179,000 as of December 31, 2020 compared to $291,182,000 as of December 31, 2019. For a more detailed discussion of these financial instruments, see *Note 12* to the audited Consolidated Financial Statements in this Annual Report.

OFF-BALANCE SHEET ITEMS (Continued)

Contractual Obligations

The contractual obligations of the Company, summarized by type of obligation and contractual maturity at December 31, 2020, are as follows:

(In thousands)	Less Than One Year	One to Three Years	Three to Five Years	After Five Years	Total
Deposits	$ 1,709,300	$ 11,071	$ 1,453	$ 886	$ 1,722,710
Subordinated Notes	-	-	-	5,155	5,155
Operating leases	1,753	3,564	2,406	1,944	9,667
Total	$ 1,711,053	$ 14,635	$ 3,859	$ 7,985	$ 1,737,532

Deposits represent both non-interest bearing and interest bearing deposits. Interest bearing deposits include interest bearing transaction accounts, money market and savings deposits and certificates of deposit. Deposits with indeterminate maturities, such as demand, savings and money market accounts are reflected as obligations due in less than one year.

Subordinated notes issued to a capital trust which was formed solely for the purpose of issuing trust preferred securities. These subordinated notes were acquired as a part of the merger with Service 1st. All of these securities are variable rate instruments. The trust preferred securities mature on October 7, 2036, and are redeemable quarterly at the Company's option. See *"Capital Resources."*

In the ordinary course of business, the Company is party to various operating leases. For operating leases, the dollar balances reflected in the table above are categorized by the due date of the lease payments. Operating leases represent the total minimum lease payments under non-cancelable operating leases. see *Note 9—Leases* in the financial statements included in this Form 10-K.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in accordance with the accounting principles generally accepted in the United States ("U.S. GAAP") requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expense in the financial statements. Various elements of our accounting policies, by their nature, involve the application of highly sensitive and judgmental estimates and assumptions. Some of these policies and estimates relate to matters that are highly complex and contain inherent uncertainties. It is possible that, in some instances, different estimates and assumptions could reasonably have been made and used by management, instead of those we applied, which might have produced different results that could have had a material effect on the financial statements.

We have identified the following accounting policies and estimates that, due to the inherent judgments and assumptions and the potential sensitivity of the financial statements to those judgments and assumptions, are critical to an understanding of our financial statements. We believe that the judgments, estimates and assumptions used in the preparation of the Company's financial statements are appropriate. For a further description of our accounting policies, see *Note 1—Summary of Significant Accounting Policies* in the financial statements included in this Form 10-K.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

Allowance for Credit Losses

Our allowance for credit losses is an estimate of probable incurred losses in the loan portfolio. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for credit losses. Management's methodology for estimating the allowance balance consists of several key elements, which include specific allowances on individual impaired loans and the formula driven allowances on pools of loans with similar risks. The allowance is only an estimate of the inherent loss in the loan portfolio and may not represent actual losses realized over time, either of losses in excess of the allowance or of losses less than the allowance. Our accounting for estimated loan losses is discussed and disclosed primarily in *Note 1* and *4* to the consolidated financial statements under the heading "*Allowance for Credit Losses*".

Goodwill

For acquisitions, we are required to record the assets acquired, including identified intangible assets such as goodwill, and the liabilities assumed at their fair value. The carrying value of goodwill recorded must be reviewed for impairment at the reporting unit level, on an annual basis, as well as on an interim basis if events or changes indicate that the asset might be impaired. Management has determined that the Company has one reporting unit. An impairment loss must be recognized for any excess of carrying value over fair value of the goodwill. The determination of fair values is based on valuations using management's assumptions of future growth rates, future attrition, discount rates, multiples of earnings or other relevant factors. Changes in these factors, as well as downturns in economic or business conditions, could have a significant adverse impact on the carrying value of goodwill and could result in impairment losses affecting our financial statements as a whole and our banking subsidiary in which the goodwill resides. The Company performs its annual evaluation of goodwill impairment in the third quarter of each year and may elect to perform a quantitative impairment analysis or first conduct a qualitative analysis to determine if a quantitative analysis is necessary. Additionally, the Company evaluates goodwill impairment on an interim basis if events or changes in circumstances between annual tests indicate additional testing may be warranted to determine if goodwill might be impaired.

A prolonged COVID-19 outbreak, or any other epidemic that harms the global economy, U.S. economy, or the economies in which we operate could adversely affect our operations. In the third quarter 2020, the Company engaged a third party valuation specialist to assist with the performance of the quantitative goodwill impairment test in response to continued macroeconomic deterioration and the ongoing impacts to the banking industry and markets in which the Company operates. The third party specialist estimated the fair value of the reporting unit by weighting results from various market approaches and the income approach. Significant assumptions inherent in the valuation methodologies for goodwill that were employed included, but were not limited to, prospective financial information, growth rates, terminal value, discount rates, and comparable multiples from publicly traded companies in our industry. Based on this quantitative test, it was determined that the fair value of the reporting unit exceeded the carrying value.

As of December 31, 2020, based on our qualitative assessment, it was determined that it was more likely than not that the fair value of the reporting unit exceeded its carrying amount, including goodwill.

See *Note 6 "Goodwill and Intangible Assets"* in the financial statements in this Form 10-K for further discussion.

INFLATION

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

At December 31, 2020, we do not believe that inflation will have a material impact on our consolidated financial position or results of operations. However, if inflation concerns cause short term rates to rise in the near future, we may benefit by immediate repricing of a portion of our loan portfolio. Refer to Quantitative and Qualitative Disclosures About Market Risk for further discussion.

Quantitative and Qualitative Disclosures about Market Risk

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

We realize income principally from the differential or spread between the interest earned on loans, investments, other interest-earning assets and the interest incurred on deposits and borrowings. The volumes and yields on loans, deposits and borrowings are affected by market interest rates. As of December 31, 2020, 74.00% of our loan portfolio was tied to adjustable-rate indices. The majority of our adjustable rate loans are tied to prime and reprice within 90 days. Several of our loans, tied to prime, are at their floors and will not reprice until prime plus the factor is greater than the floor. The majority of our time deposits have a fixed rate of interest. As of December 31, 2020, 86.06% of our time deposits mature within one year or less.

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

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

The ALCO seeks to stabilize our NII by matching rate-sensitive assets and liabilities through maintaining the maturity and repricing of these assets and liabilities at appropriate levels given the interest rate environment. When the amount of rate-sensitive liabilities exceeds rate-sensitive assets within specified time periods, NII generally will be negatively impacted by an increasing interest rate environment and positively impacted by a decreasing interest rate environment. Conversely, when the amount of rate-sensitive assets exceeds the amount of rate-sensitive liabilities within specified time periods, net interest income will generally be positively impacted by an increasing interest rate environment and negatively impacted by a decreasing interest rate environment. Our mix of assets consists primarily of loans and securities, none of which are held for trading purposes. The value of these securities is subject to interest rate risk, which we must monitor and manage successfully in order to prevent declines in value of these assets if interest rates rise in the future. The speed and velocity of the repricing of assets and liabilities will also contribute to the effects on our NII, as will the presence or absence of periodic and lifetime interest rate caps and floors.

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

Interest rate simulations provide us with an estimate of both the dollar amount and percentage change in NII under various rate scenarios. All assets and liabilities are normally subjected to up to 400 basis point increases and decreases in interest rates in 100 basis point increments. Under each interest rate scenario, we project our net interest income. From these results, we can then develop alternatives in dealing with the tolerance thresholds.

The assets and liabilities of a financial institution are primarily monetary in nature. As such they represent obligations to pay or receive fixed and determinable amounts of money that are not affected by future changes in prices. Generally, the impact of inflation on a financial institution is reflected by fluctuations in interest rates, the ability of customers to repay their obligations and upward pressure on operating expenses. Although inflationary pressures are not considered to be of any particular hindrance in the current economic environment, they may have an impact on the company's future earnings in the event those pressures become more prevalent.

As a financial institution, the Company's primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of interest income and interest expense recorded on a large portion of the Company's assets and liabilities, and the market value of all interest earning assets and interest bearing liabilities, other than those which possess a short term to maturity. Virtually all of the Company's interest earning assets and interest bearing liabilities are located at the Bank level. Thus, virtually all of the Company's interest rate risk exposure lies at the Bank level other than $5.2 million in subordinated notes issued by the Company's subsidiary, Service 1st Capital Trust I. As a result, all significant interest rate risk procedures are performed at the Bank level.

The fundamental objective of the Company's management of its assets and liabilities is to maximize the Company's economic value while maintaining adequate liquidity and an exposure to interest rate risk deemed by management to be acceptable. Management believes an acceptable degree of exposure to interest rate risk results from the management of assets and liabilities through maturities, pricing and mix to attempt to neutralize the potential impact of changes in market interest rates. The Company's profitability is dependent to a large extent upon its net interest income, which is the difference between its interest income on interest earning assets, such as loans and investments, and its interest expense on interest bearing liabilities, such as deposits and borrowings. The Company is subject to interest rate risk to the degree that its interest earning assets re-price differently than its interest bearing liabilities. The Company manages its mix of assets and liabilities with the goals of limiting its exposure to interest rate risk, ensuring adequate liquidity, and coordinating its sources and uses of funds.

The Company seeks to control interest rate risk exposure in a manner that will allow for adequate levels of earnings and capital over a range of possible interest rate environments. The Company has adopted formal policies and practices to monitor and manage interest rate risk exposure. Management believes historically it has effectively managed the effect of changes in interest rates on its operating results and believes that it can continue to manage the short-term effects of interest rate changes under various interest rate scenarios.

Management employs asset and liability management software and engages consultants to measure the Company's exposure to future changes in interest rates. The software measures the expected cash flows and re-pricing of each financial asset/liability separately in measuring the Company's interest rate sensitivity. Based on the results of the software's output, management believes the Company's balance sheet is evenly matched over the short term and slightly asset sensitive over the longer term as of December 31, 2020. This means that the Company would expect (all other things being equal) to experience a limited change in its net interest income if rates rise or fall. The level of potential or expected change indicated by the tables below is considered acceptable by management and is compliant with the Company's ALCO policies. Management will continue to perform this analysis each quarter.

The hypothetical impacts of sudden interest rate movements applied to the Company's asset and liability balances are modeled quarterly. The results of these models indicate how much of the Company's net interest income is "at risk" from various rate changes over a one year horizon. This exercise is valuable in identifying risk exposures. Management believes the results for the Company's December 31, 2020 balances indicate that the net interest income at risk over a one year time horizon for a 100 basis points ("bps"), 200 bps, 300 bps, and 400 bps rate increase and a 100 bps decrease is acceptable to management and within policy guidelines at this time. Given the low interest rate environment, 200 bps, 300 bps, and 400 bps decreases are not considered a realistic possibility and are therefore not modeled.

The results in the table below indicate the change in net interest income the Company would expect to see as of December 31, 2020, if interest rates were to change in the amounts set forth:

Sensitivity Analysis of Impact of Rate Changes on Interest Income

Hypothetical Change in Rates (Dollars in thousands)	Projected Net Interest Income	$ Change from Rates at December 31, 2020	% Change from Rates at December 31, 2020
Up 400 bps	$ 59,700	$ (3,100)	(4.94)%
Up 300 bps	62,300	(500)	(0.80)%
Up 200 bps	63,000	200	0.32%
Up 100 bps	63,100	300	0.48%
Unchanged	62,800	-	-
Down 100 bps	61,200	(1,600)	(2.55)%

It is important to note that the above table is a summary of several forecasts and actual results may vary from any of the forecasted amounts and such difference may be material and adverse. The forecasts are based on estimates and

assumptions made by management, and that may turn out to be different, and may change over time. Factors affecting these estimates and assumptions include, but are not limited to: 1) competitor behavior, 2) economic conditions both locally and nationally, 3) actions taken by the Federal Reserve Board, 4) customer behavior and 5) management's responses to each of the foregoing. Factors that vary significantly from the assumptions and estimates may have material and adverse effects on the Company's net interest income; therefore, the results of this analysis should not be relied upon as indicative of actual future results.

The following table shows management's estimates of how the loan portfolio is segregated between variable-daily, variable other than daily, and fixed rate loans, and estimates of re-pricing opportunities for the entire loan portfolio at December 31, 2020 and 2019:

Rate Type (Dollars in thousands)	December 31, 2020 Balance	December 31, 2020 Percent of Total	December 31, 2019 Balance	December 31, 2019 Percent of Total
Variable rate	$ 817,678	74.00%	$ 646,070	68.59%
Fixed rate	287,281	26.00%	295,793	31.41%
Total gross loans	$ 1,104,959	100.00%	$ 941,863	100.00%

Approximately 74.00% of our loan portfolio is tied to adjustable rate indices and 32.79% of our loan portfolio reprices within 90 days. As of December 31, 2020, we had 1,702 commercial and real estate loans totaling $527,265,000 with floors ranging from 3.25% to 6.75% and ceilings ranging from 5.00% to 25.00%.

The following table shows the repricing categories of the Company's loan portfolio at December 31, 2020 and 2019:

Repricing (Dollars in thousands)	December 31, 2020 Balance	December 31, 2020 Percent of Total	December 31, 2019 Balance	December 31, 2019 Percent of Total
< 1 Year	$ 455,859	41.26%	$ 313,922	33.33%
1-3 Years	233,153	21.10%	224,591	23.85%
3-5 Years	274,800	24.87%	275,342	29.23%
> 5 Years	141,147	12.77%	128,008	13.59%
Total gross loans	$ 1,104,959	100.00%	$ 941,863	100.00%

Assumptions are inherently uncertain, and, consequently, the model cannot precisely measure net interest income or precisely predict the impact of changes in interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes, as well as changes in market conditions and management strategies which might moderate the negative consequences of interest rate deviations.

Stock Price Information

The Company's common stock is listed for trading on the NASDAQ Capital Market under the ticker symbol CVCY. As of March 5, 2021, the Company had approximately 934 shareholders of record.

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

	Sales Prices for the Company's Common Stock	
Quarter Ended	Low	High
March 31, 2019	$ 18.10	$ 20.35
June 30, 2019	19.08	21.48
September 30, 2019	18.97	21.75
December 31, 2019	19.24	22.15
March 31, 2020	10.68	21.69
June 30, 2020	10.59	16.81
September 30, 2020	11.51	15.68
December 31, 2020	12.25	16.70

The Company paid common share cash dividends of $0.44 and $0.43 per share in 2020 and 2019, respectively. The Company's primary source of income with which to pay cash dividends are dividends from the Bank. See Note 13 in the audited Consolidated Financial Statements in Item 8 of this Annual Report.

SHAREHOLDER INQUIRIES

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, anonymously at www.ethicspoint.com or by calling Ethics Point, Inc. at (866) 294-9588. General inquiries about the Company or the Bank should be directed to LeAnn Ruiz, Assistant Corporate Secretary at (800) 298-1775.

Investing in **Our Community**

Ag Lenders Society of California
American Bankers Association
American Cancer Society
American Heart Association
American Pistachio Growers
Ann's Kids For Christmas
Associated Students, Inc. Food Pantry - Sacramento State
Atwater Ag Boosters
Boys & Girls Club El Dorado County Western Slope
Building Industry Association of Tulare/Kings Counties
Building Owners & Managers Association of Sacramento
Business Organization of Old Town
California Agricultural Leadership Foundation
California Armenian Home
California Bankers Association
California Financial Crimes Investigators Association
California Fresh Fruit Association
California Society of Association Executives
California Society of Certified Public Accountants
California State University, Fresno – Ag One Foundation
California State University, Fresno – Bulldog Foundation
California State University, Fresno – Craig School of Business
California State University, Fresno – Maddy Institute
California Tomato Growers Association
California Women For Agriculture - Merced Chapter
Catholic Charities Diocese of Fresno
Centers For Living
Central California Food Bank
Central Sierra Historical Society
Central Sierra Resiliency Fund
Central Valley Community Foundation
Central Valley SCORE
City of Kerman
Clovis Chamber of Commerce
Community Medical Foundation
Construction Industry Education Foundation - Sacramento Regional Builders Exchange
Clovis Rodeo Association
Doug McDonald Scholarship
Economic Development Corporation
El Dorado Hills Chamber of Commerce
Emergency Food Bank of Stockton/San Joaquin
Exeter Chamber of Commerce
Exeter Lions Club
FED Corp
Folsom Chamber of Commerce
Folsom Cordova Community Partnership
Folsom Cordova Unified School District
Folsom Garden Club
Folsom High School
Folsom Historic District
Folsom, El Dorado & Sacramento Historical Railroad Association
FoodLink For Tulare County Inc.
Fresno Association of REALTORS
Fresno Business Council
Fresno Chamber Of Commerce
Fresno County Farm Bureau
Fresno County Economic Development Corporation
Fresno Metro Black Chamber of Commerce
Fresno Police Chaplaincy
Girl Scouts of Central California South
Greater Stockton Chamber of Commerce
Habitat For Humanity Greater Fresno Area
Independent Community Bankers Of America
Institute of Real Estate Management - Sacramento Valley
Kerman 4-H Club
Kerman Lions Basketball Boosters Club
Kings County Farm Bureau
Kings/Tulare Homeless Alliance
Kiwanis Club of Fresno
Kiwanis Club of Stockton
Lighthouse Counseling & Family Resource Center
Lodi Chamber of Commerce
Loel Senior Center and Gardens
Love Inc. of Fresno
Love Inc. of Merced
Madera Chamber of Commerce
Madera Community Hospital Foundation
Madera County Farm Bureau
Madera County Food Bank
Make-A-Wish Northeastern & Central California and Northern Nevada
Marjaree Mason Center
Merced County Fair
Merced County Farm Bureau
Merced County Food Bank
Modesto Chamber of Commerce
National Association of Government Guaranteed Lenders
New Beginnings For Merced County Animals
North State Building Industry Association

Oakhurst Area Chamber of Commerce
Orangevale-Fair Oaks Food Bank
Placer Food Bank
Placer Society for Prevention of Cruelty to Animals
Poverello House
Radiant Church
Rancho Cordova Chamber of Commerce
Rebuilding Together Sacramento
Rodeo Tough Productions
Ronald McDonald House Charities of The Central Valley
Roseville Area Chamber of Commerce
Rotary Club of Clovis
Rotary Club of Fair Oaks
Rotary Club of Fig Garden
Rotary Club of Fresno
Rotary Club of Kerman
Rotary Club of Madera
Sacramento Food Bank & Family Services
Sacramento Master Singers
Sacramento Metro Chamber of Commerce
Sacramento Regional Builders Exchange
Sacramento Self-Help Housing Inc.
San Joaquin Farm Bureau Federation
San Joaquin River Parkway and Conservation Trust, Inc.
Second Harvest Food Bank
Self-Help Enterprises
Sequoia Council of the Boy Scouts of America
Shingle Springs Cameron Park Chamber of Commerce
Sierra Pacific High School Booster Club
Signature User Group
Spring Valley Elementary School
St. Albans Country Day School
St. Joachim Catholic Church
St. Joachim's Catholic School
St. Jude Children's Research Hospital
STAND Affordable Housing Program
Stanislaus County Farm Bureau
Stockton Athletic Hall Of Fame
Stockton Shelter For The Homeless
The Bank CEO Network
The Downtown Fresno Partnership
The Exeter Art Gallery & Museum
The First Tee of Greater Sacramento
The Impact Foundry
The Risk Management Association
The Salvation Army
The Salvation Army - Tulare Corps
Tulare County Farm Bureau
Twin Lakes Food Bank
Valley Children's Healthcare Foundation
Valley Crime Stoppers
Valley Teen Ranch
Visalia Chamber of Commerce
Visalia Economic Development Corporation
West Visalia Kiwanis Club
Western Payments Alliance

Central Valley
Community
Bank

Investing In Relationships.
www.cvcb.com

Customer Service
(800) 298-1775
(559) 298-1775

Cameron Park
3311 Coach Lane
Suite A
Cameron Park, CA 95682
(530) 676-3400

Clovis
Clovis Main
600 Pollasky Avenue
Clovis, CA 93612
(559) 323-3480

Herndon & Fowler
1795 Herndon Avenue,
Suite 101
Clovis, CA 93611
(559) 323-2200

Exeter
300 East Pine Street
Exeter, CA 93221
(559) 594-9919

Folsom
905 Sutter Street,
Suite 100
Folsom, CA 95630
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7100 North Financial Drive,
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Fig Garden Village
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Fresno, CA 93704
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Fresno Downtown
2404 Tulare Street
Fresno, CA 93721
(559) 268-6806

River Park
8375 North Fresno Street
Fresno, CA 93720
(559) 447-3350

Gold River
11230 Gold Express Drive,
Suite 311
Gold River, CA 95670
(916) 235-4588

Kerman
360 South Madera Avenue
Kerman, CA 93630
(559) 842-2265

Lodi
1901 West Kettleman Lane,
Suite 100
Lodi, CA 95242
(209) 333-5000

Madera
1919 Howard Road
Madera, CA 93637
(559) 673-0395

Merced
3337 G Street,
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Merced, CA 95340
(209) 725-2820

Modesto
2020 Standiford Avenue,
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Modesto, CA 95350
(209) 576-1402

Oakhurst
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Suite 101
Oakhurst, CA 93644
(559) 642-2265

Prather
29430 Auberry Road
Prather, CA 93651
(559) 855-4100

Roseville
2999 Douglas Boulevard,
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Roseville, CA 95661
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Stockton
2800 West March Lane,
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Stockton, CA 95219
(209) 956-7800

Visalia
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120 North Floral Street
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