2021 ANNUAL REPORT

Central Valley Community Bancorp

TO OUR SHAREHOLDERS

A Year Of Resilience, Recovery And Resounding Success

The world collectively sighed relief as 2020 ended, hoping the year's challenges would disappear as 2021 dawned. When that didn't happen, our Company remained steadfast in the strength of our relationships with team members, clients and our communities. We were tasked to continue developing new innovations, client solutions and expanded digital technologies, and our people rose to the challenge with resilience, achieving solid financial performance for the Company in every key measure. The ability to operate confidently in a world of uncertainty is just one of the dividends earned from over 40 years of investing in relationships.

A Year Of Highs And Lows For Our Nation, State And Communities

The COVID-19 pandemic continued taking its toll in 2021. While the availability of stimulus programs and vaccines brought cautious optimism, it was often overshadowed as variants of the virus brought new waves of infection.

The nation's economy was strong in 2021, led by a soaring stock market, a stable interest rate environment and an improved unemployment rate. But this was tempered by inflation, which hit a 39-year high in November with prices up nearly seven percent over the previous year, according to the consumer price index. Supply chain disruptions impacted businesses and consumers alike – an issue that remains problematic.

In California, another disastrous wildfire season impacted forested and urbanized areas, even as individuals and businesses were rebuilding from the previous year's fires – a recurring theme in the state's ongoing drought conditions. The availability of water remained a concern throughout California, particularly in the Central Valley where low rainfall and modest to zero water allocations had – and have – the agricultural community deeply concerned.

A Year Of Strength And Growth For CVCB

Despite 2021's volatility, the Company achieved growth and positive fiscal results in every key category while maintaining the excellent deposit base and asset quality for which Central Valley Community Bank (CVCB) is recognized. This speaks highly of our team of professional bankers who invest in relationships and provide our clients and communities with a service experience unmatched in our marketplace.

Another factor was the second round of SBA Paycheck Protection Program (PPP) loans in 2021 that provided 512 small business clients with approximately $78 million. CVCB was also integral in securing forgiveness for nearly all PPP loans. Members of our business community continue to share their appreciation for the one-on-one assistance we provided.

The Company reported assets as of December 31, 2021 of $2,450,139,000. Net income for the year ended December 31, 2021 was $28,401,000, and we enjoyed strong growth in both loans (reaching $1,039,111,000) and total deposits (reaching $2,122,797,000).

In 2021, the Board of Directors declared dividends for all four quarters totaling $0.47 per share. And to underscore the year's accomplishments, the Company's Tangible Book Value improved by nearly seven percent over 2020.

A Year Of Leadership Transition With Unchanged Direction

In November 2021, James J. Kim was promoted to succeed the retiring James M. Ford as President and CEO of the Company and CVCB – just the fourth since 1980. On behalf of our Board, we thank Jim Ford for his many positive contributions to the Company's success as one of Central California's leading community banks.

Also in November, Blaine Lauhon was promoted to Executive Vice President, Chief Banking Officer, and Dawn Cagle was promoted to Executive Vice President, Chief Human Resources Officer. Blaine is an experienced and highly-regarded community banker who leads the strategic direction, management and profitability of CVCB's Banking Services division. Dawn is responsible for talent development, diversity, equity and inclusion initiatives, team engagement and numerous Human Resources activities.

A Year Of Unrivaled Commitment To Our People And Clients

In 2021, as always, the backbone of our Company's strength was our commitment to investing in our people, from recruitment and training to expanded recognition programs – all with the empowerment to live our mission and exceed expectations in every relationship. The quality of our people and our community banking legacy are cornerstones of who we are, enabling us to attract the highest levels of banking talent.

Additionally, our executive leadership continued to step up in 2021, ensuring uninterrupted banking service throughout the pandemic, while providing a safe environment for our team, clients and our communities. This fostered an environment of further investment in client relationships, driving our professional bankers to go above-and-beyond the expected to help clients succeed. Our role as business advocates has resonated well with clients, especially in the recent pandemic years.

Our clients also benefited from our commitment to the most enhanced digital processes and advanced security protocols. Our Company is constantly increasing cybersecurity measures, including educating and testing our team on the latest security best practices and sharing that knowledge with our clients and community through an easily-accessible library of proven online resources.

A Year Of Renewal, Relief And Re-energizing

In May 2021, CVCB celebrated the opening of our newly-rebuilt Banking Center in Prather, completing an extensive renovation following the Creek Fire, one of California's largest recorded forest fires. Throughout construction during the pandemic and Creek Fire, our team had operated from a small, temporary location to serve our Central Sierra communities.

For serving the Central Sierra through our support of Creek Fire relief and recovery efforts, CVCB was honored with a recognition from Fresno County. Our impactful response to the fire also earned the People's Choice Award in the ICBA 2021 National Community Bank Service Awards. And for going above-and-beyond in supporting communities impacted by the Creek Fire, CVCB was named a Top 10 institution in the CRMNext "Right on the Money" program.

While our Central Valley team was focused on serving clients in the aftermath of the Creek Fire, our Greater Sacramento team also provided fire relief support for clients displaced by the Caldor Fire in Northern California.

Since the day we opened in 1980, we have been steadfast in our commitment to our clients and communities. We will continue to invest in these fire-impacted areas through the rebuilding of homes and businesses and the reseeding of forests for future generations.

A Year Of Continued Philanthropy

Investing in our communities has always been one of our guiding principles and CVCB's fire relief support in 2021 is a great example. Whether through hands-on volunteerism, financial education or participating in grant and match programs to maximize our giving, our philanthropic involvement ranged from supporting food and housing security to serving pandemic-impacted organizations to providing small business financial education and more.
Highlights for the year covered several important categories, including:

Community Improvement: Federal Home Loan Bank of San Francisco Affordable Housing Program (AHP) Grants

- CVCB helped Visionary Home Builders of California, Inc., based in Stockton, receive grants totaling $1,080,000 to support advocating for healthy, vibrant and safe communities and educational opportunities for those in need.
- The Fresno Area Hispanic Foundation (FAHF) also received assistance with a $25,000 Access to Housing and Economic Development (AHEAD) grant to support women entrepreneurs.

Small Business Advocacy

- Through CVCB's nearly 20-year partnership with SCORE, financial education and startup advice were provided to small businesses and entrepreneurs in need.

Charitable Community Support

- Banking Center team and client fundraising drive awarded Make-A-Wish Northeastern & Central California and Northern Nevada Chapters funds to fulfill wishes for two deserving children with critical illnesses.
- Hands-on volunteerism and donations supported 15 food banks in the sixth Business Food Fund Challenge, and encouraged local businesses to do the same.
- Team-driven support provided hundreds of holiday gifts to deserving children through The Salvation Army's Angel Tree program - an 8+-year tradition.
- United Way employee giving program provided annual funds through this 20+ year partnership.

A Year Of Industry And Business Recognition

CVCB celebrated a number of awards and achievements in 2021, with highlights that included:

- Earning the Premier Performing Bank designation by The Findley Reports.
- Earning a 5-Star Superior rating from Bauer Financial.
- Being named loan guarantee Lender of the Year by the Valley Small Business Development Corporation.
- Being honored by The Business Journal as "Best Business Bank" for the eighth consecutive year.

Entering 2022 With Renewed Vision

While many will remember 2021 as a year of prolonged pandemic challenges, inflation and unprecedented forest fires, we will remember it as another of the 42 years in which we invested in relationships with our team, clients, shareholders and communities.

A year in which our people, leadership and mission were rightfully recognized.

A year in which we continued to demonstrate who we are through the quality of our people, drawing even more qualified banking talent to our ranks.

A year in which our role as a community bank was needed and valued.

As we publish this report, a fresh challenge has emerged: a war in Ukraine that has drawn worldwide attention, with uncertainty as to its impact on California and our local economy. While we can't always see what the future holds, we can see reasons to be optimistic about our Company thanks to a solid foundation of longstanding shareholder and client relationships.

We believe we are well-positioned to support our mission, regardless of what the year ahead might bring, through those who have stood alongside us through 42 years of strength, growth and innovation.

Thank you for standing with our Company. We look forward to demonstrating daily our commitment to standing with you.

Sincerely,

James J. Kim
President and CEO,
Central Valley Community Bancorp
Central Valley Community Bank

Daniel J. Doyle
Chairman of the Board,
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

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.

James J. Kim
President and CEO,
Central Valley Community Bancorp
Central Valley Community Bank

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

Robert J. Flautt
Retired Bank Executive

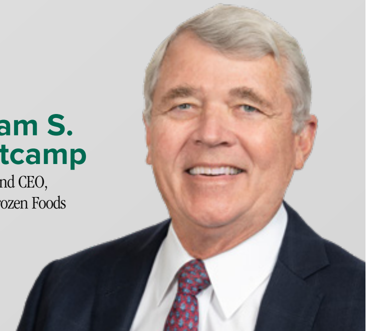
Gary D. Gall
Retired Bank Executive

Andriana D. Majarian
Chief Operating Officer,
Agrian by Telus

Louis C. McMurray
President,
Charles McMurray Co.

Karen A. Musson
Marketing and Media,
Gar Bennett

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



William S. Smittcamp
President and CEO,
Wawona Frozen Foods

MAKING HISTORY TOGETHER

Elevating Community Banking Since 1980

Central Valley Community Bank (CVCB) has an enviable track record of financial strength, security and stability gained over its 42-year history. Today's CVCB is a well-capitalized institution with assets exceeding $2.4 billion as of December 31, 2021. The Company is proud to receive continued industry acclaim and national recognition for its excellent financial performance.

CVCB is distinguished from other financial institutions by its people, dedication to client advocacy, exemplary "relationship banking," strong community support and its mission to exceed expectations. The Company has a passion for providing customized solutions to guide businesses and communities to succeed through its personal approach and full range of business and consumer banking products, lending and digital services that keep pace with the industry.

Full-service Banking Centers are located in 16 communities within California's San Joaquin Valley and Greater Sacramento Region, as well as Commercial Lending, Real Estate, Agribusiness, Private Business Banking and Cash Management Departments. All are under the umbrella of Central Valley Community Bancorp (NASDAQ: CVCY), established in 2000 as the holding company for CVCB.

Guided By Values

Despite CVCB's growth and success, it has remained true to its founding vision and commitment to the core values of teamwork, caring, inclusive, excellence, accountability and integrity. The Company believes that accountable corporate behavior is essential for a community bank, and works hard to contribute to a more equitable, resilient future for clients, team members, shareholders and the communities it serves.

Shaped By History

CVCB's history has been written by many hands, but with one vision: to help businesses and communities succeed by exceeding expectations at every opportunity.

The Central Valley Community Bank you see today is the product of that history – the embodiment of the vision and values upon which it was established in 1979. The Company opened its doors on January 10, 1980, in the Fresno County city of Clovis, with 12 professional bankers and assets of $2,000,000.

The Company's founders were a diverse group of local business owners (including a few former bankers) who lived in the region and knew first-hand how a true community bank would benefit this unique area.

They envisioned a community bank that would invest in and grow the county's distinctive communities, with Banking Centers that would employ service-driven professional bankers who understood the businesses and needs of their communities. What started in Clovis expanded to the Central Sierra communities of Shaver Lake and Prather, then to Fresno and along the CA Highway 99 corridor to Greater Sacramento in the north and Visalia in the south. The founders' vision had been fulfilled, and continues to be realized in CVCB's daily operations.

Driven By Community Support

As a community bank, CVCB is closely connected with its communities where team members live, work and raise their families and wants them to grow stronger and more successful. To achieve this, CVCB supports a wide variety of community organizations with leadership involvement, financial donations, volunteerism and financial education.

Inspired By The Future

As CVCB reflects on its long history and how its legacy of service and vision has shaped the Company to this day, there is abundant reason to be excited about its future. Guided by the Company's proven leadership and Board of Directors, CVCB's greatest days lie ahead. The Company is honored to share those days with the team members, clients, investors and communities whose support is appreciated and valued.

The Company is regulated by the Federal Deposit Insurance Corporation, Federal Reserve Board, Securities and Exchange Commission, and the California Department of Financial Protection & Innovation.

TRUSTED LEADERSHIP

MISSION

Inspire and empower our team to enrich and invest in every relationship by exceeding expectations.

VALUES

Teamwork, Accountability, Excellence, Caring, Integrity and Inclusive

HOLDING COMPANY & BANK OFFICERS

James J. Kim
President and CEO

Patrick A. Luis
Executive Vice President,
Chief Credit Officer

David A. Kinross
Executive Vice President,
Chief Financial Officer

BANK EXECUTIVE MANAGEMENT

Teresa Gilio
Executive Vice President,
Chief Administrative Officer

Blaine C. Lauhon
Executive Vice President,
Chief Banking Officer

A. Ken Ramos
Executive Vice President,
Market Executive

Dawn M. Cagle
Executive Vice President,
Chief Human Resources Officer

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, Teresa Gilio, James J. Kim, A. Ken Ramos, Dawn M. Cagle and Blaine C. Lauhon

CORPORATE & COMMUNITY RESPONSIBILITY

Environmental, Social And Governance (ESG)

At Central Valley Community Bank (CVCB), 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 bank's areas of focus, which include: community and charitable giving, responsible lending practices, economic stability, sustainable practices, environmental and social focuses, vendor management and employment practices, among others.

Since 1980, we have supported our clients with a full range of banking and financial services, while supporting initiatives that provide financial education and improve accessibility of financial solutions in our communities, champion our environment and promote transparency, accountability and diversity.

In 2020 and into 2021, with the immense hardships brought on by the COVID-19 pandemic and California wildfires, we elevated our community support to address the areas of food insecurity, housing and social justice 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 ensures 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 operate with integrity that inspires our clients and community to confidently place their trust in Central Valley Community Bank.

Diversity, Equity And Inclusion (DEI)

Central Valley Community Bank's 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 organization's success. This commitment is evident throughout our workplace and our impact on the communities we serve.

For additional information on ESG and DEI statements, visit our website at www.cvcb.com or contact David Kinross, EVP, Chief Financial Officer at (800) 298-1775.

2021 HIGHLIGHTS

COMMUNITY GIVING

$238,442.82
invested in Donations, Sponsorships, Memberships and Associations

2,083
2021 Service Hours

$27,000
Underwriting Food & Housing Insecurity

ECONOMIC STABILITY

OUTSTANDING CRA RATING
2019 – 2021 Helping Regions of Poverty

203 Small Business Loans for **$52 MILLION**

504 2021 PPP Loans Totaling **$59,524,000**

1,042 2020 PPP Loans Totaling **$129,348,000**

RESPECTABLE WAGES

SUSTAINABLE PRACTICES

Focus on **ENERGY EFFICIENCY, RECYCLING & EDUCATION**

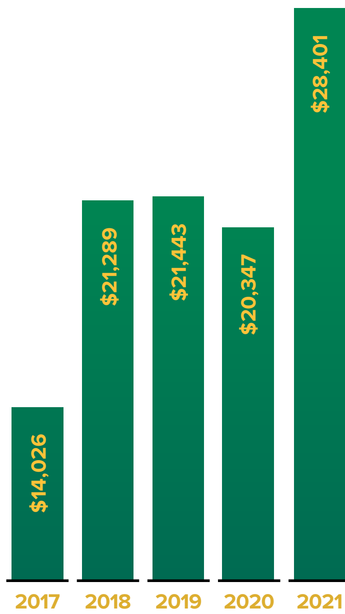
COMPANY RESOURCE & DROUGHT MANAGEMENT

ENVIRONMENTAL & SOCIAL FOCUSES

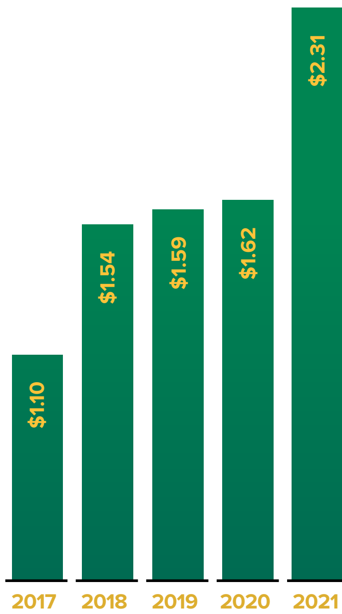
CLIMATE CHANGE, DIVERSITY, EQUITY & INCLUSION

TREND ANALYSIS

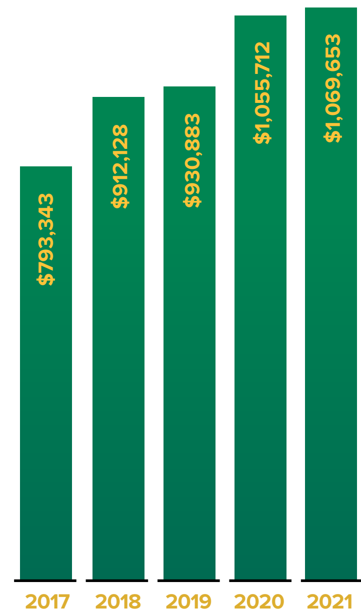
CENTRAL VALLEY COMMUNITY BANCORP



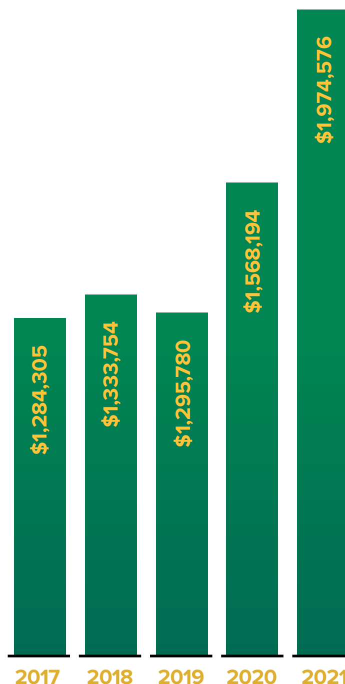
Net Income (In Thousands)



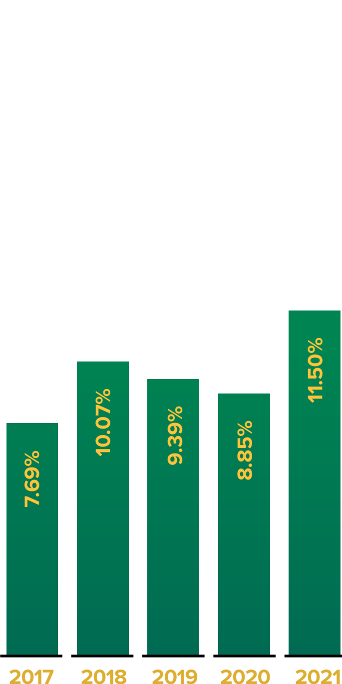
Diluted Earnings Per Share



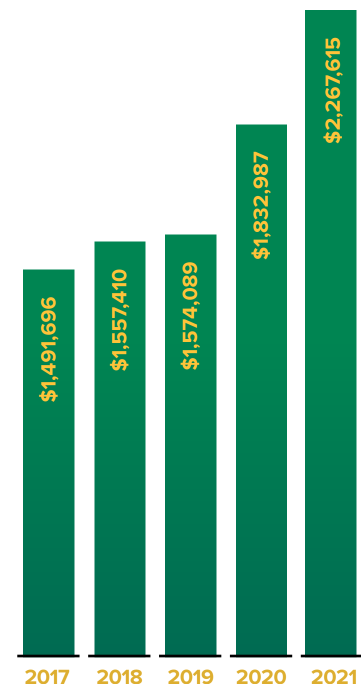
Average Total Loans (In Thousands)



Average Total Deposits (In Thousands)



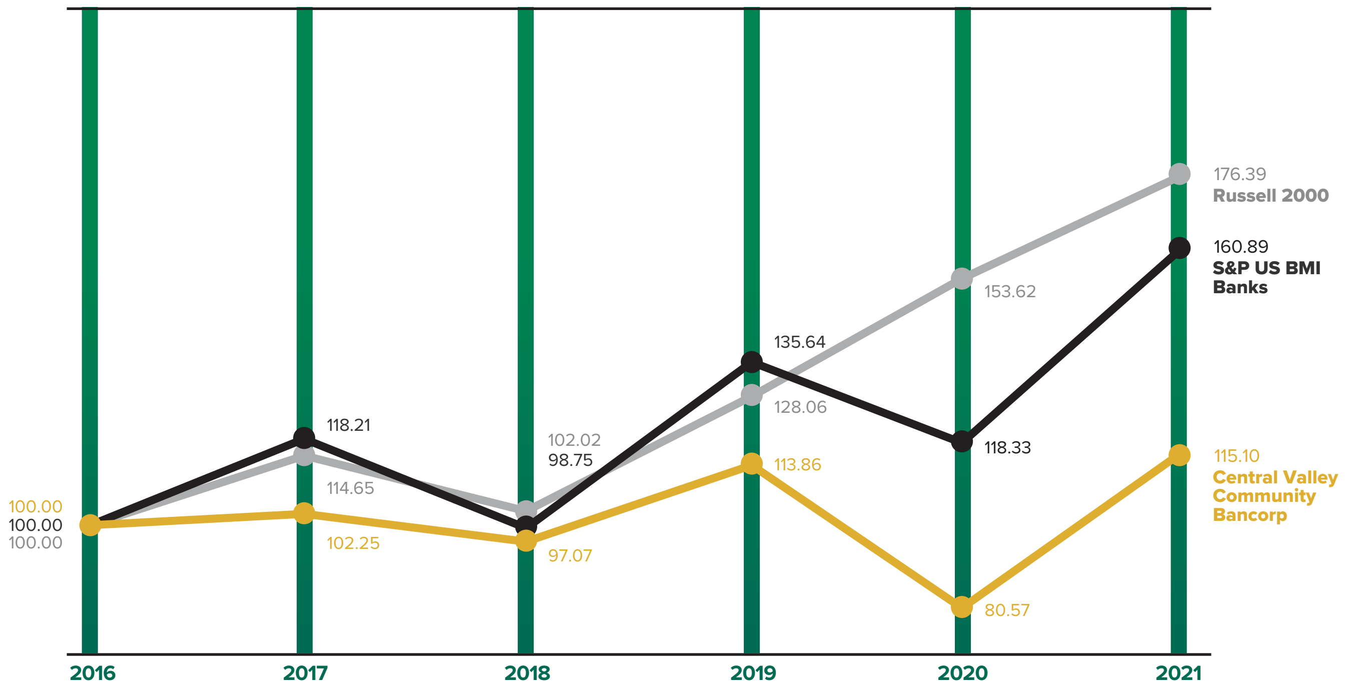
Return on Shareholders' Equity



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 S&P US BMI Banks, measured as of the last trading day of each year shown. The graph assumes an investment of $100 on December 31, 2016 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.

In prior years, the Company used the SNL Bank NASDAQ Index as an industry index in the graph above, but due to the discontinuance of this index, the Company began using the S&P US BMI Banks Index in 2021.

Source: S&P Global Market Intelligence

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
Consolidated Balance Sheets

December 31, 2021 and 2020 (In thousands, except share amounts)

ASSETS	2021	2020
Cash and due from banks	$ 29,412	$ 34,175
Interest-earning deposits in other banks	134,055	36,103
Total cash and cash equivalents	163,467	70,278
Available-for-sale debt securities	1,109,208	710,092
Equity securities	7,416	7,634
Loans, less allowance for credit losses of $9,600 at December 31, 2021 and $12,915 at December 31, 2020	1,029,511	1,089,432
Bank premises and equipment, net	8,380	8,228
Bank owned life insurance	39,553	28,713
Federal Home Loan Bank stock	5,595	5,595
Goodwill	53,777	53,777
Core deposit intangibles	522	1,183
Accrued interest receivable and other assets	32,710	29,164
Total assets	$ 2,450,139	$ 2,004,096
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 963,584	$ 824,889
Interest bearing	1,159,213	897,821
Total deposits	2,122,797	1,722,710
Subordinated debentures	39,454	5,155
Accrued interest payable and other liabilities	40,043	31,210
Total liabilities	2,202,294	1,759,075
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: 11,916,651 at December 31, 2021 and 12,509,848 at December 31, 2020	66,820	79,416
Retained earnings	173,393	150,749
Accumulated other comprehensive income, net of tax	7,632	14,856
Total shareholders' equity	247,845	245,021
Total liabilities and shareholders' equity	$ 2,450,139	$ 2,004,096

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, 2021, 2020, and 2019 (In thousands, except per share amounts)

	2021	2020	2019
Interest income:			
Interest and fees on loans	$ 54,077	$ 52,066	$ 51,464
Interest on deposits in other banks	129	246	375
Interest and dividends on investment securities:			
Taxable	14,044	11,740	13,197
Exempt from Federal income taxes	5,606	1,966	1,295
Total interest income	73,856	66,018	66,331
Interest expense:			
Interest on deposits	1,036	1,465	1,928
Interest on subordinated debentures	266	130	210
Other	-	-	421
Total interest expense	1,302	1,595	2,559
Net interest income before provision for credit losses	72,554	64,423	63,772
(Reversal of) Provision for credit losses	(4,300)	3,275	1,025
Net interest income after provision for credit losses	76,854	61,148	62,747
Non-interest income:			
Service charges	1,901	2,071	2,756
Appreciation in cash surrender value of bank owned life insurance	840	711	728
Interchange fees	1,784	1,347	1,446
Loan placement fees	1,974	2,291	978
Net realized gains on sales and calls of investment securities	501	4,252	5,199
Federal Home Loan Bank dividends	321	323	455
Other income	1,684	2,802	1,743
Total non-interest income	9,005	13,797	13,305
Non-interest expenses:			
Salaries and employee benefits	28,720	28,603	26,654
Occupancy and equipment	4,882	4,626	5,439
Regulatory assessments	831	490	251
Data processing expense	2,394	2,046	1,557
Professional services	1,665	2,398	1,305
ATM/Debit card expenses	818	819	920
Information technology	2,868	2,391	2,611
Directors' expenses	422	615	710
Advertising	527	663	756
Internet banking expenses	320	650	816
Amortization of core deposit intangibles	661	695	695
Other expense	3,734	3,688	4,386
Total non-interest expenses	47,842	47,684	46,100
Income before provision for income taxes	38,017	27,261	29,952
Provision for income taxes	9,616	6,914	8,509
Net income	$ 28,401	$ 20,347	$ 21,443
Basic earnings per common share	$ 2.32	$ 1.62	$ 1.60
Diluted earnings per common share	$ 2.31	$ 1.62	$ 1.59
Cash dividends per common share	$ 0.47	$ 0.44	$ 0.43

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, 2021, 2020, and 2019 (In thousands)

	2021	2020	2019
Net income	$ 28,401	$ 20,347	$ 21,443
Other Comprehensive (Loss) Income:			
Unrealized (losses) gains on securities:			
Unrealized holdings (losses) gains arising during the period	(9,755)	21,344	15,455
Less: reclassification for net (gains) losses included in net income	(501)	(4,252)	(5,199)
Other comprehensive (loss) income, before tax	(10,256)	17,092	10,256
Tax benefit (expense) related to items of other comprehensive income (loss)	3,032	(5,053)	(3,032)
Total other comprehensive (loss) income	(7,224)	12,039	7,224
Comprehensive income	$ 21,177	$ 32,386	$ 28,667

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, 2021, 2020, and 2019 (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, 2019	13,754,965	$ 103,851	$ 120,294	$ (4,407)	$ 219,738
Net income	-	-	21,443	-	21,443
Other comprehensive income	-	-	-	7,224	7,224
Restricted stock granted, net of forfeitures	16,495	-	-	-	-
Cash dividend ($0.43 per common share)	-	-	(5,805)	-	(5,805)
Stock issued under employee stock purchase plan	12,286	216	-	-	216
Stock awarded to employees	5,295	100	-	-	100
Stock-based compensation expense	-	555	-	-	555
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
Stock issued under employee stock purchase plan	15,764	199	-	-	199
Restricted stock granted, net of forfeitures	13,008	-	-	-	-
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)
Repurchase and retirement of common stock	(621,379)	(11,052)	-	-	(11,052)
Stock options exercised	43,500	279	-	-	279
Balance, December 31, 2020	12,509,848	79,416	150,749	14,856	245,021
Net income	-	-	28,401	-	28,401
Other comprehensive loss	-	-	-	(7,224)	(7,224)
Restricted stock granted, net of forfeitures	20,720	-	-	-	-
Stock issued under employee stock purchase plan	12,521	204	-	-	204
Stock awarded to employees	10,529	157	-	-	157
Stock-based compensation expense	-	405	-	-	405
Cash dividend ($0.47 per common share)	-	-	(5,757)	-	(5,757)
Stock options exercised	24,265	257	-	-	257
Repurchase and retirement of common stock	(661,232)	(13,619)		-	(13,619)
Balance, December 31, 2021	11,916,651	$ 66,820	$ 173,393	$ 7,632	$ 247,845

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, 2021, 2020, and 2019 (In thousands)

	2021	2020	2019
Cash flows from operating activities:			
Net income	$ 28,401	$ 20,347	$ 21,443
Adjustments to reconcile net income to net cash provided by operating activities:			
Net decrease (increase) in deferred loan costs	3,483	(4,127)	(77)
Depreciation	897	881	1,742
Accretion	(1,404)	(1,326)	(917)
Amortization	8,102	4,622	4,564
Stock-based compensation	405	470	555
(Reversal) provision for credit losses	(4,300)	3,275	1,025
Net realized gains on sales and calls of available-for-sale investment securities	(501)	(4,252)	(5,199)
Net gain on sale and disposal of equipment	(8)	(6)	-
Net change in equity investments	218	(162)	(218)
Increase in bank owned life insurance, net of expenses	(840)	(551)	(728)
Net gain on bank owned life insurance	-	(1,167)	-
Net increase in accrued interest receivable and other assets	(2,052)	(1,128)	(9,521)
Net increase in accrued interest payable and other liabilities	8,989	1,165	9,641
Benefit (provision) for deferred income taxes	1,465	(1,051)	(589)
Net cash provided by operating activities	42,855	16,990	21,721
Cash Flows From Investing Activities:			
Purchases of available-for-sale investment securities	(495,879)	(540,362)	(301,254)
Proceeds from sales or calls of available-for-sale investment securities	26,222	283,956	281,906
Proceeds from maturity and principal repayment of available-for-sale investment securities	54,822	35,914	25,120
Net decrease (increase) in loans	60,738	(154,331)	(25,606)
Purchases of premises and equipment	(1,049)	(1,492)	(876)
Purchases of bank owned life insurance	(10,000)	(250)	(1,000)
FHLB stock redeemed	-	467	781
Proceeds from bank owned life insurance	-	3,485	-
Proceeds from sale of premises and equipment	9	6	-
Net cash used in investing activities	(365,137)	(372,607)	(20,929)
Cash Flows From Financing Activities:			
Net increase in demand, interest-bearing and savings deposits	399,903	393,308	54,074
Net increase (decrease) in time deposits	184	(3,883)	(3,087)
Proceeds from issuance of subordinated debt	34,299	-	-
Proceeds from short-term borrowings from Federal Home Loan Bank	-	-	725,500
Repayments of short-term borrowings to Federal Home Loan Bank	-	-	(735,500)
Proceeds of borrowings from other financial institutions	-	-	2,870
Repayments of borrowings from other financial institutions	-	-	(2,870)
Purchase and retirement of common stock	(13,619)	(11,052)	(15,619)
Proceeds from stock issued under employee stock purchase plan	204	199	216
Proceeds from exercise of stock options	257	279	276
Cash dividend payments on common stock	(5,757)	(5,530)	(5,805)
Net cash provided by financing activities	415,471	373,321	20,055
Increase in cash and cash equivalents	93,189	17,704	20,847
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	70,278	52,574	31,727
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 163,467	$ 70,278	$ 52,574
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 1,166	$ 1,706	$ 2,517
Income taxes	$ 8,155	$ 5,120	$ 9,140
Operating cash flows from operating leases	$ 2,259	$ 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 - The ongoing novel coronavirus disease ("COVID-19") pandemic caused significant disruption in the local, national and global economies and financial markets in 2020. While the economy appears to be on a track for recovery and most COVID-19 related restrictions have been lifted, continuation and worsening of COVID-19 could cause reductions in business activity and financial transactions, labor shortages, supply chain interruptions and overall economic and financial market instability. Such events could cause the Company to experience a material adverse effect on its business operations, asset valuations, financial condition, and results of operations. Material adverse effects may include all or a combination of losses in operations, higher provisions for credit losses and valuation impairments on the Company's investments, loans, goodwill and 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, 2021, 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 52 quarters, and qualitative factors including economic trends in the Company's service areas, industry experience and trends, industry and 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 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2021. 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, industry and 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 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 ("LIHTC") partnerships is reported in other assets on the consolidated balance sheet. The carrying value of the Company's investments in LIHTC partnerships was $2,551,000 and $2,462,000 at December 31, 2021 and 2020, respectively. The unfunded commitments as of December 31, 2021 and 2020 were$203,000 and $803,000, respectively. All commitments will be paid by the Company by 2032. During the years ended December 31, 2021, 2020, and 2019, the Company recorded amortization expense for the LIHTC investments totaling $511,000, $469,000, and $390,000, respectively. The recognized tax benefits for the years ended December 31, 2021, 2020, and 2019 totaled $415,000, $416,000, and $392,000, respectively.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2021 and at December 31, 2020.

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 assessed qualitative factors including performance trends and noted no factors indicating goodwill impairment. 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. No such events or circumstances arose during the fourth quarter of 2021, so goodwill was not required to be retested. Goodwill is the only intangible asset with an indefinite life on the balance sheet.

Intangible Assets - The intangible assets at December 31, 2021 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, 2021 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 2021, 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 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 ofthe 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 allowance for credit losses and continues to evaluate the potential impact on our consolidated financial statements.

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 activemarkets 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, 2021				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$ 29,412	$ 29,412	$ -	$ -	$ 29,412
Interest-earning deposits in other banks	134,055	134,055	-	-	134,055
Available-for-sale investment securities	1,109,208	-	1,109,208	-	1,109,208
Equity securities	7,416	7,416	-	-	7,416
Loans, net	1,029,511	-	-	1,015,052	1,015,052
Federal Home Loan Bank stock	5,595	N/A	N/A	N/A	N/A
Accrued interest receivable	9,395	7	6,076	3,312	9,395
Financial liabilities:					
Deposits	2,122,797	2,010,407	89,923	-	2,100,330
Subordinated debentures	39,454	-	-	39,463	39,463
Accrued interest payable	202	-	30	172	202

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

	December 31, 2020				
		Fair Value			
	Carrying Amount	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
Subordinated debentures	5,155	-	-	3,693	3,693
Accrued interest payable	65	-	41	24	65

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 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 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.

(g) Subordinated Debentures - 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.

(h) 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.

(i) 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, 2021 and 2020:

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

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 Measurements Using			
	Fair Value	Level 1	Level 2	Level 3
December 31, 2021				
Available-for-sale investment securities				
Debt Securities:				
U.S. Treasury securities	$ 9,925	$ -	$ 9,925	$ -
U.S. Government agencies	379	-	379	-
Obligations of states and political subdivisions	526,467	-	526,467	-
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	214,439	-	214,439	-
Private label mortgage and asset backed securities	313,220	-	313,220	-
Corporate debt securities	44,778	-	44,778	-
Equity Securities	7,416	7,416	-	-
Total assets measured at fair value on a recurring basis	$1,116,624	$ 7,416	$1,109,208	$ -

	Fair Value Measurements Using			
	Fair Value	Level 1	Level 2	Level 3
December 31, 2020				
Available-for-sale 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 residential 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 years ended December 31, 2021 and 2020, no transfers between levels occurred.

There were no Level 3 assets measured at fair value on a recurring basis at December 31, 2021 or December 31, 2020. Also there were no liabilities measured at fair value on a recurring basis at December 31, 2021 or 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, 2021 and 2020 (in thousands):

	Fair Value	Level 1	Level 2	Level 3
December 31, 2021				
Impaired loans:				
Real estate:				
Real estate-construction and other land loans	$ 262	$ -	$ -	$ 262
Total assets measured at fair value on a non-recurring basis	$ 262	$ -	$ -	$ 262
December 31, 2020				
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, 2021.

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 $292,000 with a valuation allowance of $30,000 at December 31, 2021, and a resulting fair value of $262,000. The valuation allowance represents specific allocations for the allowance for credit losses for impaired loans.

2. FAIR VALUE MEASUREMENTS (Continued)

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, 2021 specific allocation for the allowance for credit losses related to loans carried at fair value was $30,000, compared to $268,000 during the year ended December 31, 2020. There were no net charge-offs related to loans carried at fair value at December 31, 2021 and 2020.

3. INVESTMENT SECURITIES

The fair value of the available-for-sale investment portfolio reflected an unrealized gain of $10,835,000 at December 31, 2021 compared to an unrealized gain of $21,091,000 at December 31, 2020. The unrealized gain recorded is net of $3,203,000 and $6,235,000 in tax liabilities as accumulated other comprehensive income within shareholders' equity at December 31, 2021 and 2020, 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, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities				
Debt Securities:				
U.S. Treasury securities	$ 9,988	$ -	$ (63)	$ 9,925
U.S. Government agencies	373	6	-	379
Obligations of states and political subdivisions	512,952	16,703	(3,188)	526,467
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	213,471	2,245	(1,277)	214,439
Private label mortgage and asset backed securities	317,089	824	(4,693)	313,220
Corporate debt securities	44,500	595	(317)	44,778
	$ 1,098,373	$ 20,373	$ (9,538)	$ 1,109,208

	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

Proceeds and gross realized gains (losses) on investment securities for the years ended December 31, 2021, 2020, and 2019 are shown below (in thousands):

	Years Ended December 31,		
	2021	2020	2019
Available-for-Sale Securities			
Proceeds from sales or calls	$ 26,222	$ 283,956	$ 281,906
Gross realized gains from sales or calls	$ 580	$ 7,123	$ 5,319
Gross realized losses from sales or calls	$ (79)	$ (2,871)	$ (120)

Losses recognized in 2021, 2020, and 2019 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 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 $148,000, $1,257,000, and $1,537,000 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, 2021, 2020, and 2019, respectively.

Investment securities with unrealized losses at December 31, 2021 and 2020 are summarized and classified according to the duration of the loss period as follows (in thousands):

	December 31, 2021					
	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:						
Treasuries	$ 9,925	$ (63)	$ -	$ -	$ 9,925	$ (63)
Obligations of states and political subdivisions	143,336	(2,896)	6,336	(292)	149,672	(3,188)
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	91,385	(905)	40,365	(372)	131,750	(1,277)
Private label residential mortgage and asset backed securities	230,987	(3,661)	28,908	(1,032)	259,895	(4,693)
Corporate debt securities	21,183	(317)	-	-	21,183	(317)
	$ 496,816	$ (7,842)	$ 75,609	$ (1,696)	$ 572,425	$ (9,538)

	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 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)

3. INVESTMENT SECURITIES (Continued)

The Company periodically evaluates 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, 2021, 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). The Company evaluated all individual available-for-sale investment securities with an unrealized loss at December 31, 2021 and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at December 31, 2021 greater than 10% of the recorded book value on that date, or which had an unrealized loss of more than $75,000. The Company 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, 2021, 2020, or 2019.

U.S. Treasury Securities - At December 31, 2021, the Company held one U.S. Treasury security which was in a loss position for less than 12 months.

U.S. Government Agencies - At December 31, 2021, the Company held one U.S. Government agency security which was in a gain position.

Obligations of States and Political Subdivisions - At December 31, 2021, the Company held 133 obligations of states and political subdivision securities of which 27 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, 2021.

U.S. Government Sponsored Entities and Agencies Collateralized by Residential Mortgage Obligations - At December 31, 2021, the Company held 113 U.S. Government sponsored entity and agency securities collateralized by residential mortgage obligation securities of which 19 were in a loss position for less than 12 months and eighthave 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, 2021.

Private Label Mortgage and Asset Backed Securities - At December 31, 2021, the Company had a total of 75 Private Label Mortgage and Asset Backed Securities (PLMBS). 46 of these securities were in a loss position for less than 12 months and seven have been in a loss position for more than 12 months at December 31, 2021. 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, 2021. The Company continues to monitor these securities for changes in credit ratings or other indications of credit deterioration.

Corporate Debt Securities - At December 31, 2021, the Company held 12 corporate debt securities of which six were in a loss position for less than 12 months. The unrealized loss on the Company's investments in corporate debt security was caused by interest rate changes. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell, and it is more likely than not that it will not be required to sell those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2021.

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2021 and 2020 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, 2021		December 31, 2020	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	$ -	$ -	$ 298	$ 305
After one year through five years	3,690	4,038	3,254	3,631
After five years through ten years	99,615	101,498	18,330	20,644
After ten years	419,635	430,856	339,852	354,985
	522,940	536,392	361,734	379,565
Investment securities not due at a single maturity date:				
U.S. Government agencies	373	379	651	680
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	213,471	214,439	214,203	216,298
Private label mortgage and asset backed securities	317,089	313,220	82,413	83,508
Corporate debt securities	44,500	44,778	30,000	30,041
	$ 1,098,373	$ 1,109,208	$ 689,001	$ 710,092

Investment securities with amortized costs totaling $252,986,000 and $178,561,000 and fair values totaling $260,325,000 and $185,053,000 were pledged as collateral for borrowing arrangements, public funds and for other purposes at December 31, 2021 and 2020, respectively.

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES

Outstanding loans are summarized as follows (in thousands):

Loan Type	December 31, 2021	% of Total loans	December 31, 2020	% of Total loans
Commercial:				
Commercial and industrial	$ 136,847	13.2%	$ 273,994	24.9%
Agricultural production	40,860	3.9%	21,971	2.0%
Total commercial	177,707	17.1%	295,965	26.9%
Real estate:				
Owner occupied	212,234	20.4%	208,843	18.9%
Real estate construction and other land loans	61,586	5.9%	55,419	5.0%
Commercial real estate	369,529	35.6%	338,886	30.7%
Agricultural real estate	98,481	9.5%	84,258	7.6%
Other real estate	26,084	2.5%	28,718	2.6%
	767,914	73.9%	716,124	64.8%
Consumer:				
Equity loans and lines of credit	55,620	5.4%	55,634	5.0%
Consumer and installment	36,999	3.6%	37,236	3.3%
Total consumer	92,619	9.0%	92,870	8.3%
Net deferred origination costs (fees)	871		(2,612)	
Total gross loans	1,039,111	100.0%	1,102,347	100.0%
Allowance for credit losses	(9,600)		(12,915)	
Total loans	$ 1,029,511		$ 1,089,432	

At December 31, 2021 and 2020, loans originated under Small Business Administration (SBA) programs totaling $23,024,000 and $24,220,000, 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, 2021 and 2020, PPP loans totaling $18,553,000 and

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

$192,916,000, respectively, were outstanding and included in the commercial and industrial category above. Approximately $481,355,000 in loans were pledged under a blanket lien as collateral to the FHLB for the Bank's remaining borrowing capacity of $277,130,000 as of December 31, 2021. 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 $1,890,000, $2,782,000, and $2,116,000 have been deferred as loan origination costs for the years ended December 31, 2021, 2020, and 2019, 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 52 quarters, and qualitative factors including economic trends in the Company's service areas, industry experience and trends, industry and 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,		
	2021	2020	2019
Balance, beginning of year	$ 12,915	$ 9,130	$ 9,104
(Reversal) provision charged to operations	(4,300)	3,275	1,025
Losses charged to allowance	(267)	(229)	(1,196)
Recoveries	1,252	739	197
Balance, end of year	$ 9,600	$ 12,915	$ 9,130

The following table shows the summary of activities for the allowance for credit losses as of and for the years ended December 31, 2021, 2020, and 2019 by portfolio segment (in thousands):

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
Beginning balance, January 1, 2021	$ 2,019	$ 9,174	$ 1,091	$ 631	$ 12,915
Reversal charged to operations	(663)	(2,752)	(534)	(351)	(4,300)
Losses charged to allowance	(46)	-	(221)	-	(267)
Recoveries	701	319	232	-	1,252
Ending balance, December 31, 2021	$ 2,011	$ 6,741	$ 568	$ 280	$ 9,600
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

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following is a summary of the allowance for credit losses by impairment methodology and portfolio segment as of December 31, 2021 and December 31, 2020 (in thousands):

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
Ending balance, December 31, 2021	$ 2,011	$ 6,741	$ 568	$ 280	$ 9,600
Ending balance: individually evaluated for impairment	$ 607	$ 38	$ 4	$ -	$ 649
Ending balance: collectively evaluated for impairment	$ 1,404	$ 6,703	$ 564	$ 280	$ 8,951
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

The following table shows the ending balances of loans as of December 31, 2021 and December 31, 2020 by portfolio segment and by impairment methodology (in thousands):

	Commercial	Real Estate	Consumer	Total
Loans:				
Ending balance, December 31, 2021	$ 177,707	$ 767,914	$ 92,619	$ 1,038,240
Ending balance: individually evaluated for impairment	$ 7,086	$ 450	$ 1,050	$ 8,586
Ending balance: collectively evaluated for impairment	$ 170,621	$ 767,464	$ 91,569	$ 1,029,654
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

The following table shows the loan portfolio by class allocated by management's internal risk ratings at December 31, 2021 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial:					
Commercial and industrial	$ 125,537	$ 8,724	$ 2,586	$ -	$ 136,847
Agricultural production	37,179	1,325	2,356	-	40,860
Real Estate:					
Owner occupied	205,092	3,582	3,560	-	212,234
Real estate construction and other land loans	54,066	7,520	-	-	61,586
Commercial real estate	351,395	18,134	-	-	369,529
Agricultural real estate	96,949	1,532	-	-	98,481
Other real estate	26,084	-	-	-	26,084
Consumer:					
Equity loans and lines of credit	55,611	9	-	-	55,620
Consumer and installment	36,942	19	38	-	36,999
Total	$ 988,855	$ 40,845	$ 8,540	$ -	$ 1,038,240

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table shows the loan portfolio by class allocated by management's internally assigned risk grade 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 an aging analysis of the loan portfolio by class and the time past due at December 31, 2021 (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	$ 1	$ -	$ -	$ 1	$ 136,846	$ 136,847	$ -	$ 312
Agricultural production	-	-	-	-	40,860	40,860	-	634
Real estate:								
Owner occupied	-	-	-	-	212,234	212,234	-	-
Real estate construction and other land loans	-	-	-	-	61,586	61,586	-	-
Commercial real estate	-	-	-	-	369,529	369,529	-	-
Agricultural real estate	-	-	-	-	98,481	98,481	-	-
Other real estate	-	-	-	-	26,084	26,084	-	-
Consumer:								
Equity loans and lines of credit	-	-	-	-	55,620	55,620	-	-
Consumer and installment	79	-	-	79	36,920	36,999	-	-
Total	$ 80	$ -	$ -	$ 80	$ 1,038,160	$ 1,038,240	$ -	$ 946

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, 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

The following table shows information related to impaired loans by class at December 31, 2021 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Consumer:			
Equity loans and lines of credit	$ 136	$ 172	$ -
Total with no related allowance recorded	136	172	-
With an allowance recorded:			
Commercial:			
Commercial and industrial	6,452	6,491	544
Agricultural land and production	634	714	63
Total commercial	7,086	7,205	607
Real estate:			
Real estate construction and other land loans	292	292	30
Commercial real estate	137	138	3
Agricultural real estate	21	21	5
Total real estate	450	451	38
Consumer:			
Equity loans and lines of credit	914	914	4
Total consumer	914	914	4
Total with an allowance recorded	8,450	8,570	649
Total	$ 8,586	$ 8,742	$ 649

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, 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.

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, 2021, 2020, and 2019 (in thousands):

	Year Ended December 31, 2021		Year Ended December 31, 2020		Year Ended December 31, 2019	
	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	$ 43	$ -	$ 1,322	$ -	$ 214	$ -
Agricultural production	-	-	104	-	-	-
Total commercial	43	-	1,426	-	214	-
Real estate:						
Owner occupied	55	-	394	-	223	-
Real estate construction and other land loans	156	-	8	-	1,174	45
Commercial real estate	380	-	779	-	1,306	50
Agricultural real estate	-	-	146	-	25	-
Total real estate	591	-	1,327	-	2,728	95
Consumer:						
Equity loans and lines of credit	140	12	216	12	593	13
Total with no related allowance recorded	774	12	2,969	12	3,535	108
With an allowance recorded:						
Commercial:						
Commercial and industrial	6,327	365	6,139	582	57	1
Agricultural production	908	-	430	-	-	-
Total commercial	7,235	365	6,569	582	57	1
Real estate:						
Real estate construction and other land loans	673	21	586	-	-	-
Commercial real estate	142	9	206	11	325	12
Agricultural real estate	27	1	27	2	42	2
Total real estate	842	31	819	13	367	14
Consumer:						
Equity loans and lines of credit	925	54	1,001	55	1,139	56
Consumer and installment	14	-	64	-	20	-
Total consumer	939	54	1,065	55	1,159	56
Total with an allowance recorded	9,016	450	8,453	650	1,583	71
Total	$ 9,790	$ 462	$ 11,422	$ 662	$ 5,118	$ 179

Foregone interest on nonaccrual loans totaled $99,000, $177,000, and 85,000 for the years ended December 31, 2021, 2020, and 2019, 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, 2021 and 2020, the Company has a recorded investment in troubled debt restructurings ("TDR") of $7,640,000 and, $7,908,000, respectively. The Company has allocated $538,000 and $20,000 of specific reserves for those loans at December 31, 2021 and 2020, respectively. The Company has committed to lend no additional amounts as of December 31, 2021 to customers with outstanding loans that are classified as troubled debt restructurings.

For the years ended December 31, 2021, 2020, and 2019 the terms of certain loans were modified as TDRs. 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. In accordance with such guidance, during 2020 and throughout 2021 the Company offered short-term modifications in response to COVID-19 to borrowers who were current and otherwise not past due. As of December 31, 2021 there were no such loans remaining on deferral.

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents loans by class modified as TDRs that occurred during the year ended December 31, 2021 (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	$ 2,489	$ -	$ 2,489	$ 1,989
Real Estate:					
Real estate construction and other land loans	1	333	-	333	292
Total	2	$ 2,822	$ -	$ 2,822	$ 2,281

(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 TDRs 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 TDRs 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.

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, 2021, 2020, and 2019.

5. BANK PREMISES AND EQUIPMENT

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

	December 31,	
	2021	2020
Land	$ 1,131	$ 1,131
Buildings and improvements	8,219	6,948
Furniture, fixtures and equipment	11,721	12,473
Leasehold improvements	4,290	4,248
	25,361	24,800
Less accumulated depreciation and amortization	(16,981)	(16,572)
	$ 8,380	$ 8,228

Depreciation and amortization included in occupancy and equipment expense totaled $897,000, $881,000 and $1,742,000 for the years ended December 31, 2021, 2020, and 2019, 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, 2021 and 2020 was $53,777,000. Total goodwill at December 31, 2021 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 assessed qualitative factors including performance trends and noted no factors indicating goodwill impairment.

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. No such events or circumstances arose during the fourth quarter of 2021, so goodwill was not required to be retested.

The intangible assets at December 31, 2021 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, 2021, the weighted average remaining amortization period is a little over one year. The carrying value of intangible assets at December 31, 2021 was $522,000, net of $3,230,000 in accumulated amortization expense. The carrying value at December 31, 2020 was $1,183,000, net of $2,569,000 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, 2021 and determined no impairment was necessary. Amortization expense recognized was $661,000 for 2021, $695,000 for 2020, and $695,000 for 2019.

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
2022	$ 454
2023	68
Thereafter	-
Total	$ 522

7. DEPOSITS

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

	December 31,	
	2021	2020
Savings	$ 197,273	$ 156,190
Money market	511,448	341,088
NOW accounts	360,462	310,697
Time, $250,000 or more	20,131	19,790
Time, under $250,000	69,899	70,056
	$ 1,159,213	$ 897,821

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

Years Ending December 31,	
2022	$ 77,559
2023	7,777
2024	1,211
2025	638
2026	957
Thereafter	1,888
	$ 90,030

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

	Years Ended December 31,		
	2021	2020	2019
Savings	$ 20	$ 25	$ 28
Money market	661	542	656
NOW accounts	162	316	538
Time certificates of deposit	193	582	706
	$ 1,036	$ 1,465	$ 1,928

8. BORROWING ARRANGEMENTS

Federal Home Loan Bank Advances - As of December 31, 2021 and December 31, 2020 , the Company had no Federal Home Loan Bank (FHLB) of San Francisco advances. Approximately $481,355,000 in loans were pledged under a blanket lien as collateral to the FHLB for the Bank's remaining borrowing capacity of $277,130,000 as of December 31, 2021. FHLB advances are also secured by investment securities with amortized costs totaling $112,000 and $169,000 and

8. BORROWING ARRANGEMENTS (Continued)

market values totaling $117,000 and $178,000 at December 31, 2021 and 2020, 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 $110,000,000 at December 31, 2021 and 2020, respectively, at interest rates which vary with market conditions. As of December 31, 2021 and 2020, the Company had no Federal funds purchased.

Federal Reserve Line of Credit - The Bank has a line of credit in the amount of $9,961,000 and $13,323,000 with the Federal Reserve Bank of San Francisco (FRB) at December 31, 2021 and 2020, respectively, which bears interest at the prevailing discount rate collateralized by investment securities with amortized costs totaling $10,361,000 and $13,538,000 and market values totaling $10,241,000 and $13,703,000, respectively. At December 31, 2021 and 2020, 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, 2021 are as follows (in thousands):

Years Ending December 31,		
2022	$	1,978
2023		1,861
2024		1,528
2025		1,173
2026		1,010
Thereafter		977
Total lease payments		8,527
Less: imputed interest		(565)
Present value of operating lease liabilities	$	7,962

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

(Dollars in thousands)		December 31, 2021		December 31, 2020
Operating lease cost	$	2,088	$	2,243
Short-term lease cost		3		13
Variable lease cost		353		288
Total lease cost	$	2,444	$	2,544

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

	December 31, 2021	December 31, 2020
Weighted average remaining lease term, in years	5	6
Weighted average discount rate	2.67%	2.77%

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

(Dollars in thousands)		December 31, 2021		December 31, 2020
Operating lease right-of-use assets	$	7,308	$	8,195
Operating lease liabilities	$	7,962	$	8,881

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

10. INCOME TAXES

The provision for income taxes for the years ended December 31, 2021, 2020, and 2019 consisted of the following (in thousands):

		Federal		State		Total
2021						
Current	$	4,687	$	3,464	$	8,151
Deferred		1,002		463		1,465
Provision for income taxes	$	5,689	$	3,927	$	9,616
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

10. INCOME TAXES (Continued)

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

	December 31, 2021	December 31, 2020
Deferred tax assets:		
Allowance for credit losses	$ 2,838	$ 3,818
Deferred compensation	4,588	4,729
Net operating loss carryovers	2,048	2,148
Mark-to-market adjustment	74	21
Other deferred tax assets	101	303
Other-than-temporary impairment	192	192
Loan and investment impairment	530	851
Operating lease liabilities	2,354	2,625
Partnership income	111	105
State taxes	736	674
Total deferred tax assets	13,572	15,466
Deferred tax liabilities:		
Operating lease right-of-use assets	(2,160)	(2,423)
Finance leases	(749)	(275)
Unrealized gain on available-for-sale investment securities	(3,203)	(6,235)
Core deposit intangible	(154)	(350)
FHLB stock	(191)	(191)
Loan origination costs	(450)	(849)
Bank premises and equipment	(360)	(405)
Total deferred tax liabilities	(7,267)	(10,728)
Net deferred tax assets	$ 6,305	$ 4,738

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, 2021 and 2020.

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, 2021, 2020, and 2019 consisted of the following:

	2021	2020	2019
Federal income tax, at statutory rate	21.0%	21.0%	21.0%
State taxes, net of Federal tax benefit	8.2%	7.7%	8.3%
Tax exempt investment security income, net	(3.1)%	(1.5)%	(0.9)%
Bank owned life insurance, net	(0.5)%	(1.2)%	(0.4)%
Compensation—Stock Compensation	(0.1)%	(0.2)%	(0.2)%
Other	(0.2)%	(0.4)%	0.6%
Effective tax rate	25.3%	25.4%	28.4%

As of December 31, 2021, the Company had Federal and California net operating loss ("NOL") carry-forwards of $6,615,000 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 2030 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 and California 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, 2018 and by the state taxing authorities for the years ended before December 31, 2017.

As of December 31, 2021, 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, 2021 and 2020, the Company recorded no interest or penalties related to uncertain tax positions.

11. SUBORDINATED DEBENTURES

The following table summarized the Company's subordinated debentures:

(Dollars in thousands)	December 31, 2021	December 31, 2020
Fixed-floating rate subordinated debentures, due 2031	$ 35,000	$ -
Unamortized debt issuance costs	(701)	-
Junior subordinated deferrable interest debentures, due October 2036	5,155	5,155
Total subordinated debentures	$ 39,454	$ 5,155

Junior Subordinated 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, 2021, 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, 2021, the rate was 1.73%. Interest expense recognized by the Company for the years ended December 31, 2021, 2020, and 2019 was $266,000, $130,000 and $210,000, respectively.

Subordinated Debentures

On November 12, 2021, the Company completed a private placement of $35.0 million aggregate principal amount of its fixed-to-floating rate subordinated

11. SUBORDINATED DEBENTURES (Continued)

notes ("Subordinated Debt") due December 1, 2031. The Subordinated Debt initially bears a fixed interest rate of 3.125% per year. Commencing on December 1, 2026, the interest rate on the Subordinated Debt will reset each quarter at a floating interest rate equal to the then-current three month term SOFR plus 210 basis points. The Company may at its option redeem in whole or in part the Subordinated Debt on or after November 12, 2026 without a premium. The Subordinated Debt is treated as Tier 2 Capital for regulatory purposes.

12. COMMITMENTS AND CONTINGENCIES

Correspondent Banking Agreements - The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. Uninsured deposits totaled $14,964,000 at December 31, 2021.

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.

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

	December 31,	
	2021	2020
Commitments to extend credit	$ 325,674	$ 314,774
Standby letters of credit	$ 434	$ 11,405

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, 2021 and 2020. The Company recognizes these fees as revenue over the term of the commitment or when the commitment is used.

At December 31, 2021, commercial loan commitments represent 41% of total commitments and are generally secured by collateral other than real estate or unsecured. Real estate loan commitments represent 49% 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, 2021 and 2020, the balance of a contingent allocation for probable loan loss experience on unfunded obligations was $115,000 and $250,000, respectively. 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, 2021, in management's judgment, a concentration of loans existed in commercial loans and real-estate-related loans, representing approximately 96.4% of total loans of which 17.1% were commercial and 79.3% were real-estate-related.

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.

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.

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%; 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, 2021 and 2020. 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).

13. SHAREHOLDERS' EQUITY (Continued)

The following table presents the Company's and the Bank's actual capital ratios as of December 31, 2021 and December 31, 2020, as well as the minimum capital ratios for capital adequacy for the Bank.

(Dollars in thousands)	Actual Ratio	
December 31, 2021	Amount	Ratio
Tier 1 Leverage Ratio	$ 189,020	8.03%
Common Equity Tier 1 Ratio (CET 1)	$ 184,020	12.48%
Tier 1 Risk-Based Capital Ratio	$ 189,020	12.82%
Total Risk-Based Capital Ratio	$ 233,034	15.80%
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%

The following table presents the Bank's regulatory capital ratios as of December 31, 2021 and December 31, 2020.

(Dollars in thousands)	Actual Ratio		Minimum regulatory requirement (1)	
December 31, 2021	Amount	Ratio	Amount	Ratio
Tier 1 Leverage Ratio	$ 199,329	8.47%	$ 94,156	4.00%
Common Equity Tier 1 Ratio (CET 1)	$ 199,329	13.52%	$ 66,355	7.00%
Tier 1 Risk-Based Capital Ratio	$ 199,329	13.52%	$ 88,473	8.50%
Total Risk-Based Capital Ratio	$ 209,044	14.18%	$ 117,964	10.50%
December 31, 2020				
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%

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

Dividends - During 2021, the Bank declared and paid cash dividends to the Company in the amount of $7,679,000 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 $5,757,000 or $0.47 per common share cash dividend to shareholders of record during the year ended December 31, 2021. During the year ended December 31, 2021, the Company repurchased and retired common stock in the amount of $13,619,000.

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.

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, 2021, $28,756,000 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,		
	2021	2020	2019
Basic Earnings Per Common Share:			
Net income	$ 28,401	$ 20,347	$ 21,443
Weighted average shares outstanding	12,237,424	12,534,078	13,415,118
Net income per common share	$ 2.32	$ 1.62	$ 1.60
Diluted Earnings Per Common Share:			
Net income	$ 28,401	$ 20,347	$ 21,443
Weighted average shares outstanding	12,237,424	12,534,078	13,415,118
Effect of dilutive stock options and warrants	44,508	42,241	98,489
Weighted average shares of common stock and common stock equivalents	12,281,932	12,576,319	13,513,607
Net income per diluted common share	$ 2.31	$ 1.62	$ 1.59

No outstanding options and restricted stock awards were anti-dilutive at December 31, 2021, 2020, and 2019.

14. EQUITY-BASED COMPENSATION

On December 31, 2021, 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

14. EQUITY-BASED COMPENSATION (Continued)

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, 737,311 shares remain reserved for future grants as of December 31, 2021.

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 445,407 shares available for future purchase under the plan as of December 31, 2021.

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 21,120.

For the years ended December 31, 2021, 2020, and 2019, the compensation cost recognized for share-based compensation was $405,000, $470,000, and $555,000, respectively. The recognized tax benefit for share-based compensation expense was $50,000, $76,000, and $46,000 for 2021, 2020, and 2019 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, 2021, 2020 and 2019 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, 2019	154,440	$ 8.68		
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
Options exercised	(24,265)	$ 10.60		
Options outstanding at December 31, 2021	52,805	$ 9.81	0.57	$ 581
Options vested or expected to vest at December 31, 2021	52,805	$ 9.81	0.57	$ 581
Options exercisable at December 31, 2021	52,805	$ 9.81	0.57	$ 581

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

	2021	2020	2019
Intrinsic value of options exercised	$ 253	$ 433	$ 366
Cash received from options exercised	$ 257	$ 279	$ 276
Excess tax benefit realized for option exercises	$ 50	$ 76	$ 46

As of December 31, 2021, 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, 2019	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
Granted	31,496	$ 18.83
Vested	(37,085)	$ 15.12
Forfeited	(247)	$ 20.26
Nonvested outstanding shares at December 31, 2021	24,177	$ 20.50

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, 2021, there were 24,177 shares of restricted stock that are nonvested and expected to vest. Share-based compensation cost charged against income for restricted stock awards was $385,000, $449,000, and $533,000 for the year ended December 31, 2021, 2020, and 2019 respectively.

As of December 31, 2021, there was $273,000 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 1.55 years and will be adjusted for subsequent changes in estimated forfeitures. Restricted common stock awards had an intrinsic value of $3,065,000 at December 31, 2021.

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 $1,050,000, $370,000, and $750,000 to the profit sharing plan in 2021, 2020, and 2019, 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, 2021 and 2020, 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, 2021, 2020, and 2019, the Bank made matching contributions totaling $1,014,000, $1,008,000, and $959,000, 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 (1.56% at December 31, 2021). At December 31, 2021 and 2020, the total net deferrals included in accrued interest payable and other liabilities were $4,230,000 and $4,292,000, 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 $10,637,000 and $9,464,000 and at December 31, 2021 and 2020, respectively. Income recognized on these policies, net of related expenses, for the years ended December 31, 2021, 2020, and 2019, was $264,000, $245,000, and $250,000, 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 (1.56% at December 31, 2021). At December 31, 2021 and 2020, the total net deferrals included in accrued interest payable and other liabilities were $233,000 and $209,000, 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, 2021, 2020, and 2019, totaled $377,000, $1,624,000, and $1,465,000, respectively. Accrued compensation payable under the salary continuation plans totaled $10,881,000 and $11,389,000 at December 31, 2021 and 2020, 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 $28,916,000 and $19,249,000 at December 31, 2021 and 2020, respectively. Income recognized on these policies, net of related expense, for the years ended December 31, 2021, 2020, and 2019 totaled $576,000, $466,000, and $478,000, 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, 2021	$ 10,495
Disbursements	4,618
Amounts repaid	(1,803)
Balance, December 31, 2021	$ 13,310
Undisbursed commitments to related parties, December 31, 2021	$ 6,281

17. PARENT ONLY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS
December 31, 2021 and 2020
(In thousands)

	2021	2020
ASSETS		
Cash and cash equivalents	$ 24,060	$ 896
Investment in Bank subsidiary	263,310	249,037
Other assets	347	354
Total assets	$ 287,717	$ 250,287
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Subordinated debentures	$ 39,454	$ 5,155
Other liabilities	418	111
Total liabilities	39,872	5,266
Shareholders' equity:		
Common stock	66,820	79,416
Retained earnings	173,393	150,749
Accumulated other comprehensive income, net of tax	7,632	14,856
Total shareholders' equity	247,845	245,021
Total liabilities and shareholders' equity	$ 287,717	$ 250,287

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the Years Ended December 31, 2021, 2020, and 2019
(In thousands)

	2021	2020	2019
Income:			
Dividends declared by Subsidiary—eliminated in consolidation	$ 7,679	$ 15,622	$ 20,100
Other income	3	4	6
Total income	7,682	15,626	20,106
Expenses:			
Interest on subordinated debentures	266	130	210
Professional fees	296	283	209
Other expenses	560	555	437
Total expenses	1,122	968	856
Income before equity in undistributed net income of Subsidiary	6,560	14,658	19,250
Equity in undistributed net income of Subsidiary, net of distributions	21,496	5,328	1,932
Income before income tax benefit	28,056	19,986	21,182
Benefit from income taxes	345	361	261
Net income	$ 28,401	$ 20,347	$ 21,443
Comprehensive income	$ 21,177	$ 32,386	$ 28,667

17. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021, 2020, and 2019
(In thousands)

	2021	2020	2019
Cash flows from operating activities:			
Net income	$ 28,401	$ 20,347	$ 21,443
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed net income of subsidiary, net of distributions	(21,496)	(5,328)	(1,932)
Equity-based compensation	405	470	555
Net decrease (increase) in other assets	1	(208)	136
Net increase (decrease) in other liabilities	464	(31)	69
Benefit for deferred income taxes	6	75	10
Net cash provided by operating activities	7,781	15,325	20,281
Cash flows used in investing activities:			
Investment in subsidiary	-	-	-
Cash flows from financing activities:			
Proceeds from issuance of subordinated debt	34,299	-	-
Cash dividend payments on common stock	(5,757)	(5,530)	(5,805)
Purchase and retirement of common stock	(13,619)	(11,052)	(15,619)
Proceeds from exercise of stock options	256	279	276
Proceeds from stock issued under employee stock purchase plan	204	199	216
Net cash used in financing activities	15,383	(16,104)	(20,932)
Decrease in cash and cash equivalents	23,164	(779)	(651)
Cash and cash equivalents at beginning of year	896	1,675	2,326
Cash and cash equivalents at end of year	$ 24,060	$ 896	$ 1,675
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the year for interest	$ 119	$ 153	$ 215

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Central Valley Community Bancorp and Subsidiary (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2021, 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, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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.

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 matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter 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 matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses (ACL)—Qualitative Factors

As described in Notes 1—Summary of Significant Accounting Policies and 4—Loans and Allowance for Credit Losses to the consolidated financial statements, the ACL is a valuation allowance for probable incurred credit losses in the Company's loan portfolio. The ACL consists of two primary components, specific reserves related to impaired loans and general reserves for inherent losses related to loans that are not impaired. The determination of the general reserve consists a simple average of historical losses by portfolio segment and qualitative factors. The qualitative factors include consideration of economic trends in the Company's service areas, industry experience and trends, industry and 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.

We have identified auditing the qualitative factors used in the ACL as a critical audit matter as management's determination of the qualitative factors is subjective and involves significant management judgments; and our audit procedures involved a high degree of auditor judgment and required significant audit effort, including the need to involve more experienced audit personnel.

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

- Evaluation of the relevance and reliability of data inputs used as a basis for the adjustments relating to the qualitative factors.
- Evaluation of the reasonableness of management's judgments related to the assumptions used in the determination of the qualitative factors.
- Analytically evaluating the year-over-year change of the qualitative factors for directional consistency.
- Testing the mathematical accuracy of the ACL calculation, including the application of the qualitative factors.

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

Crowe LLP

Sacramento, California
March 9, 2022

Management's Discussion and Analysis
of Financial Condition and Results of Operations.

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 2021, we focused on asset quality and capital adequacy as well as 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, 2021, 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 2021, the economy, as evidenced by the California, Central Valley, and Greater Sacramento Region unemployment rates, and housing prices, were showing moderate and steady improvement.

During 2020 and to a lesser extent in 2021, our business has been, and continues to be, impacted by the ongoing outbreak of COVID-19. During 2021 and 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. 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.

We only conduct business in the state of California. California placed significant restrictions on businesses and individuals at the outset of the COVID-19 pandemic. While many of these initial restrictions have been lifted, there is still the possibility that certain restrictions could be re-imposed or extended to contain further spread if the rate of infection were to surge again in any of these states, including as a result of the Delta and Omicron variants that have recently caused an uptick in infections particularly among non-vaccinated individuals. As a financial institution, we are considered an essential business and we have therefore continued to operate on a modified basis throughout the pandemic to comply with governmental restrictions and public health authority guidelines.

We remain focused on keeping our employees safe and our bank running effectively to serve our customers and continue to monitor the continued spread of COVID-19 and its variants. Our branches have been reopened across our footprint.

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, 2021 was $2.31 compared to $1.62 and $1.59 for the years ended December 31, 2020 and 2019, respectively. Net income for 2021 was $28,401,000 compared to $20,347,000 and $21,443,000 for the years ended December 31, 2020 and 2019, respectively. The increase in net income for 2021 compared to 2020 was driven by a reversal of provision for credit losses, an increase in net interest income, and an increase in interchange fees, partially offset by an increase in the provision for income taxes, an increase in non-interest expense, a decrease in net realized gains on sales and calls of investment securities, a decrease in loan placement fees, and a decrease in service charge income. Total assets at December 31, 2021 were $2,450,139,000 compared to $2,004,096,000 at December 31, 2020.

Return on average equity ("ROE") for 2021 was 11.50% compared to 8.85% and 9.39% for 2020 and 2019, respectively. Return on average assets ("ROA") for 2021 was 1.25% compared to 1.11% and 1.36% for 2020 and 2019, respectively. Total equity was $247,845,000 at December 31, 2021 compared to $245,021,000 at December 31, 2020. The increase in shareholders' equity is the result of an increase in retained earnings from our net income of $28,401,000, the exercise of stock options in the amount of $256,000, the effect of share-based compensation expense of $405,000, and stock issued under our employee stock purchase plan of $204,000, partially offset by a decrease in accumulated other comprehensive income (AOCI) of

OVERVIEW (Continued)

$7,224,000, the payment of common stock cash dividends of $5,757,000 and the repurchase and retirement of common stock of $13,619,000.

Average total loans (including nonaccrual) increased $13,941,000 or 1.32% to $1,069,653,000 in 2021 compared to $1,055,712,000 in 2020. In 2021, we recorded a reversal of provision for credit losses of $4,300,000 compared to a provision of $3,275,000 in 2020 and a provision of $1,025,000 in 2019. The Company had nonperforming assets consisting of $946,000 in nonaccrual loans at December 31, 2021. At December 31, 2020, nonperforming assets totaled $3,278,000. Net loan loss recoveries for 2021 were $985,000 compared to net loan loss recoveries in the amount of $510,000 for 2020 and net loan loss charge-offs in the amount of $999,000 for 2019. Refer to "Asset Quality" below for further information.

Dividend Declared

The Company declared a $0.12 per common share cash dividend, payable on February 25, 2022 to shareholders of record on February 11, 2022.

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 11.50% for the year ended 2021 compared to 8.85% and 9.39% for the years ended 2020 and 2019, respectively.

Our net income for the year ended December 31, 2021 increased $8,054,000 compared to 2020 and decreased $1,096,000 in 2020 compared to 2019. Contributing to the increase during 2021 compared to 2020 was a reversal of provision for credit losses, an increase in net interest income, and an increase in interchange fees, partially offset by a decrease in net realized gains on sales and calls of investment securities, a decrease in service charge income, an increase in non-interest expense, a decrease in loan placement fees, and an increase in the provision for income taxes. During 2020, net income compared to 2019 was negatively impacted by an increase in the provision for credit losses and higher non-interest expenses. During 2019 net income was positively impacted by an increase in net interest income and an increase in net realized gains on sales and calls of investment securities.

Net interest income increased primarily because of increases in loan and fee income, increases in interest income on investments, and decreases in interest expense. For 2021, our net interest margin (NIM) decreased 33 basis points to 3.54% compared to 2020 as a result of yield changes and asset mix changes. The decrease in net interest margin in the period-to-period comparison resulted from the decrease in the effective yield on interest earning deposits in other banks and Federal Funds sold and the decrease in the effective yield on average investment securities, offset by the increase in the yield on the Company's loan portfolio. Net interest income during 2021 was positively impacted by from the accretion of the loan marks on acquired loans in the amount of $802,000 and $1,321,000 for the year ended December 31, 2021 and 2020, respectively. In addition, net interest income before the provision for credit losses for the year ended December 31, 2021 benefited by approximately $676,000 in nonrecurring income from prepayment penalties and payoff of loans, as compared to $805,000 for the year ended December 31, 2020. Excluding these reversals and benefits, net interest income for the year ended December 31, 2021 increased by $8,779,000 compared to the year ended December 31, 2020.

Non-interest income decreased 34.73% in 2021 compared to 2020 primarily due to a $3,751,000 decrease in net realized gains on sales and calls of investment securities, a decrease of $1,118,000 in other income, a decrease in loan placement fees of $317,000, and a decrease in service charge income of $170,000, partially offset by an increase in interchange fees of $437,000 and an increase in appreciation in cash surrender value of bank-owned life insurance of $129,000. Other income for the year ended December 31, 2020 included a $1,167,000 gain related to the collection of tax-exempt life insurance proceeds.

Non-interest expenses increased $158,000 or 0.33% to $47,842,000 in 2021 compared to $47,684,000 in 2020. The net increase year over year resulted from increases in data processing of $348,000, information technology of $477,000, regulatory assessments of $341,000, occupancy and equipment expenses of $256,000, personnel of $213,000, salaries and employee benefits of $117,000, loan related expenses of $75,000, donations of $45,000, education and training of $42,000 general insurance of $31,000, telephone of $31,000, alarm of $16,000, and postage of $11,000, partially offset by decreases in professional services of $733,000, Internet banking expenses of $330,000, directors' expenses of $193,000, advertising expenses of $136,000, stationary and supplies of $78,000, risk management expenses of $55,000, amortization of software of $41,000, amortization of core deposit intangible of $34,000, armored courier of $25,000, travel and mileage of $24,000, and operating losses of $5,000 in 2021 compared to 2020. The Company recorded an income tax provision of $9,616,000 for the year ended December 31, 2021, compared to $6,914,000 for the year ended December 31, 2020, and $8,509,000 for the year ended December 31, 2019. Basic EPS was $2.32 for 2021 compared to $1.62 and $1.60 for 2020 and 2019, respectively. Diluted EPS was $2.31 for 2021 compared to $1.62 and $1.59 for 2020 and 2019, 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 2021 was 1.25% compared to 1.11% and 1.36% for the years ended December 31, 2020 and 2019, respectively. The 2021 increase in ROA is primarily due to the increase in net income, notwithstanding the increase in average assets. Annualized ROA for our peer group was 0.93% at December 31, 2021. 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 3.54% for the year ended December 31, 2021, compared to 3.87% and 4.51% for the years ended December 31, 2020 and 2019, respectively. The decrease in 2021 net interest margin compared to 2020, 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, offset by the increase in the yield on the Company's loan portfolio. The effective tax equivalent yield on total earning assets decreased 36 basis points, while the cost of total interest-bearing liabilities decreased 7 basis points to 0.12% for the year ended December 31, 2021. Our cost of total deposits in 2021 and 2020 was 0.05% and 0.09%, respectively, compared to 0.15% for the same period in 2019. Our net interest income before provision for credit losses increased $8,131,000 or 12.62% to $72,554,000 for the year ended 2021 compared to $64,423,000 and $63,772,000 for the years ended 2020 and 2019, 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 2021 decreased $4,792,000 or 34.73% to $9,005,000 compared to $13,797,000 in 2020 and $13,305,000 in 2019. The decrease resulted primarily from a decrease in net realized gains on sales and calls of investment securities, a decrease in service charge income, a decrease in loan placement fees, a decrease in FHLB dividends, and a decrease in other income, partially offset by an increase in interchange fees and an increase in appreciation in cash surrender value of bank-owned life insurance compared to 2020. 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

OVERVIEW (Continued)

in terms of classified and nonperforming loans, and is a key element in estimating the future earnings of a company. Total nonperforming assets were $946,000 and $3,278,000 at December 31, 2021 and 2020, respectively. Nonperforming assets totaled 0.09% of gross loans as of December 31, 2021 and 0.30% of gross loans as of December 31, 2020. Nonperforming loans were $946,000 and $3,278,000 at December 31, 2021 and 2020, respectively. The Company had no other real estate owned at December 31, 2021, or December 31, 2020. No foreclosed assets were recorded at December 31, 2021 or December 31, 2020. 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 0.09% as of December 31, 2021 and 0.30% as of December 31, 2020. The allowance for credit losses as a percentage of outstanding loan balance was 0.92% as of December 31, 2021 and 1.17% as of December 31, 2020. The ratio of net recoveries (charge-offs) to average loans was 0.09% as of December 31, 2021 and 0.05% as of December 31, 2020.

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 22.26% during 2021 to $2,450,139,000 as of December 31, 2021 from $2,004,096,000 as of December 31, 2020. Total gross loans decreased 5.74% to $1,039,111,000 as of December 31, 2021, compared to $1,102,347,000 at December 31, 2020. Total investment securities increased 55.58% to $1,116,624,000 as of December 31, 2021 compared to $717,726,000 as of December 31, 2020. Total deposits increased 23.22% to $2,122,797,000 as of December 31, 2021 compared to $1,722,710,000 as of December 31, 2020. Our loan to deposit ratio at December 31, 2021 was 48.95% compared to 63.99% at December 31, 2020. The loan to deposit ratio of our peers was 71.00% at December 31, 2021. 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, 2021, we had a total capital to risk-weighted assets ratio of 15.80%, a Tier 1 risk-based capital ratio of 12.82%, common equity Tier 1 ratio of 12.48%, and a leverage ratio of 8.03%. 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, 2021, on a stand-alone basis, the Bank had a total risk-based capital ratio of 14.18%, a Tier 1 risk based capital ratio of 13.52%, common equity Tier 1 ratio of 13.52%, and a leverage ratio of 8.47%. At December 31, 2020, the Bank had a total risk-based capital ratio of 15.48%, Tier 1 risk-based capital of 14.41% and a leverage ratio of 9.23%. *Note 13* of the audited Consolidated Financial Statements provides more detailed information concerning the Company's capital amounts and ratios. As of December 31, 2021, 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, 2021.

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 57.16% for 2021 compared to 64.08% for 2020 and 62.77% for 2019. The improvement in the efficiency ratio in 2021 was due to the growth in non-interest income outpacing the increase in non-interest expense. The Company's net interest income before provision for credit losses plus non-interest income increased 4.27% to $81,559,000 in 2021 compared to $78,220,000 in 2020 and $77,077,000 in 2019, while operating expenses increased 0.33% in 2021, 3.44% in 2020, and 2.29% in 2019.

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 $277,130,000 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 $1,280,091,000 or 52.25% of total assets at December 31, 2021 and $788,004,000 or 39.32% of total assets as of December 31, 2020.

RESULTS OF OPERATIONS

NET INCOME

Net income was $28,401,000 in 2021 compared to $20,347,000 and $21,443,000 in 2020 and 2019, respectively. Basic earnings per share was $2.32, $1.62, and $1.60 for 2021, 2020, and 2019, respectively. Diluted earnings per share was $2.31, $1.62, and $1.59 for 2021, 2020, and 2019, respectively. ROE was 11.50% for 2021 compared to 8.85% for 2020 and 9.39% for 2019. ROA for 2021 was 1.25% compared to 1.11% for 2020 and 1.36% for 2019.

The increase in net income for 2021 compared to 2020 was driven by a reversal of provision for credit losses, an increase in net interest income, and an increase in interchange fees, partially offset by an increase in the provision for income taxes, an increase in non-interest expense, a decrease in net realized gains on sales and calls of investment securities, a decrease in loan placement fees, and a decrease in service charge income. 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.

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, 2021			Year Ended December 31, 2020			Year Ended December 31, 2019		
	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	$ 104,710	$ 129	0.12%	$ 76,924	$ 246	0.32%	$ 17,893	$ 375	2.10%
Securities									
Taxable securities	678,093	14,044	2.07%	479,894	11,740	2.45%	438,042	13,197	3.01%
Non-taxable securities (1)	238,870	7,096	2.97%	66,299	2,489	3.75%	38,520	1,639	4.25%
Total investment securities	916,963	21,140	2.31%	546,193	14,229	2.61%	476,562	14,836	3.11%
Total securities and interest-earning deposits	1,021,673	21,269	2.08%	623,117	14,475	2.32%	494,455	15,211	3.08%
Loans (2) (3)	1,067,316	54,077	5.07%	1,053,450	52,066	4.94%	928,560	51,464	5.54%
Total interest-earning assets	2,088,989	$ 75,346	3.61%	1,676,567	$ 66,541	3.97%	1,423,015	$ 66,675	4.69%
Allowance for credit losses	(11,482)			(12,242)			(9,337)		
Nonaccrual loans	2,337			2,262			2,323		
Cash and due from banks	38,202			27,575			25,726		
Bank premises and equipment	8,436			7,476			7,983		
Other assets	141,133			131,349			124,379		
Total average assets	$ 2,267,615			$ 1,832,987			$ 1,574,089		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
Savings and NOW accounts	$ 529,043	$ 182	0.03%	$ 433,742	$ 341	0.08%	$ 370,378	$ 566	0.15%
Money market accounts	455,575	661	0.15%	300,603	542	0.18%	270,918	656	0.24%
Time certificates of deposit	89,875	193	0.21%	89,610	582	0.65%	97,136	706	0.73%
Total interest-bearing deposits	1,074,493	1,036	0.10%	823,955	1,465	0.18%	738,432	1,928	0.26%
Other borrowed funds	9,864	266	2.70%	5,155	130	2.52%	21,943	631	2.88%
Total interest-bearing liabilities	1,084,357	$ 1,302	0.12%	829,110	$ 1,595	0.19%	760,375	$ 2,559	0.34%
Non-interest bearing demand deposits	900,083			744,239			557,348		
Other liabilities	36,311			29,831			28,014		
Shareholders' equity	246,864			229,807			228,352		
Total average liabilities and shareholders' equity	$ 2,267,615			$ 1,832,987			$ 1,574,089		
Interest income and rate earned on average earning assets		$ 75,346	3.61%		$ 66,541	3.97%		$ 66,675	4.69%
Interest expense and interest cost related to average interest-bearing liabilities		1,302	0.12%		1,595	0.19%		2,559	0.34%
Net interest income and net interest margin (4)		$ 74,044	3.54%		$ 64,946	3.87%		$ 64,116	4.51%

(1) Interest income is calculated on a fully tax equivalent basis, which includes Federal tax benefits relating to income earned on municipal bonds totaling $1,490, $523, and $344 in 2021, 2020, and 2019, respectively.
(2) Loan interest income includes loan fees of $6,474 in 2021, $2,234 in 2020, and $164 in 2019.
(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, 2021 Compared to 2020 Volume	Rate	Net	For the Years Ended December 31, 2020 Compared to 2019 Volume	Rate	Net
Increase (decrease) due to changes in:						
Interest income:						
Interest-earning deposits in other banks	$ 88	$ (205)	$ (117)	$ 1,237	$ (1,366)	$ (129)
Investment securities:						
Taxable	4,848	(2,544)	2,304	1,260	(2,717)	(1,457)
Non-taxable (1)	6,478	(1,871)	4,607	1,181	(331)	850
Total investment securities	11,326	(4,415)	6,911	2,441	(3,048)	(607)
Loans	685	1,326	2,011	6,921	(6,319)	602
Total earning assets (1)	12,099	(3,294)	8,805	10,599	(10,733)	(134)
Interest expense:						
Deposits:						
Savings, NOW and MMA	353	(393)	(40)	167	(506)	(339)
Time certificate of deposits	1	(390)	(389)	(54)	(70)	(124)
Total interest-bearing deposits	354	(783)	(429)	113	(576)	(463)
Other borrowed funds	119	17	136	(483)	(18)	(501)
Total interest bearing liabilities	473	(766)	(293)	(370)	(594)	(964)
Net interest income (1)	$ 11,626	$ (2,528)	$ 9,098	$ 10,969	$(10,139)	$ 830

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

Interest and fee income from loans increased $2,011,000 or 3.86% in 2021 compared to 2020. Interest and fee income from loans increased $602,000 or 1.17% in 2020 compared to 2019. The increase in 2021 is primarily attributable to an increase in average total loans outstanding as well as an increase in the yield on loans of 13 basis points.

Average total loans for 2021 increased $13,941,000 to $1,069,653,000 compared to $1,055,712,000 for 2020 and $930,883,000 for 2019. The yield on loans for 2021 was 5.07% compared to 4.94% and 5.54% for 2020 and 2019, respectively. The impact to interest income from the accretion of the loan marks on acquired loans was an increase of $802,000 and $1,321,000 for the years ended December 31, 2021 and 2020, 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), increased $5,827,000 or 41.76% in 2021 compared to 2020. The yield on average investments decreased 24 basis points to 2.08% for the year ended December 31, 2021 from 2.32% for the year ended December 31, 2020. Average total investments increased $398,556,000 to $1,021,673,000 in 2021 compared to $623,117,000 in 2020. In 2020, total investment income on a non tax-equivalent basis decreased $915,000 or 6.15% compared to 2019.

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, 2021, we held $527,659,000 or 47.57% of the total market value of the investment portfolio in MBS and CMOs with an average yield of 2.08%. 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. However, in the current economic environment, prepayments may not behave according to historical norms. 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, 2021 was an unrealized gain of $7,632,000 and is reflected in the Company's equity. At December 31, 2021, the effective duration of the investment portfolio was 4.86 years and the market value reflected a pre-tax unrealized gain of $10,835,000. 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, 2021, 2020, and 2019, 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, 2021, an immediate rate increase of 200 basis points would result in an estimated decrease in the market value of the investment portfolio by approximately $117,000,000. Conversely, with an immediate rate decrease of 200 basis points, the estimated increase in the market value of the investment portfolio would be $123,000,000. 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 2021 increased $7,838,000 to $73,856,000 compared to $66,018,000 in 2020 and $66,331,000 in 2019, respectively. The increase in 2021 was the result of yield changes and asset mix changes. The tax-equivalent yield on interest earning assets decreased to 3.61% for the year ended December 31, 2021 from 3.97% for the year ended December 31, 2020. Average interest earning assets increased to $2,088,989,000 for the year ended December 31, 2021 compared to $1,676,567,000 for the year ended December 31, 2020. Average interest-earning deposits in other banks increased $27,786,000 in 2021 compared to 2020. Average yield on these deposits was 0.12% compared to 0.32% on December 31, 2021 and December 31, 2020 respectively. Average investments and interest-earning deposits increased $398,556,000 but the tax equivalent yield on those assets decreased 24 basis points. Average total loans increased $13,941,000 and the yield on average loans increased 13 basis points.

INTEREST INCOME AND EXPENSE (Continued)

The decrease in total interest income for 2020 was the result of yield changes, decrease in interest rates, and asset mix changes. The tax-equivalent yield on interest-earning assets increased 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 total loans increased and the yield on average loans decreased 60 basis points.

Interest expense on deposits in 2021 decreased $429,000 or 29.28% to $1,036,000 compared to $1,465,000 in 2020 and decreased $892,000 as compared to 2019. The yield on interest-bearing deposits decreased 8 basis points to 0.10% in 2021 from 0.18% in 2020. The yield on interest-bearing deposits decreased 8 basis points to 0.18% in 2020 from 0.26% in 2019. Average interest-bearing deposits were $1,074,493,000 for 2021 compared to $823,955,000 and $738,432,000 for 2020 and 2019, respectively.

Average other borrowings were $9,864,000 with an effective rate of 2.70% for 2021 compared to $5,155,000 with an effective rate of 2.52% for 2020. In 2019, the average other borrowings were $21,943,000 with an effective rate of 2.88%. Included in other borrowings are the junior subordinated deferrable interest debentures acquired from Service 1st, subordinated debt, advances on lines of credit, advances from the Federal Home Loan Bank (FHLB), and overnight borrowings. The junior subordinated debentures carry a floating rate based on the three month LIBOR plus a margin of 1.60%. The rate was 1.73% for 2021, 1.84% for 2020, and 3.59% for 2019. The subordinated debt, issued in 2021, bears a fixed interest rate of 3.125% per year.

The cost of all interest-bearing liabilities was 0.12% and 0.19% basis points for 2021 and 2020, respectively, compared to 0.34% for 2019. The cost of total deposits decreased to 0.05% for the year ended December 31, 2021, compared to 0.09% and 0.15% for the years ended December 31, 2020 and 2019, respectively. Average demand deposits increased 20.94% to $900,083,000 in 2021 compared to $744,239,000 for 2020 and $557,348,000 for 2019. The ratio of average non-interest demand deposits to average total deposits increased to 45.58% for 2021 compared to 47.46% and 43.01% for 2020 and 2019, respectively.

NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES

Net interest income before provision for credit losses for 2021 increased $8,131,000 or 12.62% to $72,554,000 compared to $64,423,000 for 2020 and $63,772,000 for 2019. The increase in 2021 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 33 basis points. Yield on interest earning assets decreased 36 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, offset by the increase in the yield on the Company's loan portfolio. Net interest income before provision for credit losses increased $651,000 in 2020 compared to 2019, primarily due to the increase in average earning assets, yield changes, asset mix changes, offset by an increase in average interest bearing liabilities. Average interest-earning assets were $2,088,989,000 for the year ended December 31, 2021 with a NIM of 3.54% compared to $1,676,567,000 with a NIM of 3.87% in 2020, and $1,423,015,000 with a NIM of 4.51% in 2019. For a discussion of the repricing of our assets and liabilities, refer to Quantitative and Qualitative Disclosure about Market Risk.

PROVISION FOR CREDIT LOSSES

We provide for probable incurred credit losses through a charge to operating income based upon the composition of the loan portfolio, delinquency levels, historical losses, and nonperforming assets, economic and environmental conditions and other factors which, in management's judgment, deserve recognition in estimating credit losses. Credit risk is inherent in the business of making loans. 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. Loans are charged off when they are considered uncollectible or when continuance as an active earning bank asset is not warranted.

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/Compliance 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, 2021, the Company recorded a reversal of provision for credit losses of $4,300,000 compared to a provision of $3,275,000 and $1,025,000 for the same periods in 2020 and 2019, 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, 2021, 2020 and 2019 the Company had net charge-offs (recoveries) totaling $(985,000), $(510,000), and $999,000, respectively. The net charge-off (recovery) ratio, which reflects net charge-offs (recoveries) to average loans, was (0.09)%, (0.05)% and 0.11% for 2021, 2020, and 2019, 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 operations 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 for 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, 2021, there were $8.5 million in classified loans of which $2.6 million related to commercial and industrial loans, $3.6 million to real estate owner occupied, and $2.4 million to agricultural production. This compares to $36.1 million in classified loans as of December 31, 2020 of which $1.2 million related to agricultural real estate, $3.2 million to real estate construction, $10.4 million to commercial and industrial, $3.3 million to agricultural production, $9.6 million to commercial real estate, and $7.3 million to real estate owner occupied.

PROVISION FOR CREDIT LOSSES (Continued)

As of December 31, 2021, 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 $76,854,000 for 2021 compared to $61,148,000 and $62,747,000 for 2020 and 2019, 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 $9,005,000 in 2021 compared to $13,797,000 and $13,305,000 in 2020 and 2019, respectively. The $4,792,000 or 34.73% decrease in non-interest income in 2021 was driven by a decrease of $3,751,000 in net realized gains on sales and calls of investment securities, a decrease of $1,118,000 in other income, a decrease in service charge income of $170,000, and a decrease in loan placement fees of $317,000, partially offset by an increase in interchange fees of $437,000 and an increase in appreciation in cash surrender value of bank-owned life insurance of $129,000. Other income for the year ended December 31, 2020 included a $1,167,000 gain related to the collection of tax-exempt life insurance proceeds. The 492,000 or 3.70% increase in non-interest income in 2020 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.

Customer service charges decreased $170,000 to $1,901,000 in 2021 compared to $2,071,000 in 2020 and $2,756,000 in 2019. The decreases in 2021 and 2020 resulted from decreases in our NSF fees and lower analysis service charge income.

During the year ended December 31, 2021, we realized net gains on sales and calls of investment securities of $501,000, compared to $4,252,000 in 2020 and $5,199,000 in 2019. The net gains in 2021, 2020, and 2019 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 $840,000 in 2021 compared to $711,000 and $728,000 in 2020 and 2019, 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 $1,784,000 in 2021 compared to $1,347,000 and $1,446,000 in 2020 and 2019, 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 decreased $317,000 in 2021 to $1,974,000 compared to $2,291,000 in 2020 and $978,000 in 2019.

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, 2021 and 2020, we held FHLB stock totaling $5,595,000. Dividends in 2021 decreased to $321,000 compared to $323,000 in 2020 and $455,000 in 2019.

Other income decreased to $1,684,000 in 2021 compared to $2,802,000 and $1,743,000 in 2020 and 2019, respectively. Other income for the year ended December 31, 2020 included a $1,167,000 gain related to the collection of tax-exempt life insurance proceeds.

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 $158,000 or 0.33% to $47,842,000 in 2021 compared to $47,684,000 in 2020, and $46,100,000 in 2019.

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 57.16% for 2021 compared to 64.08% for 2020 and 62.77% for 2019. The improvement in the efficiency ratio in 2021 and 2020 was due to the growth in non-interest income outpacing the increase in non-interest expense.

Salaries and employee benefits increased $117,000 or 0.41% to $28,720,000 in 2021 compared to $28,603,000 in 2020 and $26,654,000 in 2019. Full time equivalents were 256 for the year ended December 31, 2021 compared to 273 for the year ended December 31, 2020. The increase in salaries and employee benefits in 2021 compared to 2020 was the result of an increase of approximately $535,000 in salaries and benefits and lower loan origination costs of approximately $878,000, offset by a decrease of $1,296,000 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.

For the years ended December 31, 2021, 2020, and 2019, the compensation cost recognized for equity-based compensation was $405,000, $470,000 and $555,000, respectively. As of December 31, 2021, there was $273,000 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 1.55 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, 2021 and 2020. Restricted common stock awards of 31,496 and 21,397 shares were awarded in 2021 and 2020, respectively.

Occupancy and equipment expense increased $256,000 or 5.53% to $4,882,000 in 2021 compared to $4,626,000 in 2020 and $5,439,000 in 2019. The Company made no changes in its depreciation expense methodology. The Company operated 20 full-service offices at December 31, 2021 and at December 31, 2020.

Regulatory assessments were $831,000 in 2021 compared to $490,000 and $251,000 in 2020 and 2019, 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 increased $477,000 to $2,868,000 for the year ended December 31, 2021 compared to $2,391,000 and $2,611,000 in 2020 and 2019, respectively. Data processing expenses were $2,394,000 in 2021 compared to $2,046,000 in 2020 and $1,557,000 in 2019. Professional services decreased $733,000 in 2021 compared to 2020 due to lower legal expenses and consulting fees.

Amortization of core deposit intangibles was $661,000 for 2021, $695,000 for 2020, and $695,000 for 2019. During 2021, amortization expense related to FLB core deposit intangibles ("CDI") was $423,000, amortization expense related to SVB CDI was $101,000, and amortization expense related to Visalia Community Bank ("VCB") CDI was $137,000. During 2020, 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 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.

ATM/Debit card expenses decreased $1,000 to $818,000 for the year ended December 31, 2021 compared to $819,000 in 2020 and $920,000 in 2019. Other non-interest expenses decreased $46,000 or 1.25% to $3,734,000 in 2021 compared to $3,688,000 in 2020 and $4,386,000 in 2019.

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

NON-INTEREST EXPENSES (Continued)

	For the years ended December 31,					
	Other Expense 2021	% Average Assets	Other Expense 2020	% Average Assets	Other Expense 2019	% Average Assets
	(Dollars in thousands)					
Stationery/supplies	$ 150	0.01%	$ 228	0.01%	$ 240	0.02%
Amortization of software	82	-%	123	0.01%	350	0.02%
Telephone	224	0.01%	193	0.01%	342	0.02%
Alarm	131	0.01%	115	0.01%	100	0.01%
Postage	202	0.01%	191	0.01%	218	0.01%
Armored courier fees	255	0.01%	280	0.02%	284	0.02%
Risk management expense	94	-%	149	0.01%	232	0.01%
Donations	197	0.01%	152	0.01%	212	0.01%
Personnel other	374	0.02%	161	0.01%	177	0.01%
Credit card expense	-	-%	-	-%	114	0.01%
Education/training	198	0.01%	156	0.01%	155	0.01%
Loan related expenses	133	0.01%	58	-%	52	-%
General insurance	202	0.01%	171	0.01%	165	0.01%
Travel and mileage expense	103	-%	127	0.01%	256	0.02%
Operating losses	147	0.01%	142	0.01%	102	0.01%
Shareholder services	107	-%	109	0.01%	101	0.01%
Other	1,135	0.05%	1,333	0.08%	1,286	0.08%
Total other non-interest expense	$ 3,734	0.16%	$ 3,688	0.22%	$ 4,386	0.28%

PROVISION FOR INCOME TAXES

Our effective income tax rate was 25.3% for 2021 compared to 25.4% for 2020 and 28.4% for 2019. The Company reported an income tax provision of $9,616,000, $6,914,000, and $8,509,000 for the years ended December 31, 2021, 2020, and 2019, respectively.

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 $6.31 million and $4.74 million at December 31, 2021 and 2020, 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, 2021 and 2020 will be fully realized in future years.

FINANCIAL CONDITION

SUMMARY OF CHANGES IN CONSOLIDATED BALANCE SHEETS

Total assets were $2,450,139,000 as of December 31, 2021, compared to $2,004,096,000 as of December 31, 2020, an increase of 22.26% or $446,043,000. Total gross loans were $1,039,111,000 as of December 31, 2021, compared to $1,102,347,000 as of December 31, 2020, a decrease of $63,236,000 or 5.74%. The total investment portfolio (including Federal funds sold and interest-earning deposits in other banks) increased 65.91% or $496,850,000 to $1,250,679,000. Total deposits increased 23.22% or $400,087,000 to $2,122,797,000 as of December 31, 2021, compared to $1,722,710,000 as of December 31, 2020. Shareholders' equity increased $2,824,000 or 1.15% to $247,845,000 as of December 31, 2021, compared to $245,021,000 as of December 31, 2020. The increase in shareholders' equity was driven by the retention of earnings, net of dividends paid, the decrease in net unrealized gains on available-for-sale (AFS) securities recorded, net of estimated taxes, in accumulated other comprehensive income (AOCI), and share repurchases. Accrued interest payable and other liabilities were $40,043,000 as of December 31, 2021, compared to $31,210,000 as of December 31, 2020, an increase of $8,833,000.

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,		
	2021	2020	2019
Treasuries	$ 9,988	$ -	$ -
U.S. Government agencies	373	651	14,740
Obligations of states and political subdivisions	512,952	361,734	89,574
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	213,471	214,203	198,125
Private label mortgage and asset backed securities	317,089	82,413	155,308
Corporate debt securities	44,500	30,000	9,000
Total Available-for-Sale Securities	$ 1,098,373	$ 689,001	$ 466,747

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, 2021, investment securities with a fair value of $260,325,000, or 23.47% 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 policies are established by the

INVESTMENTS (Continued)

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, 2021 was 48.95% compared to 63.99% at December 31, 2020. The loan to deposit ratio of our peers was 71.00% at December 31, 2021. 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 65.91% or $496,850,000 to $1,250,679,000 at December 31, 2021, from $753,829,000 at December 31, 2020. The market value of the portfolio reflected an unrealized gain of $10,835,000 at December 31, 2021, compared to an unrealized gain of $21,091,000 at December 31, 2020.

Losses recognized in 2021, 2020, and 2019 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.

The Company periodically evaluates 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, 2021, 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). The Company evaluated all individual available-for-sale investment securities with an unrealized loss at December 31, 2021 and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at December 31, 2021 greater than 10% of the recorded book value on that date, or which had an unrealized loss of more than $75,000. The Company 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, 2021, 2020, or 2019.

The amortized cost, maturities and weighted average yield of investment securities at December 31, 2021 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. Treasury securities	$ -	-	$ -	-	$ 9,988	1.25%	$ -	-	$ 9,988	1.25%
U.S. Government agencies	-	-	-	-	-	-	373	4.25%	373	4.25%
Obligations of states and political subdivisions (2)	-	-	3,690	-	89,627	2.72%	419,635	3.79%	512,952	3.57%
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	5	4.80%	16	5.99%	6,056	1.44%	207,394	2.32%	213,471	2.26%
Private label residential mortgage and asset backed securities	47	4.75%	41,890	3.70%	28,155	1.31%	246,997	2.34%	317,089	2.43%
Corporate debt securities	-	-	-	-	44,500	4.44%	-	-	44,500	4.44%
	$ 52	4.85%	$ 45,596	3.40%	$ 178,326	2.81%	$ 874,399	3.03%	$1,098,373	3.01%

(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 decreased $63,236,000 or 5.74% to $1,039,111,000 as of December 31, 2021, compared to $1,102,347,000 as of December 31, 2020.

The following table sets forth information concerning the composition of our loan portfolio as of December 31, 2021, 2020, 2019, 2018, and 2017.

Loan Type (Dollars in thousands)	2021 Amount	2021 % of Total Loans	2020 Amount	2020 % of Total Loans	2019 Amount	2019 % of Total Loans	2018 Amount	2018 % of Total Loans	2017 Amount	2017 % of Total Loans
Commercial:										
Commercial and industrial	$ 136,847	13.2%	$ 273,994	24.9%	$ 102,541	10.9%	$ 101,533	11.1%	$ 100,856	11.2%
Agricultural production	40,860	3.9%	21,971	2.0%	23,159	2.6%	7,998	0.9%	14,956	1.7%
Total commercial	177,707	17.1%	295,965	26.9%	125,700	13.5%	109,531	12.0%	115,812	12.9%
Real estate:										
Owner occupied	212,234	20.4%	208,843	18.9%	197,946	21.0%	183,169	19.9%	204,452	22.7%
Real estate-construction and other land loans	61,586	5.9%	55,419	5.0%	73,718	7.8%	101,606	11.1%	96,460	10.7%
Commercial real estate	369,529	35.6%	338,886	30.7%	329,333	34.9%	305,118	33.2%	269,254	29.9%
Agricultural real estate	98,481	9.5%	84,258	7.6%	76,304	8.1%	76,884	8.4%	76,081	8.4%
Other real estate	26,084	2.5%	28,718	2.6%	31,241	3.3%	32,799	3.6%	31,220	3.5%
Total real estate	767,914	73.9%	716,124	64.8%	708,542	75.1%	699,576	76.2%	677,467	75.2%
Consumer:										
Equity loans and lines of credit	55,620	5.4%	55,634	5.0%	64,841	6.9%	69,958	7.6%	76,404	8.5%
Consumer and installment	36,999	3.6%	37,236	3.3%	42,782	4.5%	38,038	4.2%	29,637	3.4%
Total consumer	92,619	9.0%	92,870	8.3%	107,623	11.4%	107,996	11.8%	106,041	11.9%
Deferred loan (fees) costs, net	871		(2,612)		1,515		1,592		1,359	
Total gross loans (1)	1,039,111	100.0%	1,102,347	100.0%	943,380	100.0%	918,695	100.0%	900,679	100.0%
Allowance for credit losses	(9,600)		(12,915)		(9,130)		(9,104)		(8,778)	
Total loans (1)	$ 1,029,511		$ 1,089,432		$ 934,250		$ 909,591		$ 891,901	
(1) Includes nonaccrual loans of:	$ 946		$ 3,278		$ 1,693		$ 2,740		$ 2,875	

At December 31, 2021, loans acquired in the FLB, SVB and VCB acquisitions had a balance of $93,201,000, of which $2,111,000 were commercial loans, $83,128,000 were real estate loans, and $7,962,000 were consumer loans, and at December 31, 2020, the acquired loans 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.

At December 31, 2021, in management's judgment, a concentration of loans existed in commercial loans and real-estate-related loans, representing approximately 96.4% of total loans of which 17.1% were commercial and 79.3% were real-estate-related. This level of concentration is consistent with 96.7% at December 31, 2020. 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, 2021 and 2020.

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 in 2020 was the issuance of PPP loans. As of December 31, 2021, gross loans included $18,553,000 in PPP loans which are fully guaranteed by the SBA as compared to $192,916,000.00 as of December 31, 2020.

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, 2021.

(In thousands) (net of deferred costs)	One Year or Less	After One Through Five Years	After Five Years	Total
Loan Maturities:				
Commercial and agricultural	$ 87,847	$ 63,086	$ 26,774	$ 177,707
Real estate construction and other land loans	52,139	5,436	4,011	61,586
Other real estate	45,556	160,129	500,643	706,328
Consumer and installment	5,983	13,967	72,669	92,619
	$ 191,525	$ 242,618	$ 604,097	$ 1,038,240
Sensitivity to Changes in Interest Rates:				
Loans with fixed interest rates	$ 67,138	$ 149,904	$ 137,841	$ 354,883
Loans with floating interest rates (1)	124,387	92,432	466,538	683,357
	$ 191,525	$ 242,336	$ 604,379	$ 1,038,240
(1) Includes floating rate loans which are currently at their floor rate in accordance with their respective loan agreement	$ 62,044	$ 78,461	$ 406,836	$ 547,341

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, 2021, total nonperforming assets totaled $946,000, or 0.04% of total assets, compared to $3,278,000, or 0.16% of total assets at December 31, 2020. Nonperforming assets totaled 0.09% of gross loans as of December 31, 2021 and 0.30% of gross loans as of December 31, 2020. Total nonperforming assets at December 31, 2021, included nonaccrual loans totaling $946,000, no OREO, and no repossessed assets. Nonperforming assets at December 31, 2020 consisted of $3,278,000 in nonaccrual loans, no OREO, and no repossessed assets. At December 31, 2021 and December 31, 2020, we had no loans considered a troubled debt restructuring ("TDR") included in nonaccrual loans. 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, 2021, 2020, 2019, 2018, and 2017 is set forth below. The Company had no loans past due more than 90 days and still accruing interest at December 31, 2021 and 2020. Management is not aware of any potential problem loans, which were current and accruing at December 31, 2021, 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)	2021	2020	2019	2018	2017
Nonaccrual Loans:					
Commercial and industrial	$ 312	$ 752	$ 187	$ 298	$ 356
Agricultural production	634	-	-	-	-
Owner occupied real estate	-	370	416	215	-
Real estate construction and other land loans	-	1,556	-	1,439	1,397
Agricultural real estate	-	-	321	-	-
Commercial real estate	-	512	381	418	976
Equity loans and line of credit	-	-	66	320	87
Consumer and installment	-	88	-	-	-
Restructured loans (non-accruing):					
Equity loans and line of credit	-	-	322	50	59
Total nonaccrual	946	3,278	1,693	2,740	2,875
Accruing loans past due 90 days or more	-	-	-	-	-
Total nonperforming loans	$ 946	$ 3,278	$ 1,693	$ 2,740	$ 2,875
Interest foregone	$ 99	$ 177	$ 85	$ 267	$ 210
Nonperforming loans to total loans	0.09%	0.30%	0.18%	0.30%	0.32%
Accruing loans past due 90 days or more	$ -	$ -	$ -	$ -	$ -
Accruing troubled debt restructurings	$ 7,640	$ 7,908	$ 2,040	$ 3,170	$ 3,491
Ratio of nonperforming loans to allowance for credit losses	9.85%	25.38%	18.54%	30.10%	32.75%
Loans considered to be impaired	$ 8,586	$ 11,186	$ 3,734	$ 5,909	$ 6,366
Related allowance for credit losses on impaired loans	$ 649	$ 631	$ 40	$ 90	$ 36

As of December 31, 2021 and 2020, we had impaired loans totaling $8,586,000 and $11,186,000, 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 $99,000 for the year ended December 31, 2021 of which none was attributable to troubled debt restructurings. 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.

NONPERFORMING ASSETS (Continued)

The following table provides a reconciliation of the change in non-accrual loans for the year ended December 31, 2021.

(In thousands)	Balances December 31, 2020	Additions to Nonaccrual Loans	Net Pay Downs	Transfer to Foreclosed Collateral	Returns to Accrual Status	Charge-Offs	Balances December 31, 2021
Non-accrual loans:							
Commercial and industrial	$ 752	$ -	$ (385)	$ -	$ (55)	$ -	$ 312
Agricultural real estate	-	2,141	(1,507)	-	-	-	634
Real estate	882	17	(249)	-	(650)	-	-
Real estate construction and other land loans	1,556	-	(1,531)	-	(25)	-	-
Consumer	88	-	(2)	-	(86)	-	-
Total non-accrual	$ 3,278	$ 2,158	$ (3,674)	$ -	$ (816)	$ -	$ 946

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, 2021, 2020, and 2019, the Bank had no OREO properties. The Company held no repossessed assets at December 31, 2021, 2020, and 2019, 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 52 quarters, and qualitative and quantitative factors including economic trends in the Company's service areas, industry experience and trends, industry and 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 52 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: (i) losses accrued for on loans when they are probable of occurring and can be reasonably estimated and (ii) 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 asset 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)	2021	2020	2019	2018	2017
Loans outstanding at December 31,	$ 1,038,240	$ 1,104,959	$ 941,865	$ 917,103	$ 899,320
Average loans outstanding during the year	$ 1,069,653	$ 1,055,712	$ 930,883	$ 912,128	$ 793,343
Allowance for credit losses:					
Balance at beginning of year	$ 12,915	$ 9,130	$ 9,104	$ 8,778	$ 9,326
Deduct loans charged off:					
Commercial and industrial	(46)	(121)	(1,032)	(94)	(197)
Agricultural production	-	-	-	-	(10)
Owner occupied	-	-	-	-	(22)
Consumer loans	(221)	(108)	(164)	(116)	(235)
Total loans charged off	(267)	(229)	(1,196)	(210)	(464)
Add recoveries of loans previously charged off:					
Commercial and industrial	701	612	134	207	850
Agricultural production	-	-	-	-	10
Owner occupied	-	-	-	21	49
Real estate construction and other land loans	319	-	-	-	-
Commercial real estate	-	-	-	81	17
Consumer loans	232	127	63	177	140
Total recoveries	1,252	739	197	486	1,066
Net (charge-offs) recoveries	985	510	(999)	276	602
(Reversal of) Provision for credit losses	(4,300)	3,275	1,025	50	(1,150)
Balance at end of year	$ 9,600	$ 12,915	$ 9,130	$ 9,104	$ 8,778
Allowance for credit losses as a percentage of outstanding loan balance	0.92%	1.17%	0.97%	0.99%	0.98%
Net recoveries (charge-offs) to average loans outstanding	0.09%	0.05%	(0.11)%	0.03%	0.08%

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:

	2021		2020		2019		2018		2017	
Loan Type (Dollars in thousands)	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
Commercial:										
Commercial and industrial	$ 1,691	13.2%	$ 1,764	24.9%	$ 1,115	10.9%	$ 1,604	11.1%	$ 1,784	11.2%
Agricultural production	320	3.9%	255	2.0%	313	2.6%	67	0.9%	287	1.7%
Real estate:										
Owner occupied	1,355	20.4%	2,128	18.9%	1,319	21.0%	1,131	19.9%	1,252	22.7%
Real estate construction and other land loans	812	5.9%	1,204	5.0%	932	7.8%	1,271	11.1%	1,004	10.7%
Commercial real estate	3,805	35.6%	4,781	30.7%	3,453	34.9%	3,017	33.2%	1,958	29.9%
Agricultural real estate	697	9.5%	838	7.6%	925	8.1%	947	8.4%	1,441	8.4%
Other real estate	72	2.5%	223	2.6%	140	3.3%	173	3.6%	140	3.5%
Consumer:										
Equity loans and lines of credit	256	5.4%	457	5.0%	425	6.9%	419	7.6%	464	8.5%
Consumer and installment	312	3.6%	634	3.3%	472	4.5%	407	4.2%	361	3.4%
Unallocated reserves	280		631		36		68		87	
Total allowance for credit losses	$ 9,600	100.0%	$ 12,915	100.0%	$ 9,130	100.0%	$ 9,104	100.0%	$ 8,778	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, 2021, the allowance for credit losses (ALLL) was $9,600,000, compared to $12,915,000 at December 31, 2020, a net decrease of $3,315,000. The net decrease in the ALLL reflected the negative provision and net recoveries during the year ended December 31, 2021 which was necessitated by management's observations and assumptions about the existing credit quality of the loan portfolio. Net recoveries totaled $985,000 while the reversal of provision for credit losses was $4,300,000 for the year ended December 31, 2021. The Company's negative provision for credit losses during the year ended December 31, 2021 is primarily due to change 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 $8,540,000 and $40,845,000 at December 31, 2021 and $36,136,000 and $36,406,000 at December 31, 2020, respectively. The balance of undisbursed commitments to extend credit on construction and other loans and letters of credit was $326,108,000 as of December 31, 2021, compared to $326,179,000 as of December 31, 2020. At December 31, 2021 and 2020, the balance of a contingent allocation for probable loan loss experience on unfunded obligations was $115,000 and $250,000, respectively. 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 0.92% at December 31, 2021, and 1.17% at December 31, 2020. Total loans include FLB, SVB and VCB loans that were recorded at fair value in connection with the acquisitions of $93,201,000 at December 31, 2021 and $127,186,000 at December 31, 2020. Excluding these acquired loans from the calculation, the ALLL to total gross loans was 1.01% and 1.32% as of December 31, 2021 and 2020, respectively, and general reserves associated with non-impaired loans to total non-impaired loans was 0.98% and 1.59%, 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. As of December 31, 2021 and 2020 gross loans included loans related to PPP loans which are fully guaranteed by the SBA in the amount of $18,553,000 and $192,916,000.00, respectively. Excluding PPP loans and the acquired loans from the calculation, the allowance for credit losses to total gross loans was 1.04% and 1.65% as of December 31, 2021 and 2020, respectively.

The Company's loan portfolio balances in 2021 decreased from 2020. Net loans decreased $59.9 million or 5.50%, at December 31, 2021 compared to December 31, 2020. The net loan decrease consisted of a decrease of $174.4 million in SBA Paycheck Protection Program (PPP) loans, offset by an increase of $114.4 million in non-PPP loan growth. 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, 2021.

Non-performing loans totaled $946,000 as of December 31, 2021, and $3,278,000 as of December 31, 2020. Nonperforming loans as a percentage of total loans were 0.09% at December 31, 2021 compared to 0.30% at December 31,

ALLOWANCE FOR CREDIT LOSSES (Continued)

2020. The Company had no other real estate owned at December 31, 2021, December 31, 2020, and December 31, 2019. No foreclosed assets were recorded at December 31, 2021, December 31, 2020, and December 31, 2019. The allowance for credit losses as a percentage of nonperforming loans was 1,014.80% and 393.99% as of December 31, 2021 and December 31, 2020, 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, 2021 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, 2021 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.

Management performed an annual impairment test in the third quarter of 2021 utilizing various qualitative factors. Management believes these factors are sufficient and comprehensive and as such, no further factors need to be assessed at this time. Based on management's analysis performed, no impairment was required.

Goodwill is also 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. No such events or circumstances arose during for the year ended December 31, 2021. 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.

The intangible assets at December 31, 2021 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, 2021 was $522,000, net of $3,230,000 in accumulated amortization expense. The carrying value at December 31, 2020 was $1,183,000, net of $2,569,000 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, 2021 and determined no impairment was necessary. In addition, management determined that no events had occurred between the annual evaluation date and December 31, 2021 which would necessitate further analysis. Amortization expense recognized was $661,000 for 2021, $695,000 for 2020 and $695,000 for 2019.

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
2022	$ 454
2023	68
Thereafter	-
Total	$ 522

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 $400,087,000 or 23.22% to $2,122,797,000 as of December 31, 2021, compared to $1,722,710,000 as of December 31, 2020. Interest-bearing deposits increased $261,392,000 or 29.11% to $1,159,213,000 as of December 31, 2021, compared to $897,821,000 as of December 31, 2020. Non-interest bearing deposits increased $138,695,000 or 16.81% to $963,584,000 as of December 31, 2021, compared to $824,889,000 as of December 31, 2020. The Company's deposit balances for the year ended December 31, 2021 increased through organic growth and PPP loan proceeds retained in customer deposit accounts. Average non-interest bearing deposits to average total deposits was 45.58% for the year ended December 31, 2021 compared to 47.46% for the same period in 2020. Based on FDIC deposit market share information published as of June 2021, our total market share of deposits in Fresno, Madera, San Joaquin, and Tulare counties was 3.83% in 2021 compared to 3.40% in 2020. Our total market share in the other counties we operate in (El Dorado, Merced, Placer, Sacramento, and Stanislaus), was less than 1.00% in 2021 and 2020.

The composition of the deposits and average interest rates paid at December 31, 2021 and December 31, 2020 is summarized in the table below.

(Dollars in thousands)	December 31, 2021	% of Total Deposits	Effective Rate	December 31, 2020	% of Total Deposits	Effective Rate
NOW accounts	$ 360,462	17.0%	0.05%	$ 310,697	18.0%	0.11%
MMA accounts	511,448	24.1%	0.15%	341,088	19.8%	0.18%
Time deposits	90,030	4.2%	0.21%	89,846	5.2%	0.65%
Savings deposits	197,273	9.3%	0.01%	156,190	9.1%	0.02%
Total interest-bearing	1,159,213	54.6%	0.10%	897,821	52.1%	0.18%
Non-interest bearing	963,584	45.4%		824,889	47.9%	
Total deposits	$ 2,122,797	100.0%		$ 1,722,710	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, 2021, 2020, and 2019.

(Dollars in thousands)	2021		2020		2019	
	Balance	Rate	Balance	Rate	Balance	Rate
Savings and NOW accounts	$ 529,043	0.03%	$ 433,742	0.08%	$ 370,378	0.15%
Money market accounts	$ 455,575	0.15%	$ 300,603	0.18%	$ 270,918	0.24%
Non-interest bearing demand	$ 900,083	-	$ 744,239	-	$ 557,348	-
Total deposits	$ 1,974,576	0.05%	$ 1,568,194	0.09%	$ 1,295,780	0.15%

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, 2021.

(In thousands)	
Three months or less	$ 31,308
Over 3 through 6 months	7,712
Over 6 through 12 months	18,090
Over 12 months	8,249
	$ 65,359

As of December 31, 2021 and 2020, 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 at December 31, 2021 and 2020, at interest rates which vary with market conditions. As of December 31, 2021 and 2020, 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 $247,845,000 as of December 31, 2021, compared to $245,021,000 as of December 31, 2020. The increase in shareholders' equity is the result of an increase in retained earnings from our net income of $28,401,000, the exercise of stock options in the amount of $256,000, the effect of share-based compensation expense of $405,000, and stock issued under our employee stock purchase plan of $204,000, partially offset by a decrease in accumulated other comprehensive income (AOCI) of $7,224,000, the payment of common stock cash dividends of $5,757,000, and the repurchase and retirement of common stock of $13,619,000.

During 2021, the Bank declared and paid cash dividends to the Company in the amount of $7,679,000 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 $5,757,000 or $0.47 per common share cash dividend to shareholders of record during the year ended December 31, 2021. During the year ended December 31, 2021, the Company repurchased and retired common stock in the amount of $13,619,000.

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.

The following table sets forth certain financial ratios for the years ended December 31, 2021, 2020, and 2019.

	2021	2020	2019
Net income:			
To average assets	1.25%	1.11%	1.36%
To average shareholders' equity	11.50%	8.85%	9.39%
Dividends declared per share to net income per share	19.72%	26.99%	26.22%
Average shareholders' equity to average assets	10.89%	12.54%	14.51%

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, 2021 and December 31, 2020.

	Actual Ratio	
	Amount	Ratio
	(Dollars in thousands)	
December 31, 2021		
Tier 1 Leverage Ratio	$ 189,020	8.03%
Common Equity Tier 1 Ratio (CET 1)	$ 184,020	12.48%
Tier 1 Risk-Based Capital Ratio	$ 189,020	12.82%
Total Risk-Based Capital Ratio	$ 233,034	15.80%
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%

CAPITAL RESOURCES (Continued)

The following table presents the Bank's regulatory capital ratios as of December 31, 2021 and December 31, 2020

	Actual Ratio		Minimum regulatory requirement (1)		Minimum requirement for "Well-Capitalized" Institution	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2021						
Tier 1 Leverage Ratio	$ 199,329	8.47%	$ 94,156	4.00%	$ 117,695	5.00%
Common Equity Tier 1 Ratio (CET 1)	$ 199,329	13.52%	$ 66,355	7.00%	$ 95,846	6.50%
Tier 1 Risk-Based Capital Ratio	$ 199,329	13.52%	$ 88,473	8.50%	$ 117,964	8.00%
Total Risk-Based Capital Ratio	$ 209,044	14.18%	$ 117,964	10.50%	$ 147,455	10.00%
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%

(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, 2021, 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, 2021, the rate was 1.73%. Interest expense recognized by the Company for the years ended December 31, 2021, 2020, and 2019 was $266,000, $130,000 and $210,000, respectively.

On November 12, 2021, the Company completed a private placement of $35.0 million aggregate principal amount of its fixed-to-floating rate subordinated notes ("Subordinated Debt") due December 1, 2031. The Subordinated Debt initially bears a fixed interest rate of 3.125% per year. Commencing on December 1, 2026, the interest rate on the Subordinated Debt will reset each quarter at a floating interest rate equal to the then-current three month term SOFR plus 210 basis points. The Company may at its option redeem in whole or in part the Subordinated Debt on or after November 12, 2026 without a premium. The Subordinated Debt is treated as Tier 2 Capital for regulatory purposes.

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, 2021, the Company had unpledged securities totaling $856,299,000 available as a secondary source of liquidity and total cash and cash equivalents of $163,467,000. Cash and cash equivalents at December 31, 2021 increased 132.60% compared to December 31, 2020. 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, 2021, our available borrowing capacity includes approximately $110,000,000 in Federal funds lines with our correspondent banks and $277,130,000 in unused FHLB advances. At December 31, 2021, 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, 2021 and 2020:

Credit Lines (In thousands)	December 31, 2021	December 31, 2020
Unsecured Credit Lines (interest rate varies with market):		
Credit limit	$ 110,000	$ 110,000
Balance outstanding	$ -	$ -
Federal Home Loan Bank (interest rate at prevailing interest rate):		
Credit limit	$ 277,130	$ 235,371
Balance outstanding	$ -	$ -
Collateral pledged	$ 481,437	$ 435,152
Fair value of collateral	$ 435,089	$ 379,831
Federal Reserve Bank (interest rate at prevailing discount interest rate):		
Credit limit	$ 9,961	$ 13,323
Balance outstanding	$ -	$ -
Collateral pledged	$ 10,361	$ 13,538
Fair value of collateral	$ 10,241	$ 13,703

LIQUIDITY (Continued)

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.

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*".

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, 2021, 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, 2021, 65.82% 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, 2021, 88.24% 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, 2021. 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, 2021 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, 2021, 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, 2021	% Change from Rates at December 31, 2021
Up 400 bps	$ 68,300	$ (500)	(0.73)%
Up 300 bps	70,600	1,800	2.62%
Up 200 bps	70,400	1,600	2.33%
Up 100 bps	69,400	600	0.87%
Unchanged	68,800	-	-
Down 100 bps	66,600	(2,200)	(3.20)%

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, 2021 and 2020:

	December 31, 2021		December 31, 2020	
Rate Type (Dollars in thousands)	Balance	Percent of Total	Balance	Percent of Total
Variable rate	$ 683,357	65.82%	$ 817,678	74.00%
Fixed rate	354,883	34.18%	287,281	26.00%
Total gross loans	$ 1,038,240	100.00%	$ 1,104,959	100.00%

Approximately 65.82% of our loan portfolio is tied to adjustable rate indices and 20.75% of our loan portfolio reprices within 90 days. As of December 31, 2021, we had 1,958 commercial and real estate loans totaling $585,067,000 with floors ranging from 0.74% to 9.00% and ceilings ranging from 4.50% to 25.00%.

The following table shows the repricing categories of the Company's loan portfolio at December 31, 2021 and 2020:

	December 31, 2021		December 31, 2020	
Repricing (Dollars in thousands)	Balance	Percent of Total	Balance	Percent of Total
< 1 Year	$ 331,374	31.92%	$ 455,859	41.26%
1-3 Years	208,853	20.12%	233,153	21.10%
3-5 Years	294,467	28.36%	274,800	24.87%
> 5 Years	203,546	19.60%	141,147	12.77%
Total gross loans	$ 1,038,240	100.00%	$ 1,104,959	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 4, 2022, the Company had approximately 918 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, 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
March 31, 2021	14.89	21.35
June 30, 2021	17.33	21.75
September 30, 2021	19.56	23.83
December 31, 2021	20.47	21.95

The Company paid common share cash dividends of $0.47 and $0.44 per share in 2021 and 2020, 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.hotline-services.com or Compliance Hotline at 1-855-252-7606. 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

American Bankers Association
American Heart Association
American Institute of Certified Public Accountants
American Pistachio Growers
American Society of Farm Managers & Rural Appraisers California Chapter
Ann's Kids For Christmas
Arte Americas Casa de la Cultura
Assistance League of Fresno
Association of Certified Anti-Money Laundering Specialists
Association of Commercial Real Estate
Business Organization of Old Town
California Bankers Association
California Chamber of Commerce
California Farm Bureau Federation
California Fresh Fruit Association
California Future Farmers of America Foundation
California Medical Group Management Association
California Society of Association Executives
California Society of Certified Public Accountants
California State University, Fresno – Ag One Foundation
California State University, Fresno – Craig School of Business
California State University, Fresno – Foundation
California State University, Fresno – Gazarian Real Estate Center
Capital College & Career Academy
Castle Air Museum Foundation Inc.
Centers For Living
Central California Food Bank
Central California Society For Human Resource Management
Central Sierra Historical Society
Central Sierra Resiliency Fund
Central Valley SCORE
Citrus Heights Chamber of Commerce
Clovis Chamber of Commerce
Clovis Rodeo Association
Coarsegold Chamber of Commerce
Coarsegold Stampede Rodeo
Construction Financial Management Association Sacramento Chapter
Construction Industry Education Foundation - Sacramento Regional Builders Exchange
Court Appointed Special Advocates of Fresno & Madera Counties
CRA Today, LLC
Doug McDonald Scholarship
Downtown Visalia Foundation
Economic Development Corporation
El Dorado Hills Chamber of Commerce
Emergency Food Bank of Stockton/San Joaquin
Eureka Schools Foundation
EVERFI
Executives Association of Tulare County
Exeter Chamber of Commerce
Exeter Lions Club
Exeter Youth Football League
Financial Credit Network Inc. - Kids For Christmas
Financial Services Information Sharing and Analysis Center
Firebaugh Future Farmers of America Boosters
Folsom Chamber of Commerce
Folsom Cordova Community Partnership
Folsom Cordova Unified School District
Folsom Historic District Association
Folsom Police Foundation
Folsom Rotary Foundation
Folsom, El Dorado & Sacramento Historical Railroad Association
Food Bank of El Dorado County
FoodLink For Tulare County Inc.
Foundation For Clovis Schools
Fresno Business Council
Fresno Chamber Of Commerce

Fresno County Economic Development Corporation
Fresno County Farm Bureau
Fresno Police Chaplaincy
Friends of the Merced County Fair
Greater Merced Chamber of Commerce
Greater Stockton Chamber of Commerce
Habitat For Humanity of Tulare/Kings Counties
Hands In The Community of Tulare and Kings County
Haven Women's Center of Stanislaus
Human Resources Certification Institute
Independent Community Bankers of America
Independent Insurance Agents & Brokers of Sacramento
Information Systems Audit and Control Association
Institute of Real Estate Management - Sacramento Valley
International Facility Management Association
International Soap Box Derby
Junior Authors Program
Kaweah Delta Hospital Foundation
Kerman Chamber of Commerce
Kings/Tulare Homeless Alliance
Kiwanis Club of Placerville
Lifetime Healthy Way of Life
Lighthouse Counseling & Family Resource Center
Lodi Chamber of Commerce
Lost Girls Breast Cancer Ride
Love Inc. of Fresno
Love Inc. of Merced
Madera Chamber of Commerce
Madera Community Hospital Foundation
Madera County Ag Boosters
Madera County Food Bank
Make-A-Wish Northeastern & Central California and Northern Nevada
Marjaree Mason Center
Merced College Agricultural Ambassadors
Merced College Foundation
Merced County Community Law Enforcement Organization
Merced County Farm Bureau
Merced County Food Bank
Modesto Chamber of Commerce
National Association of Government Guaranteed Lenders
National Association of Residential Property Managers
Sacramento Chapter
National Non-Profit Resource Center
Nationwide Multistate Licensing System & Registry
New Beginnings For Merced County Animals
Noceti Group Inc.
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
Ponderosa Lions Club
Poverello House
Professionals In Human Resources Association
Rancho Cordova Chamber of Commerce
Rebuilding Together Sacramento
Roseville Area Chamber of Commerce
Rotary Club of Fresno
Rotary Club of Madera
Sacramento Food Bank & Family Services
Sacramento Loaves & Fishes
Sacramento Master Singers
Sacramento Metropolitan Chamber of Commerce
Sacramento National Association of Residential Property Managers
Sacramento Professional Advisors Network
Sacramento Regional Builders Exchange
Sacramento Self-Help Housing Inc.
San Joaquin Farm Bureau Federation
San Joaquin Valley Manufacturing Alliance
San Joaquin Valley Town Hall
Second Harvest Food Bank
Self-Help Enterprises
Sequoia Council of the Boy Scouts of America
Shingle Springs Cameron Park Chamber of Commerce
Signature User Group
Society For Human Resource Management
St. Vincent de Paul Roseville
STAND Affordable Housing Program
Stockton Shelter For The Homeless
Sundown Little League
The American Legion Cecil Cox Post #147
The Bank CEO Network
The Downtown Fresno Partnership
The Enchanted Playhouse Theater Company
The First Tee of Greater Sacramento
The Leukemia & Lymphoma Society
The Risk Management Association
The Salvation Army (Fresno Region)
The Salvation Army of Sacramento
The Salvation Army Tulare Corps
Tulare Chamber of Commerce
Twin Lakes Food Bank
United Way of San Joaquin County
Vallejo Arts & Entertainment
Valley Children's Healthcare Foundation
Valley Children's Hospital Alegria Guild
Valley Children's Hospital Kings Guild
Valley Crime Stoppers
Valley Teen Ranch
Visalia Chamber of Commerce
Visalia Economic Development Corporation
Vistage Worldwide Inc.
West Visalia Kiwanis Club
Western Payments Alliance
Women's Spotlight Network
WorldatWork Total Rewards Association
YMCA of San Joaquin County
Yosemite High School

INVESTING IN RELATIONSHIPS
www.cvcb.com

CUSTOMER SERVICE
(800) 298-1775
(559) 298-1775

CAMERON PARK
3311 Coach Lane
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Cameron Park, CA 95682
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CLOVIS
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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
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(559) 594-9919

FOLSOM
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(559) 221-2760

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Fresno, CA 93721
(559) 268-6806

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8375 North Fresno Street
Fresno, CA 93720
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GOLD RIVER
11230 Gold Express Drive,
Suite 311
Gold River, CA 95670
(916) 235-4588

KERMAN
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(559) 842-2265

LODI
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MODESTO
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(209) 576-1402

OAKHURST
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PRATHER
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STOCKTON
2800 West March Lane,
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VISALIA
Floral
120 North Floral Street
Visalia, CA 93291
(559) 625-8733

Mission Oaks Plaza
5412 Avenida de los Robles
Visalia, CA 93291
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COMMERCIAL LENDING
Agribusiness
(559) 323-3319

Real Estate
(559) 323-3346

SBA
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(916) 859-2556

Mid-Valley
(209) 956-1105

Central Valley
(559) 323-3481

South Valley
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