CENTRAL VALLEY COMMUNITY BANCORP
Form 10-K
March 08, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 000-31977
CENTRAL VALLEY COMMUNITY BANCORP
(Exact name of registrant as specified in its charter)

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

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

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, no par value	NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act o

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

As of June 30, 2018, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $222,959,000 based on the price at which the stock was last sold on June 30, 2018.

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

Common Stock, No Par Value	Outstanding at March 7, 2019	
	13,712,431	shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the 2019 Annual Meeting of Shareholders to be held on May 15, 2019 are incorporated by reference into Part III of this Report. The proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the Registrant's fiscal year ended December 31, 2018.

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PART I

ITEM 1 - DESCRIPTION OF BUSINESS

General

Central Valley Community Bancorp is a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the “Company”). The Company was incorporated on February 7, 2000 as a California corporation, for the purpose of becoming the holding company for Central Valley Community Bank (the “Bank”), formerly known as Clovis Community Bank, a California state chartered bank, through a corporate reorganization. In the reorganization, the Bank became the wholly-owned subsidiary of the Company, and the shareholders of the Bank became the shareholders of the Company. The Company made a decision in the first half of 2002 to change the name of its one subsidiary, Clovis Community Bank, to Central Valley Community Bank.

At December 31, 2018, the Bank was our only banking subsidiary. The Bank is a multi-community bank that offers a full range of commercial banking services to small and medium size businesses, and their owners, managers and employees in the central valley area of California. We serve nine contiguous counties in California’s central valley including Fresno County, El Dorado County, Madera County, Merced County, Placer County, Sacramento County, San Joaquin County, Stanislaus County, and Tulare County, and their surrounding areas. We do not currently conduct any operations other than through the Bank. Unless the context otherwise requires, references to “us,” “we,” or “our” refer to the Company and the Bank on a consolidated basis. At December 31, 2018, we had consolidated total assets of approximately $1,537,836,000. See Items 7 and 8, Management’s Discussion and Analysis of Financial Condition and Results of Operations, and Financial Statements.

Effective October 1, 2017, the Company and Folsom Lake Bank (FLB) completed a merger under which Folsom Lake Bank, with two full-service offices, located in Folsom and Rancho Cordova (Sacramento County), merged with and into the Bank. Effective October 1, 2016, the Company and Sierra Vista Bank (SVB) completed a merger under which Sierra Vista Bank, with three full-service offices, located in Folsom and Fair Oaks (Sacramento County) and Cameron Park (El Dorado County), merged with and into the Bank.

The Company is regulated by the Board of Governors of the Federal Reserve. The Bank is regulated by the California Department of Business Oversight and its primary Federal regulator is the Federal Deposit Insurance Corporation (“FDIC”).

As of March 1, 2019, we had a total of 309 employees and 290 full time equivalent employees, including the employees of the Bank.

The Bank

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

The Bank operates 21 full-service banking offices in Cameron Park, Clovis, Exeter, Fair Oaks, Folsom, Fresno, Kerman, Lodi, Madera, Merced, Modesto, Oakhurst, Prather, Rancho Cordova, Roseville, Sacramento, Stockton, and Visalia. The Bank conducts a commercial banking business, which includes accepting demand, savings and time deposits and making commercial, real estate and consumer loans. It also provides domestic and international wire transfer services and provides safe deposit boxes and other customary banking services. The Bank also offers Internet banking. Internet banking consists of inquiry, account status, bill paying, account transfers, and cash management. The Bank does not offer trust services or international banking services and does not currently plan to do so in the near future. The Bank has a Real Estate Division, an Agribusiness Center, and an SBA Lending Division in Fresno. 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. Our total market share of deposits in Fresno,

Madera, San Joaquin, and Tulare counties was 3.42% in 2018 compared to 3.69% in 2017 based on FDIC deposit market share information published as of June 30, 2018. Our total market share in the other counties we operate in (El Dorado, Merced, Placer, Sacramento, and Stanislaus), was less than 1.00% in 2018 and 2017. We have a diversified loan portfolio. At December 31, 2018, we had total loans of $918,695,000. Total commercial and industrial loans outstanding were $101,533,000, total agricultural land and production loans outstanding were $7,998,000, total real estate construction and other land loans outstanding were $101,606,000; total other real estate loans outstanding were $597,970,000, total equity loans and lines of credit were $69,958,000 and total consumer installment loans outstanding were $38,038,000. Our loans are collateralized by real estate, listed securities, savings and time deposits, automobiles, inventory, accounts receivable, machinery and equipment.

In addition to acquisitions, we have experienced organic growth by expanding our branch network. Opening new branches provides us with opportunities to expand our loan and deposit base; however, based on past experience, management expects these new offices may initially have a negative impact on earnings until the volume of business grows to cover fixed overhead expenses. Management of the Bank analyses its branch network on an ongoing basis to determine whether to open new branches or consolidate or eliminate existing branches in the future. In 2018, we consolidated three banking offices into

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branches currently serving the same communities - one in Visalia, one in Tracy, and one in Folsom. In February 2017, the Bank established the Real Estate and Agribusiness Center Branch in Fresno, California. The Bank's private banking office in Gold River, California was closed in late April 2017. The Bank opened a full-service branch in Roseville, California the same weekend in April 2017.

Since August of 1995 the Bank has been a party to an agreement with Investment Centers of America, pursuant to which Investment Centers of America provides Bank customers with access to investment services. In November 2017, the Bank ended its relationship with Investment Centers of America and entered into an agreement with Raymond James Financial Services, Inc. to provide Bank customers with access to investment services.

No individual or single group of related accounts is considered material in relation to the Bank's assets or deposits, or in relation to our overall business. Our deposits are attracted from individual and commercial customers. A material portion of our deposits have not been obtained from a single person or a few persons, the loss of any one or more of which would not have a material adverse effect on our business. However, at December 31, 2018 approximately 83.8% of our loan portfolio held for investment consisted of loans secured by real estate, including construction loans, equity loans and lines of credit and commercial loans secured by real estate and 12% consisted of commercial loans. See Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations. Currently, our business activities are primarily concentrated in Fresno, El Dorado, Madera, Merced, Sacramento, San Joaquin, Stanislaus, and Tulare Counties in California. Consequently, our results of operations and financial condition are dependent upon the general economic trends in our market area and, in particular, the residential and commercial real estate markets. Further, our concentration of operations in this area of California exposes us to greater risk than other banking companies with a wider geographic base.

Competition

The banking business in California generally, and our primary service area specifically, is highly competitive with respect to both loans and deposits, and is dominated by a relatively small number of major banks with many offices operating over a wide geographic area. Among the advantages such major banks have over us is their ability to finance wide-ranging advertising campaigns and to allocate their investment assets, including loans, to regions of higher yield and demand. Major banks offer certain services such as international banking and trust services which we do not offer directly but which we usually can offer indirectly through correspondent institutions. To compete effectively, we rely substantially on local promotional activity, personal contacts by our officers, directors and employees, referrals by our shareholders, extended hours, personalized service and our reputation in the communities we serve.

Our total market share of deposits in Fresno, Madera, San Joaquin, and Tulare counties was 3.42% in 2018 compared to 3.69% in 2017 based on FDIC deposit market share information published as of June 2018. In Fresno and Madera Counties, in addition to our 10 full-service branch locations serving the Bank's primary service areas, as of June 30, 2018 there were 135 operating banking and credit union offices in our primary service area, which consists of the cities of Clovis, Fresno, Kerman, Oakhurst, Madera, and Prather, California. Prather does not contain any banking offices other than our office. In San Joaquin County, in addition to our three full service branch locations, as of June 30, 2018 there were 97 operating banking and credit union offices. In Tulare County, in addition to our three branches there were 53 operating banking and credit union offices in our primary service area. Our total market share in the other counties we operate in (El Dorado, Merced, Placer, Sacramento, and Stanislaus), was less than 1.00% in 2018 and 2017. In Merced County, in addition to our one branch, as of June 30, 2018 there were 28 operating banking and credit union offices in our primary service area. In Sacramento County, in addition to our three branches, as of June 30, 2018 there were 212 operating banking and credit union offices in our primary service area. In Stanislaus County, in addition to our one branch, there were 85 operating banking and credit union offices in our primary service area. In El Dorado County, in addition to our one branch, there were 39 operating banking and credit union offices in our primary service area. In Placer County, in addition to our one branch, there were 93 operating banking and credit union offices in our primary service area. Business activity in our primary service area is oriented

toward light industry, small business and agriculture.

By virtue of their greater total capitalization, larger banks have substantially higher lending limits than we do. Legal lending limits to an individual customer are limited to a percentage of our total capital. As of December 31, 2018, the Bank's legal lending limits to individual customers were $26,715,000 for unsecured loans and $44,525,000 for unsecured and secured loans combined.

For borrowers desiring loans in excess of the Bank's lending limits, the Bank seeks to make such loans on a participation basis with other financial institutions. Banks also compete with money market funds and other money market instruments, which are not subject to interest rate ceilings. In recent years, increased competition has also developed from specialized finance and non-finance companies that offer wholesale finance, credit card, and other consumer finance services, including on-line banking services and personal finance software. Competition for deposit and loan products remains strong, from both banking and non-banking firms, and affects the rates of those products as well as the terms on which they are offered to customers.

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

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

Supervision and Regulation

GENERAL

Banking is a complex, highly regulated industry. Regulation and supervision by federal and state banking agencies are intended to maintain a safe and sound banking system, protect depositors and the FDIC's insurance fund, and to facilitate the conduct of sound monetary policy. In furtherance of these goals, Congress and the states have created several largely autonomous regulatory agencies and enacted numerous laws that govern banks, bank holding companies and the financial services industry. Consequently, the growth and earnings performance of the Company can be affected not only by management decisions and general economic conditions, but also by the requirements of applicable state and federal statues, regulations and the policies of various governmental regulatory authorities, including the Federal Reserve, FDIC, the California Department of Business Oversight (DBO) and the Consumer Financial Protection Bureau (CFPB). Furthermore, tax laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the FASB, securities laws administered by the SEC and state securities authorities, anti-money laundering laws enforced by the U.S. Department of the Treasury, or Treasury, and mortgage related rules, including with respect to loan securitization and servicing by the U.S. Department of Housing and Urban Development and agencies such as Fannie Mae and Freddie Mac, also impact our business. The effect of these statutes, regulations, regulatory policies and rules are significant to our financial condition and results of operations. Further, the nature and extent of future legislative, regulatory or other changes affecting financial institutions are impossible to predict with any certainty.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of banks, their holding companies and their affiliates. These laws are intended primarily for the protection of the FDIC's Deposit Insurance Fund and bank customers rather than shareholders. Federal and state laws, and the related regulations of the bank regulatory agencies, affect, among other things, the scope of business, the kinds and amounts of investments banks may make, reserve requirements, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, the ability to merge, consolidate and acquire, dealings with insiders and affiliates and the payment of dividends.

This supervisory and regulatory framework subjects banks and bank holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that, while not publicly available, can affect the conduct and growth of their businesses. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. The regulatory agencies have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and its bank subsidiary. It does not describe all of the statutes, regulations and regulatory policies that apply,

nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory and regulatory provision.

BANK HOLDING COMPANY REGULATION

The Company, as a bank holding company, is subject to regulation under the Bank Holding Company Act of 1956, as amended ("BHC Act"), and is subject to the supervision and examination of the Board of Governors. Pursuant to the BHC Act, we are required to obtain the prior approval of the Board of Governors before we may acquire all or substantially all of the assets of any bank, or ownership or control of voting shares of any bank if, after giving effect to such acquisition, we would own or control, directly or indirectly, more than five percent of such bank.

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Under the BHC Act, we may not engage in any business other than managing or controlling banks or furnishing services to our subsidiaries that the Board of Governors deems to be so closely related to banking as to be a proper incident to banking. Bank holding companies that qualify and elect to be treated as "financial holding companies" may engage in a broad range of additional activities that are (i) financial in nature or incidental to such financial activities or (ii) complementary to a financial activity and do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. These activities include securities underwriting and dealing, insurance underwriting and making merchant banking investments. We have not elected to be treated as a financial holding company and currently have no plans to make a financial holding company election.

We are also prohibited, with certain exceptions, from acquiring direct or indirect ownership or control of more than five percent of the voting shares of any company unless the company is engaged in banking activities or the Board of Governors determines that the activity is so closely related to banking to be a proper incident to banking. The Board of Governors' approval must be obtained before the shares of any such company can be acquired and, in certain cases, before any approved company can open new offices.

The BHC Act and regulations of the Board of Governors also impose certain constraints on the redemption or purchase by a bank holding company of its own shares of stock.

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

In addition, banking subsidiaries of bank holding companies are subject to certain restrictions imposed by federal law in dealings with their holding companies and other affiliates. Transactions between affiliates are subject to Sections 23A and 23B of the Federal Reserve Act. Regulation W codifies interpretive guidance with respect to affiliate transactions. Subject to certain exceptions set forth in the Federal Reserve Act and Regulation W, a bank can make a loan or extend credit to an affiliate, purchase or invest in the securities of an affiliate, purchase assets from an affiliate, accept securities of an affiliate as collateral security for a loan or extension of credit to any person or company, issue a guarantee, or accept letters of credit on behalf of an affiliate only if the aggregate amount of the above transactions of such subsidiary does not exceed 10 percent of such subsidiary's capital stock and surplus on a per affiliate basis or 20 percent of such subsidiary's capital stock and surplus on an aggregate affiliate basis. Such transactions must be on terms and conditions that are consistent with safe and sound banking practices and on terms that are not more favorable than those provided to a non-affiliate. A bank and its subsidiaries generally may not purchase a "low-quality asset," as that term is defined in the Federal Reserve Act, from an affiliate. Such restrictions also generally prevent a holding company and its other affiliates from borrowing from a banking subsidiary of the holding company unless the loans are secured by collateral.

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

The Board of Governors has cease and desist powers over parent bank holding companies and non-banking subsidiaries where actions of a parent bank holding company or its non-financial institution subsidiaries represent an

unsafe or unsound practice or violation of law. The Board of Governors has the authority to regulate debt obligations (other than commercial paper) issued by bank holding companies by imposing interest ceilings and reserve requirements on such debt obligations.

We are also a bank holding company within the meaning of Section 3700 of the California Financial Code. As such, we and our subsidiaries are subject to examination by the California Department of Business Oversight (DBO). Further, we are required by the Board of Governors to maintain certain capital levels. See "Capital Standards."

REGULATION OF THE BANK

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

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

The Bank is a member of the FDIC, which currently insures customer deposits in each member bank to a maximum of $250,000 per depositor. For this protection, the Bank is subject to the rules and regulations of the FDIC, and, as is the case with all insured banks, may be required to pay a semi-annual statutory assessment. All of a 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.

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

Depositor Preference. In the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors including the parent bank holding company with respect to any extensions of credit they have made to such insured depository institution.

Brokered Deposit Restrictions. Well-capitalized institutions are not subject to limitations on brokered deposits, while an adequately capitalized institution is able to accept, renew or roll over brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the yield paid on such deposits. Undercapitalized institutions are generally not permitted to accept, renew, or roll over brokered deposits. The Bank is eligible to accept brokered deposits without limitations.

Loans to Directors, Executive Officers and Principal Shareholders. The authority of the Bank to extend credit to its directors, executive officers and principal shareholders, including their immediate family members and corporations and other entities that they control, is subject to substantial restrictions and requirements under Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O promulgated thereunder, as well as the Sarbanes-Oxley Act of 2002. These statutes and regulations impose specific limits on the amount of loans the Bank may make to directors and other insiders, and specified approval procedures must be followed in making loans that exceed certain amounts. In addition, all loans the Bank makes to directors and other insiders must satisfy the following requirements:

- the loans must be made on substantially the same terms, including interest rates and collateral, as prevailing at the time for comparable transactions with persons not affiliated with the Bank;
- the Bank must follow credit underwriting procedures at least as stringent as those applicable to comparable transactions with persons who are not affiliated with the Bank; and
- the loans must not involve a greater than normal risk of non-payment or include other features not favorable to the Bank.

Furthermore, the Bank must periodically report all loans made to directors and other insiders to the bank regulators, and these loans are closely scrutinized by the regulators for compliance with Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O. Each loan to directors or other insiders must be pre-approved by the Bank's board of directors with the interested director abstaining from voting.

PAYMENT OF DIVIDENDS

THE COMPANY

Our shareholders are entitled to receive dividends when and as declared by our Board of Directors, out of funds legally available, subject to the dividends preference, if any, on preferred shares that may be outstanding. The principal source of cash revenue to the Company is dividends received from the Bank. The Bank's ability to make dividend payments to the Company is subject to state and federal regulatory restrictions.

The Company's ability to pay dividends to its shareholders is affected by both general corporate law considerations and the policies of the Federal Reserve applicable to bank holding companies. As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should eliminate, defer or significantly reduce dividends to shareholders if: (i) the bank holding company's net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; or (ii) the prospective rate of earnings retention

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is inconsistent with the bank holding company's capital needs and overall current and prospective financial condition. If the Company fails to adhere to these policies, the Federal Reserve could find that the Company is operating in an unsafe and unsound manner. See "Supervision and Regulation-Regulatory Capital Requirements" below.
Subject to exceptions for well-capitalized and well-managed holding companies, Federal Reserve regulations also require approval of holding company purchases and redemptions of its securities if the gross consideration paid exceeds 10 percent of consolidated net worth for any 12-month period. In addition, Federal Reserve policy requires that bank holding companies consult with and inform the Federal Reserve in advance of (i) redeeming or repurchasing capital instruments when experiencing financial weakness and (ii) redeeming or repurchasing common stock and perpetual preferred stock if the result will be a net reduction in the amount of such capital instruments outstanding for the quarter in which the reduction occurs.
As a California corporation, the Company is subject to the limitations of California law, which allows a corporation to distribute cash or property to shareholders, including a dividend or repurchase or redemption of shares, if the corporation meets either a retained earnings test or a "balance sheet" test. Under the retained earnings test, the Company may make a distribution from retained earnings to the extent that its retained earnings exceed the sum of (i) the amount of the distribution plus (ii) the amount, if any, of dividends in arrears on shares with preferential dividend rights. The Company may also make a distribution if, immediately after the distribution, the value of its assets equals or exceeds the sum of (a) its total liabilities plus (b) the liquidation preference of any shares which have a preference upon dissolution over the rights of shareholders receiving the distribution. Indebtedness is not considered a liability if the terms of such indebtedness provide that payment of principal and interest thereon are to be made only if, and to the extent that, a distribution to shareholders could be made under the balance sheet test. In addition, the Company may not make distributions if it is, or as a result of the distribution would be, likely to be unable to meet its liabilities (except those whose payment is otherwise adequately provided for) as they mature.

THE BANK

Dividends payable by the Bank to the Company are restricted under California law to the lesser of the Bank's retained earnings, or the Bank's net income for the latest three fiscal years, less dividends paid during that period, or, with the approval of the DBO, to the greater of the retained earnings of the Bank, the net income of the Bank for its last fiscal year or the net income of the Bank for its current fiscal year.
In addition to the regulations concerning minimum uniform capital adequacy requirements described below, the FDIC has established guidelines regarding the maintenance of an adequate allowance for credit losses. Therefore, the future payment of cash dividends by the Bank will generally depend, in addition to regulatory constraints, upon the Bank's earnings during any fiscal period, the assessment of the Board of Directors of the capital requirements of the Bank and other factors, including the maintenance of an adequate allowance for credit losses.

REGULATORY CAPITAL REQUIREMENTS

The federal banking agencies have risk-based capital adequacy requirements intended to provide a measure of capital adequacy that reflects the perceived degree of risk associated with a banking organization's operations, both for transactions reported on the balance sheet as assets and for transactions, such as letters of credit and recourse arrangements, that are recorded as off-balance sheet items. In 2013, the bank regulatory agencies issued final rules (the "Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations. The Basel III Capital Rules implement the Basel Committee's December 2010 framework for strengthening international capital standards and certain provisions of the Dodd-Frank Act ("Dodd-Frank"). The Basel III Capital Rules became effective on January 1, 2015.
The Basel III Capital Rules require the Bank to comply with several minimum capital standards. The Bank must maintain a Tier 1 leverage ratio of at least 4.0%; a common equity Tier 1, which we refer to as CET1, to risk-weighted assets of 4.5%; a Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets of at least 6.0% and a total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets of at least 8.0%. CET1 capital is

generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as CET1 and Additional Tier 1 capital. Additional Tier 1 capital generally includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (CET1 capital plus Additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan loss limited to a maximum of 1.25% of risk-weighted assets. We exercised the opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI") in part to avoid significant variations in our capital levels resulting from changes in the fair value of our available-for-sale investment securities portfolio as interest rates fluctuate. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into CET1 capital (including unrealized gains and losses on available-for-sale-securities). The calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

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The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that (i) mortgage servicing rights, (ii) deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks, and (iii) significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1. Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and would be phased-in over a four-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter).

In addition to establishing the minimum regulatory capital requirements, the Basel III Capital Rules limit capital distributions and certain discretionary bonus payments to management if an institution does not hold a “capital conservation buffer” consisting of an additional 2.5% of CET1, on top of the minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. The capital conservation buffer requirement was being phased in over a four-year period beginning on January 1, 2016 at 0.625%, increasing by 0.625% each January 1 until it reached 2.5% on January 1, 2019.

On Aug. 28, 2018, the Federal Reserve issued an interim final rule, “Small Bank Holding Company and Savings and Loan Holding Company Policy Statement and Related Regulations; Changes to Reporting Requirements,” as required by the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA). The rule expands the applicability of its small-bank holding company policy statement from $1 billion to $3 billion total consolidated assets. The policy statement also applies to savings and loan holding companies with total consolidated assets of less than $3 billion. The final rule exempts holding companies with total consolidated assets of less than $3 billion from consolidated capital requirements.

In 2018, banking organizations are required to maintain a CET1 capital ratio of at least 6.375%, a Tier 1 capital ratio of at least 7.875%, and a total capital ratio of at least 9.875% to avoid limitations on capital distributions and certain discretionary incentive compensation payments. As phased-in on January 1, 2019, the Bank is required to meet minimum Tier 1 leverage ratio of 4.0%, a minimum CET1 to risk-weighted assets of 4.5% (7% with the capital conservation buffer), a Tier 1 capital to risk-weighted assets of 6.0% (8.5% including the capital conservation buffer) and a minimum total capital to risk-weighted assets of 8.0% (10.5% including the capital conservation buffer).

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, a bank’s assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests), are multiplied by a risk weight factor assigned by the regulations based on perceived risks inherent in the type of asset. As a result, higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien 1-4 family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors. The Basel III Capital Rules increased the risk weights for a variety of asset classes, including certain commercial real estate mortgages. Additional aspects of the Basel III Capital Rules’ risk weighting requirements that are relevant to the Bank include:

- assigning exposures secured by single-family residential properties to either a 50% risk weight for first-lien mortgages that meet prudent underwriting standards or a 100% risk weight category for all other mortgages;
- providing for a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (increased from 0% under the previous risk-based capital rules);
- assigning a 150% risk weight to all exposures that are nonaccrual or 90 days or more past due (increased from 100% under the previous risk-based capital rules), except for those secured by single-family residential properties, which will be assigned a 100% risk weight, consistent with the Basel I risk-based capital rules;
- applying a 150% risk weight instead of a 100% risk weight for certain high volatility CRE acquisition, development and construction loans; and
- applying a 250% risk weight to the portion of mortgage servicing rights and deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks that are not deducted from CET1 capital (increased from 100% under the previous Basel I risk-based capital rules).

As of December 31, 2018, the Bank's capital ratios exceeded the minimum capital adequacy guideline percentage requirements of the federal banking agencies for "well capitalized" institutions under the Basel III Capital Rules on a fully phased-in basis.

BANK SECRECY ACT/ANTI-MONEY LAUNDERING REGULATIONS

The Financial Recordkeeping and Reporting of Currency and Foreign Transactions Act of 1970 is commonly referred to as the Bank Secrecy Act (BSA), which has been frequently updated. The purpose of BSA is to require financial institutions to maintain certain records and file certain reports that have a high degree of usefulness in criminal, tax and regulatory investigations or proceedings and to implement an anti-money laundering program. Under the Uniting and Strengthening

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America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001 the BSA regulation was amended. Financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and identifying customers when establishing new relationships and standards in their dealings with high risk customers, foreign financial institutions, and foreign individuals and entities. The Customer Due Diligence (CDD) final rule, which was effective in 2018, also amended the BSA regulation. The CDD rule aims to improve financial transparency and prevent criminals and terrorists from misusing companies to disguise their illicit activities and launder their ill-gotten gains. The Bank has extensive controls in place to comply with these requirements.

OFFICE OF FOREIGN ASSETS CONTROL

The Office of Foreign Assets Control (OFAC), is a financial intelligence and enforcement agency of the U.S. Treasury Department. It administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries and regimes. The OFAC regulations require financial institutions to block or reject payments, transfers, withdrawals or other dealings with respect to accounts and assets of countries that are identified by the president as being a threat to national security. This may also include dealings with accounts and assets of nationals of a sanctioned country and with other specially designated individuals (such as designated narcotics traffickers). Financial institutions are also required to report all blocked transactions to OFAC within 10 business days of the occurrence. The Bank has extensive controls in place to comply with these requirements.
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SAFEGUARDING OF CUSTOMER INFORMATION AND PRIVACY

The Federal Reserve and other bank regulatory agencies have adopted guidelines for safeguarding confidential, personal customer information. These guidelines require financial institutions to create, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazards to the security or integrity of such information and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. The Bank has adopted a customer information security program to comply with such requirements.
Financial institutions are also required to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to non-affiliated third parties. In general, financial institutions must provide explanations to consumers on policies and procedures regarding the disclosure of such nonpublic personal information and, except as otherwise required by law, prohibits disclosing such information. The Bank has implemented privacy policies addressing these restrictions which are distributed regularly to all existing and new customers of the Bank.

COMMUNITY REINVESTMENT ACT

The Community Reinvestment Act (CRA) is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal bank regulatory agencies, in examining insured depository institutions, to assess their record of helping to meet the credit needs of their entire community, including low-and moderate-income neighborhoods, consistent with safe and sound banking practices. The CRA further requires the agencies to take a financial institution’s record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, consummating mergers or acquisitions or holding company formations. The federal banking agencies have adopted regulations which measure a bank’s compliance with its CRA obligations on a performance based evaluation system. This system bases CRA ratings on an institution’s actual lending service and investment performance rather than the extent to which the institution conducts needs assessments, documents community outreach or complies with other procedural requirements. The ratings range from “outstanding” to a low of “substantial noncompliance.” The Bank had a

CRA rating of "satisfactory" as of its most recent regulatory examination.

CONSUMER PROTECTION LAWS AND REGULATIONS

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

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

The Truth in Lending Act (TILA) is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As a result of the TILA, all creditors must use the same

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credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things.

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

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

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

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

CONSUMER FINANCIAL PROTECTION BUREAU

Dodd-Frank created a new, independent federal agency, the Consumer Financial Protection Bureau (CFPB), which was granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws. The CFPB is also authorized to engage in consumer financial education, track consumer complaints, request data and promote the availability of financial services to underserved consumers and communities. Although all institutions are subject to rules adopted by the CFPB and examination by the CFPB in conjunction with examinations by the institution's primary federal regulator, the CFPB has primary examination and enforcement authority over institutions with assets of $10 billion or more. The FDIC has primary responsibility for examination of the Bank and enforcement with respect to federal consumer protection laws so long as the Bank has total consolidated assets of less than $10 billion, and state authorities are responsible for monitoring our compliance with all state consumer laws. The CFPB also has the authority to require reports from institutions with less than $10 billion in assets, such as the Bank, to support the CFPB in implementing federal consumer protection laws, supporting examination activities, and assessing and detecting risks to consumers and financial markets.

The consumer protection provisions of Dodd-Frank and the examination, supervision and enforcement of those laws and implementing regulations by the CFPB have created a more intense and complex environment for consumer finance regulation. The CFPB has significant authority to implement and enforce federal consumer finance laws, including the Truth in Lending Act, the Equal Credit Opportunity Act and new requirements for financial services products provided for in Dodd-Frank, as well as the authority to identify and prohibit unfair, deceptive or abusive acts and practices. The review of products and practices to prevent such acts and practices is a continuing focus of the CFPB, and of banking regulators more broadly. The ultimate impact of this heightened scrutiny is uncertain but could result in changes to pricing, practices, products and procedures. It could also result in increased costs related to regulatory oversight, supervision and examination, additional remediation efforts and possible penalties. In addition, Dodd-Frank provides the CFPB with broad supervisory, examination and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged legal violations and to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. The CFPB also has the authority to obtain cease and desist orders providing for affirmative relief or monetary penalties. Dodd-Frank does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect our business, financial condition or results of operations.

DEPOSIT INSURANCE

The FDIC is an independent federal agency that insures deposits up to prescribed statutory limits of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The FDIC insures the Bank’s customer deposits through the Deposit Insurance Fund (the “DIF”) up to prescribed limits for each depositor. Pursuant to Dodd-Frank, the maximum deposit insurance amount was increased to $250,000. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors.

The Bank is subject to deposit insurance assessments to maintain the DIF. In October 2010, the FDIC adopted a revised restoration plan to ensure that the DIF’s designated reserve ratio (“DRR”) reaches 1.35% of insured deposits by September 30, 2020, the deadline mandated by Dodd-Frank. However, financial institutions like the Bank with assets of less

than $10 billion are exempted from the cost of this increase. The restoration plan proposed an increase in the DRR to 2% of estimated insured deposits as a long-term goal for the fund. The FDIC also proposed future assessment rate reductions in lieu of dividends when the DRR reaches 1.5% or greater. On September 30, 2018, the DIF reached 1.36%. Because the reserve ratio has exceeded 1.35%, two deposit insurance assessment changes occurred under the FDIC regulations: 1) surcharges on large banks (total consolidated assets of $10 billion or more) ended; the last surcharge on large banks was collected on December 28, 2018. and 2) small banks (total consolidated assets of less than $10 billion) were awarded assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from 1.15% to 1.35%, to be applied when the reserve ratio is at least 1.38%.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures or if the FDIC otherwise determines, we may be required to pay even higher FDIC premiums than the recently increased levels. These announced increases and any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings and could have a material adverse effect on the value of or market for our common stock.

In addition to DIF assessments, banks must pay quarterly assessments that are applied to the retirement of Financing Corporation (“FICO”) bonds issued in the 1980’s to assist in the recovery of the savings and loan industry. The FICO assessment amount fluctuates quarterly, but was 0.00035% of average total assets less average tangible equity for the third quarter of 2018. As of the date of this report, the Company had not received the FICO assessment for the fourth quarter of 2018. Those assessments will continue until the Financing Corporation bonds mature in 2019.

The FDIC may terminate a depository institution’s deposit insurance upon a finding that the institution’s financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank’s depositors. The termination of deposit insurance for a bank would also result in the revocation of the bank’s charter by the DBO.

CALIFORNIA FINANCIAL INFORMATION PRIVACY ACT/FAIR CREDIT REPORTING ACT

In 1970, the Federal Fair Credit Reporting Act (the FCRA) was enacted to insure the confidentiality, accuracy, relevancy and proper utilization of consumer credit report information. Under the framework of the FCRA, the United States has developed a highly advanced and efficient credit reporting system. The information contained in that broad system is used by financial institutions, retailers and other creditors of every size in making a wide variety of decisions regarding financial transactions. Employers and law enforcement agencies have also made wide use of the information collected and maintained in databases made possible by the FCRA. The FCRA affirmatively preempts state law in a number of areas, including the ability of entities affiliated by common ownership to share and exchange information freely, and the requirements on credit bureaus to reinvestigate the contents of reports in response to consumer complaints, among others.

The California Financial Information Privacy Act, which was enacted in 2003, requires a financial institution to provide specific information to a consumer related to the sharing of that consumer’s nonpublic personal information. The Act allows a consumer to direct the financial institution not to share his or her nonpublic personal information with affiliated or nonaffiliated companies with which a financial institution has contracted to provide financial products and services, and requires that permission from each such consumer be acquired by a financial institution prior to sharing such information.

The FACT Act, (Fair and Accurate Credit Transaction Act) became law in 2003, effectively extending and amending provisions of the Fair Credit Reporting Act (FCRA). The FACT Act created many new responsibilities for consumer reporting agencies and users of consumer reports. It contains many new consumer disclosure requirements as well as provisions to address identity theft.

OTHER PENDING AND PROPOSED LEGISLATION

Other legislative and regulatory initiatives which could affect the Company and the Bank and the banking industry in general may be proposed or introduced before the United States Congress, the California legislature and other governmental bodies in the future. Such proposals, if enacted, may further alter the structure, regulation and

competitive relationship among financial institutions, and may subject the Company or the Bank to increased regulation, disclosure and reporting requirements. In addition, the various banking regulatory agencies often adopt new rules and regulations to implement and enforce existing legislation. It cannot be predicted whether, or in what form, any such legislation or regulations may be enacted or the extent to which the business of the Company or the Bank would be affected thereby.

Many aspects of the Dodd-Frank Act are subject to continued rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us. Although the reforms primarily target systemically important financial service providers, the Dodd-Frank Act's influence has and is expected to continue to filter down in varying degrees to smaller institutions over time. We will continue to evaluate the effect of the Dodd-Frank Act; however, in many respects, the ultimate impact of the Dodd-Frank Act will not be fully known for years, and no current assurance may be given that the Dodd-Frank Act, or any other new legislative changes, will not have a negative impact on the results of operations and financial condition of the Company and the Bank.

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ADDITIONAL INFORMATION

Copies of the annual report on Form 10-K for the year ended December 31, 2018 may be obtained without charge upon written request to David A. Kinross, Chief Financial Officer, at the Company's administrative offices, 7100 N. Financial Dr., Suite 101, Fresno, CA 93720. The Form 10-K is available on our website: www.cvcb.com.
Inquiries regarding Central Valley Community Bancorp's accounting, internal controls or auditing concerns should be directed to Steven D. McDonald, chairman of the Board of Directors' Audit Committee, at steve.mcdonald@cvcb.com or anonymously at www.ethicspoint.com or EthicsPoint, Inc. at 1-866-294-9588.
General inquiries about Central Valley Community Bancorp or Central Valley Community Bank should be directed to LeAnn Ruiz, Assistant Corporate Secretary at 1-800-298-1775.

ITEM 1A - RISK FACTORS

An investment in our common stock is subject to risks inherent to our business. The material risks and uncertainties that management believes may affect our business are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this Annual Report. The risks and uncertainties described below are not the only ones facing our business. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This Annual Report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, our financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our common stock could decline significantly, and you could lose all or part of your investment.

Worsening economic conditions could adversely affect our business.
The Bank conducts banking operation principally in California's Central Valley. The Central Valley is largely dependent on agriculture. The agricultural economy in the Central Valley is therefore important to our financial performance, results of operation and cash flows. 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 operation and financial condition. The agricultural industry has been affected by declines in prices and the rates of price growth for various crops and other agricultural commodities. Similarly, weaker prices could reduce the cash flows generated by farms and the value of agricultural land in our local markets and thereby increase the risk of default by our borrowers or reduce the foreclosure value of agricultural land and equipment that serve as collateral of our loans. Further declines in commodity prices or collateral values may increase the incidence of default by our borrowers. Moreover, weaker prices might threaten farming operations in the Central Valley, reducing market demand for agricultural lending. In particular, farm income has seen recent declines, and in line with the downturn in farm income, farmland prices are coming under pressure.
We can provide no assurance that economic conditions in the United States in general and in the State of California and within our operating markets will not further deteriorate or that such deterioration will not materially and adversely affect us. A further deterioration in economic conditions locally, regionally or nationally could result in a further economic downturn in the Central Valley with the following consequences, any of which could further adversely affect our business:

- loan delinquencies and defaults may increase;
- problem assets and foreclosures may increase;
- demand for our products and services may decline;
- low cost or noninterest bearing deposits may decrease;

- collateral for loans may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral as sources of repayment of existing loans;
- foreclosed assets may not be able to be sold;
- volatile securities market conditions could adversely affect valuations of investment portfolio assets; and
- reputational risk may increase due to public sentiment regarding the banking industry.

Governmental monetary policies and intervention to stabilize the U.S. financial system may affect our business and are beyond our control.

The business of banking is affected significantly by the fiscal and monetary policies of the Federal government and its agencies. Such policies are beyond our control. We are particularly affected by the policies established by the Federal Reserve Board in relation to the supply of money and credit in the United States. The instruments of monetary policy available to the

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Federal Reserve Board can be used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits, and this can and does have a material effect on our business.

Tightening of credit markets and liquidity risk could adversely affect our business, financial condition and results of operations.
A tightening of the credit markets or any inability to obtain adequate funds for continued loan growth at an acceptable cost could adversely affect our asset growth and liquidity position and, therefore, our earnings capability. In addition to core deposit growth, maturity of investment securities and loan and lease payments, we also rely on alternative funding sources including unsecured borrowing lines with correspondent banks, secured borrowing lines with the Federal Home Loan Bank of San Francisco and the Federal Reserve Bank of San Francisco, and public time certificates of deposits. Our ability to access these sources could be impaired by deterioration in our financial condition as well as factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations for the financial services industry or serious dislocation in the general credit markets. In the event such a disruption should occur, our ability to access these sources could be adversely affected, both as to price and availability, which would limit or potentially raise the cost of the funds available to us.

Liquidity risks could affect operations and jeopardize our business, financial condition, and results of operations.
Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and/or investment securities and from other sources could have a substantial negative effect on our liquidity. Our most important source of funds consists of our customer deposits. Such deposit balances can decrease when customers perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments, we could lose a relatively low cost source of funds, which would require us to seek wholesale funding alternatives in order to continue to grow, thereby increasing our funding costs and reducing our net interest income and net income. Any decline in available funding could adversely impact our ability to continue to implement our strategic plan, including our ability to originate loans, invest in securities, meet our expenses, or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

Because a significant portion of our loan portfolio is comprised of real estate loans, negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses.
At December 31, 2018, $770 million, or 83.80% of our total loan and lease portfolio, consisted of real estate related loans. The real estate securing our loan portfolio is concentrated in California. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. As a result, adverse developments affecting real estate values in our market areas could increase the credit risk associated with our real estate loan portfolio. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, the rate of unemployment, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature, such as earthquakes and natural disasters. Adverse changes affecting real estate values and the liquidity of real estate in one or more of our markets could increase the credit risk associated with our loan portfolio, significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses, which could result in losses that would adversely affect profitability. Such declines and losses would have a material adverse impact on our business, results of operations and growth prospects. In addition, if hazardous or toxic substances are found on properties pledged as collateral, the value of the real estate could be impaired. If we foreclose on and take title to such properties, we may be liable for remediation costs, as well as for personal injury and property

damage. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property's value or limit our ability to use or sell the affected property.

Supervisory guidance on commercial real estate concentrations could restrict our activities and impose financial requirements or limits on the conduct of our business.

As a part of their regulatory oversight, the federal regulators have issued the CRE Concentration Guidance on sound risk management practices with respect to a financial institution's concentrations in commercial real estate lending activities. These guidelines were issued in response to the agencies' concerns that rising commercial real estate, or CRE, concentrations might expose institutions to unanticipated earnings and capital volatility in the event of adverse changes in the commercial real estate market. Existing guidance reinforces and enhances existing regulations and guidelines for safe and sound real estate lending by providing supervisory criteria, including numerical indicators to assist in identifying institutions with potentially significant commercial real estate loan concentrations that may warrant greater supervisory scrutiny. The guidance does not limit banks' commercial real estate lending, but rather guides institutions in developing risk management practices and levels of

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capital that are commensurate with the level and nature of their commercial real estate concentrations. The CRE Concentration Guidance identifies certain concentration levels that, if exceeded, will expose the institution to additional supervisory analysis with regard to the institution's CRE concentration risk. The CRE Concentration Guidance is designed to promote appropriate levels of capital and sound loan and risk management practices for institutions with a concentration of CRE loans. In general, the CRE Concentration Guidance establishes the following supervisory criteria as preliminary indications of possible CRE concentration risk: (i) the institution's total construction, land development and other land loans represent 100% or more of total risk-based capital; or (ii) total CRE loans as defined in the regulatory guidelines represent 300% or more of total risk-based capital, and the institution's CRE loan portfolio has increased by 50% or more during the prior 36-month period. Pursuant to the CRE Concentration Guidelines, loans secured by owner occupied commercial real estate are not included for purposes of CRE Concentration calculation. We believe that our underwriting policies, management information systems, independent credit administration process, and monitoring of real estate loan concentrations are currently sufficient to address the CRE Concentration Guidance.

Small Business Administration lending is an important part of our business. Our SBA lending program is dependent upon the U.S. federal government, and we face specific risks associated with originating SBA loans.

Our SBA lending program is dependent upon the U.S. federal government. As an approved participant in the SBA Preferred Lender's Program (an "SBA Preferred Lender"), we enable our clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders that are not SBA Preferred Lenders. The SBA periodically reviews the lending operations of participating lenders to assess, among other things, whether the lender exhibits prudent risk management. When weaknesses are identified, the SBA may request corrective actions or impose enforcement actions, including revocation of the lender's SBA Preferred Lender status. If we lose our status as an SBA Preferred Lender, we may lose some or all of our customers to lenders who are SBA Preferred Lenders, and as a result we could experience a material adverse effect to our financial results. Any changes to the SBA program, including but not limited to changes to the level of guarantee provided by the federal government on SBA loans, changes to program specific rules impacting volume eligibility under the guaranty program, as well as changes to the program amounts authorized by Congress may also have a material adverse effect on our business. In addition, any default by the U.S. government on its obligations or any prolonged government shutdown could, among other things, impede our ability to originate SBA loans or sell such loans in the secondary market, which could materially adversely affect our business, results of operations and financial condition.

The laws, regulations and standard operating procedures that are applicable to SBA loan products may change in the future. We cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies and especially our organization, changes in the laws, regulations and procedures applicable to SBA loans could adversely affect our ability to operate profitably.

If our allowance for credit losses is not sufficient to cover actual loan losses, our earnings could decrease.

Our loan customers may not repay their loans according to the terms of these loans, and the collateral securing the payment of these loans may be insufficient to assure repayment. We may experience significant credit losses that could have a material adverse effect on our operating results. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. We maintain an allowance for loan losses for probable incurred losses in our loan portfolio. The allowance is established through a provision for loan losses based on management's evaluation of the risks inherent in the loan portfolio and the general economy. The allowance is also appropriately increased for new loan growth. The allowance is based upon a number of factors, including the size of the loan portfolio, asset classifications, economic trends, industry experience and trends, industry and geographic concentrations, estimated collateral values, management's assessment of the credit risk inherent in the portfolio, historical loan loss experience and loan underwriting policies. The allowance is only an estimate of the probable incurred losses 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. If our assumptions prove to be incorrect, our current allowance my not be sufficient to cover future loan losses and adjustments may be necessary to allow for different economic conditions or adverse developments in our loan portfolio.

Our bank regulatory agencies will periodically review our allowance for loan losses and the value attributed to nonaccrual loans or to real estate acquired through foreclosure and may require us to adjust our determination of the value for these items. These adjustments may adversely affect our business, financial condition and results of operations.

Non-performing assets take significant time to resolve and adversely affect our results of operations and financial condition.

At December 31, 2018, our non-performing loans and leases were 0.30% of total loans and leases compared to 0.32% at December 31, 2017, and 0.29% at December 31, 2016, and our non-performing assets (which include foreclosed real estate) were 0.18% of total assets compared to 0.18% at December 31, 2017. The allowance for credit losses as a percentage of non-performing loans and leases was 332.26% as of December 31, 2018 compared to 305.32% at December 31, 2017. Non-performing assets adversely affect our net income in various ways. We generally do not record interest income on non-

performing loans or other real estate owned, thereby adversely affecting our income and increasing our loan administration costs. When we take collateral in foreclosures and similar proceedings, we are required to mark the related asset to the then fair value of the collateral, which may ultimately result in a loss. An increase in the level of non-performing assets increases our risk profile and may impact the capital levels our regulators believe are appropriate in light of the ensuing risk profile, which could result in a request to reduce our level of non-performing assets. When we reduce problem assets through loan sales, workouts, restructurings and otherwise, decreases in the value of the underlying collateral, or in these borrowers' performance or financial condition, whether or not due to economic and market conditions beyond our control, could adversely affect our business, results of operations and financial condition. In addition, the resolution of non-performing assets requires significant commitments of time from management and our directors, which can be detrimental to the performance of their other responsibilities. There can be no assurance that we will not experience future increases in non-performing assets or that the disposition of such non-performing assets will not adversely affect our profitability.

Our focus on lending to small to mid-sized community-based businesses may increase our credit risk.
Commercial real estate and commercial business loans generally are considered riskier than single-family residential loans because they have larger balances to a single borrower or group of related borrowers. Commercial real estate and commercial business loans involve risks because the borrowers' ability to repay the loans typically depends primarily on the successful operation of the businesses or the properties securing the loans. Most of the Bank's commercial real estate and commercial business loans are made to small to medium sized businesses who may have a heightened vulnerability to economic conditions. Moreover, a portion of these loans have been made by us in recent years and the borrowers may not have experienced a complete business or economic cycle. Furthermore, the deterioration of our borrowers' businesses may hinder their ability to repay their loans with us, which could adversely affect our results of operations.

Fluctuations in interest rates could reduce our profitability.
We realize income primarily from the difference between interest earned on loans and securities and the interest paid on deposits and borrowings. We expect that we will periodically experience "gaps" in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this "gap" will work against us, and our earnings may be negatively affected.
We are unable to predict fluctuations of market interest rates, which are affected by the following factors outside our control:

- inflation;
- recession;
- competition;
- a rise in unemployment;
- tightening money supply;
- international disorder; and
- instability in domestic and foreign financial markets.

Our asset/liability management strategy, which is designed to address the risk from changes in market interest rates and the shape of the yield curve, may not prevent changes in interest rates from having a material adverse effect on our results of operations and financial condition. In recent years, we have shifted our mix of assets from consisting primarily of loans to a more balanced mix of loans and securities. 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.
Additionally, increasing levels of competition in the banking and financial services business may decrease our net interest spread as well as net interest margin by forcing us to offer lower lending interest rates and pay higher deposit interest rates. Although we believe our current level of interest rate sensitivity is reasonable, significant fluctuations in interest rates (such as a sudden and substantial increase in Prime and Overnight Fed Funds rates) as well as increasing

competition may require us to increase rates on deposits at a faster pace than the yield we receive on interest earning assets increases. The impact of any sudden and substantial move in interest rates and/or increased competition may have an adverse effect on our business, results of operations and financial condition as our net interest income (including the net interest spread and margin) may be negatively impacted.

Furthermore, a sustained decrease in market interest rates could adversely affect our earnings. When interest rates decline borrowers tend to refinance higher-rate, fixed-rate loans to lower rates, prepaying their existing loans. Under those circumstances we would not be able to reinvest those prepayments in assets earning interest rates as high as the rates on the prepaid loans. In addition, our commercial real estate and commercial loans, which carry interest rates that, in general, adjust in accordance with changes in the prime rate, will adjust to lower rates. We are also significantly affected by the level of loan demand available in our market. The inability to make sufficient loans directly affects the interest income we earn. Lower loan demand will generally result in lower interest income realized as we place funds in lower yielding investments.

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As a result of the Dodd-Frank Act and recent rulemaking, we are subject to more stringent capital requirements.
In July 2013, the U.S. federal banking authorities approved the implementation of the Basel III regulatory capital reforms, or Basel III, and issued rules effecting certain changes required by the Dodd-Frank Act. Basel III is applicable to all U.S. banks that are subject to minimum capital requirements as well as to bank and saving and loan holding companies, other than “small bank holding companies” (generally bank holding companies with consolidated assets of less than $1.0 billion). Basel III not only increases most of the required minimum regulatory capital ratios, it introduces a new common equity Tier 1 capital ratio and the concept of a capital conservation buffer. Basel III also expands the current definition of capital by establishing additional criteria that capital instruments must meet to be considered additional Tier 1 and Tier 2 capital. In order to be a “well-capitalized” depository institution under the new regime, an institution must maintain a common equity Tier 1 capital ratio of 6.5% or more; a Tier 1 capital ratio of 8% or more; a total capital ratio of 10% or more; and a Tier 1 leverage ratio of 5% or more. The Basel III capital rules became effective as applied to the Company and the Bank on January 1, 2015 with a phase-in period that generally extends through January 1, 2019 for many of the changes.
The failure to meet applicable regulatory capital requirements could result in one or more of our regulators placing limitations or conditions on our activities, including our growth initiatives, or restricting the commencement of new activities, and could affect customer and investor confidence, our costs of funds and FDIC insurance costs, our ability to pay dividends on our common stock, our ability to make acquisitions, and our business, results of operations and financial conditions, generally.

Competition with other financial institutions could adversely affect our profitability.
We face vigorous competition from banks and other financial institutions, including savings institutions, finance companies and credit unions. A number of these banks and other financial institutions have substantially greater resources and lending limits, larger branch systems and a wider array of banking services. To a limited extent, we also compete with other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies and insurance companies. This competition may reduce or limit our margins on banking services, reduce our market share and adversely affect our results of operations and financial condition. Additionally, we face competition primarily from other banks in attracting, developing and retaining qualified banking professionals.
Recently, several new banks have opened in our service areas. We are seeing price competition from these new banks, as they work to establish their markets. The existence of competitors, large and small, is a normal and expected part of our operations, but in responding to the particular short-term impact on business of new entrants to the marketplace, we could see a negative impact on revenue and income. Moreover, these near term impacts could be accentuated by the seasonal impact on revenue and income generated by the borrowing and deposit habits of the agricultural community that comprises a significant component of our customer base.

Technology is continually changing and we must effectively implement new technologies.
Our future growth prospects will be highly dependent on our ability to implement changes in technology that affect the delivery of banking services such as the increased demand for computer access to bank accounts and the availability to perform banking transactions electronically. Our ability to compete will depend upon our ability to continue to adapt technology on a timely and cost-effective basis to meet such demands. In addition, our business and operations could be susceptible to adverse effects from computer failures, communication and energy disruption, and activities such as fraud of unethical individuals with the technological ability to cause disruptions or failures of our data processing system.

If our information systems were to experience a system failure, our business and reputation could suffer.
We rely heavily on communications and information systems to conduct our business. The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to minimize service disruptions by protecting our computer equipment, systems, and network infrastructure from physical damage due to fire, power loss, telecommunications failure or a similar catastrophic event. We have

protective measures in place to prevent or limit the effect of the failure or interruption of our information systems, and will continue to upgrade our security technology and update procedures to help prevent such events. However, if such failures or interruptions were to occur, they could result in damage to our reputation, a loss of customers, increased regulatory scrutiny, or possible exposure to financial liability, any of which could have a material adverse effect on our business, financial condition and results of operations.

The occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity-related incidents could have a material adverse effect on our business, financial condition and results of operations.
As a financial institution we are susceptible to fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us or our customers which may result in financial losses or increased costs to us or our customers, disclosure or misuse of our information or our customer information, misappropriation of assets, privacy breaches against our customers, litigation, or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, on-line banking, phishing, social engineering and other dishonest acts. Information security breaches and cybersecurity-related incidents may include fraudulent or unauthorized access to systems used by us or our customers, denial or degradation of service attacks, and malware or other cyber-attacks. In recent periods,

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there continues to be a rise in electronic fraudulent activity, security breaches and cyber-attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts. Consistent with industry trends we have also experienced an increase in attempted electronic fraudulent activity, security breaches and cybersecurity-related incidents in recent periods. Moreover, in recent periods, several large corporations, including financial institutions and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers and employees and subjecting them to potential fraudulent activity. Some of our customers may have been affected by these breaches which increase their risks of identity theft, credit card fraud and other fraudulent activity that could involve their accounts with us.

Information pertaining to us and our customers is maintained and transactions are executed on the networks and systems of ours, our customers and certain of our third party partners, such as our online banking or core systems. The secure maintenance and transmission of confidential information as well as execution of transactions over these systems are essential to protect us and our customers against fraud and security breaches and to maintain our customers' confidence. Breaches of information security also may occur, and in infrequent, incidental, cases have occurred, through intentional or unintentional acts by those having access to our systems or our customers' or counterparties' confidential information, including employees. In addition, increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third-party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our customers and underlying transactions as well as the technology used by our customers to access our systems. Although we have developed and continue to invest in systems and processes that are designed to detect and prevent security breaches and cyber-attacks and periodically test our security, our inability to anticipate, or failure to adequately mitigate, breaches of security could result in: losses to us or our customers; our loss of business and/or customers; damage to our reputation; the incurrence of additional expenses; disruption to our business; our inability to grow our online services or other businesses; additional regulatory scrutiny or penalties; or our exposure to civil litigation and possible financial liability - any of which could have a material adverse effect on our business, financial condition and results of operations.

More generally, publicized information concerning security and cyber-related problems could inhibit the use or growth of electronic or web-based applications or solutions as a means of conducting commercial transactions. Such publicity may also cause damage to our reputation as a financial institution. As a result, our business, financial condition and results of operations could be adversely affected.

Our controls over financial reporting and related governance procedures may fail or be circumvented.

Management regularly reviews and updates our internal control over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. We maintain controls and procedures to mitigate risks such as processing system failures or errors and customer or employee fraud, and we maintain insurance coverage for certain of these risks. Any system of controls and procedures, however well designed and operated, is based in part on certain assumptions and provides only reasonable, not absolute, assurances that the objectives of the system are met. Events could occur which are not prevented or detected by our internal controls, are not insured against, or are in excess of our insurance limits. Any failure or circumvention of our controls and procedures, or failure to comply with regulations related to controls and procedures, could have an adverse effect on our business.

The current expected credit loss standard established by the Financial Accounting Standards Board will require significant data requirements and changes to methodologies.

In the aftermath of the 2007-2008 financial crisis, the Financial Accounting Standards Board, or FASB, decided to review how banks estimate losses in the allowance for credit loss calculation, and it issued the final Current Expected Credit Loss, or CECL, standard on June 16, 2016. Currently, the impairment model used by financial institutions is based on incurred losses, and loans are recognized as impaired when there is no longer an assumption that future cash flows will be collected in full under the originally contracted terms. This model will be replaced by the CECL model

that will become effective for the Bank for the fiscal year beginning after December 15, 2019 in which financial institutions will be required to use historical information, current conditions and reasonable forecasts to estimate the expected loss over the life of the loan. Management established a task force to begin the implementation process. The transition to the CECL model will require significantly greater data requirements and changes to methodologies to accurately account for expected losses. The Bank will likely be required to increase its allowance for credit losses as a result of the implementation of CECL. An increase in the allowance would increase the provision for credit losses, decreasing net income and retained earnings.

On April 13, 2018, the Federal Reserve Board, FDIC, and Office of the Comptroller of the Currency issued a Notice of Proposed Rulemaking regarding the implementation of CECL methodology for allowances and related adjustments to regulatory capital rules. This proposed rule is subject to a 60-day comment period but, if implemented as proposed, the primary impact would be that the Bank would be able to phase in over three years the adverse effects on regulatory capital that may result from the adoption of CECL. As stated above, the Bank will be required to adopt CECL beginning in the first fiscal year beginning after December 15, 2019.

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We have a significant deferred tax asset and cannot assure that it will be fully realized.
Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between the carrying amounts and tax basis of assets and liabilities computed using enacted tax rates. We regularly assess available positive and negative evidence to determine whether it is more likely than not that our net deferred tax asset will be realized. Realization of a deferred tax asset requires us to apply significant judgment and is inherently speculative because it requires estimates that cannot be made with certainty. At December 31, 2018, we had a net deferred tax asset of $11.183 million. If we were to determine at some point in the future that we will not achieve sufficient future taxable income to realize our net deferred tax asset, we would be required, under generally accepted accounting principles, to establish a full or partial valuation allowance which would require us to incur a charge to operations for the period in which the determination was made.

The effects of changes to FDIC insurance coverage limits are uncertain and increased premiums may adversely affect us.
The Bank's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to applicable legal limits. All of a 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.
Increases in FDIC insurance premiums will add to our cost of operations and could have a significant impact on the Bank. Depending on any future losses that the FDIC insurance fund may suffer due to failed institutions, there can be no assurance that there will not be additional significant premium increases in order to replenish the fund.
On February 7, 2011, the FDIC Board of Directors adopted the final rule, which redefined the deposit insurance assessment base as required by Dodd-Frank, and makes changes to assessment rates, implements Dodd-Frank's Deposit Insurance Fund (DIF) dividend provisions, and revises the risk based assessment system for all large institutions. The final rule redefined the deposit insurance assessment base as average consolidated total assets minus average tangible equity, defined as Tier 1 capital. The rule lowered overall assessment rates in order to generate the same approximate amount of revenue under the new larger base as was raised under the old base. In 2016, the FDIC board of directors approved a final rule revising DIF assessment formulas for community banks with less than $10 billion in assets that have been FDIC-insured for at least five years. The revised method better reflects risks and helps ensure that banks that take on greater risks pay more for deposit insurance than their less risk counterparts. The method change is revenue-neutral meaning aggregate assessment revenue collected from established small banks is expected to be approximately the same as it would have been using the prior method. Assessments were expected to drop by an average of approximately one-third. The range of initial assessment rates for all institutions declines to between 3 cents and 30 cents per $100 of the assessment base from between 5 cents and 35 cents.

We have and in the future we may be required to recognize impairment with respect to investment securities, including the FHLB stock we hold.
Our securities portfolio contains whole loan private mortgage-backed securities and currently includes securities with unrecognized losses and securities that have been downgraded to below investment grade by national rating agencies. We may continue to observe declines in the fair market value of these securities. We evaluate the securities portfolio for any other-than-temporary impairment each reporting period, as required by generally accepted accounting principles. Numerous factors, including the lack of liquidity for re-sales of certain securities, the absence of reliable pricing information for securities, adverse changes in the business climate, adverse regulatory actions or unanticipated changes in the competitive environment, could have a negative effect on our securities portfolio and results of operations in future periods. There can be no assurance, however, that future evaluations of the securities portfolio will not require us to recognize further impairment charges with respect to these and other holdings.
In addition, as a condition to membership in the Federal Home Loan Bank of San Francisco (the FHLB), we are required to purchase and hold a certain amount of FHLB stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB. At December 31, 2018, we held stock in the

FHLB totaling $6,843,000 as compared to our minimum required stock holding of $6,200,000. The FHLB stock held by us is carried at cost and is subject to recoverability testing under applicable accounting standards. To date, the FHLB has not discontinued the distribution of dividends on its shares. However, there can be no assurance the FHLB's dividend paying practices will continue. As of December 31, 2018, we did not recognize an impairment charge related to our FHLB stock holdings. There can be no assurance, however, that future negative changes to the financial condition of the FHLB may not require us to recognize an impairment charge with respect to such holdings.

If the goodwill we have recorded in connection with our acquisitions becomes impaired, it could have an adverse impact on our earnings and capital.

At December 31, 2018, we had approximately $53,777,000 of goodwill on our balance sheet attributable to our acquisitions of the Bank of Madera County in January 2005, Service 1st Bancorp in November 2008, Visalia Community Bank in July 2013, Sierra Vista Bank in October 2016, and Folsom Lake Bank in October 2017. In accordance with generally accepted accounting principles, our goodwill is not amortized but rather evaluated for impairment on an annual basis or more frequently if events or circumstances indicate that a potential impairment exists. Such evaluation is based on a variety of factors, including the quoted price of our common stock, market prices of the common stock of other banking organizations, common stock trading multiples, discounted cash flows, and data from comparable acquisitions. There can be no assurance that future evaluations of goodwill will not result in findings of impairment and write-downs, which could be material.

We may not be successful in raising additional capital needed in the future.

We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business strategies. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time which are outside of our control, and our financial performance. We cannot be assured that such capital will be available to us on acceptable terms or at all. Any occurrence that may limit our access to the capital markets may adversely affect our capital costs and our ability to raise capital. Moreover, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a material adverse effect on our business, results of operations and financial condition.

We may raise additional capital, which could have a dilutive effect on the existing holders of our common stock and adversely affect the market price of our common stock.

We are not restricted from issuing additional shares of common stock or securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. We frequently evaluate opportunities to access the capital markets taking into account our regulatory capital ratios, financial condition and other relevant considerations, and subject to market conditions, we may take further capital actions. Such actions could include, among other things, the issuance of additional shares of common stock in public or private transactions in order to further increase our capital levels above the requirements for a well-capitalized institution established by the Federal bank regulatory agencies as well as other regulatory targets.

The issuance of any additional shares of common stock or securities convertible into or exchangeable for common stock or that represent the right to receive common stock, or the exercise of such securities including, without limitation, securities issued upon exercise of outstanding stock options under our stock option plans, could be substantially dilutive to shareholders of our common stock. With the exception of one major shareholder, holders of our shares of common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in increased dilution to our shareholders. The market price of our common stock could decline as a result of sales of shares of our common stock or the perception that such sales could occur.

We may not be able to maintain our historical growth rate which may adversely impact our results of operations and financial condition.

We have initiated internal asset growth programs, completed various acquisitions and opened additional offices in the past few years. We may not be able to sustain our historical rate of asset growth or may not even be able to grow at all. We may not be able to obtain the financing necessary to fund additional asset growth and may not be able to find suitable candidates for acquisition. Various factors, such as economic conditions and competition, may impede or prohibit the opening of new branch offices. Further, our inability to attract and retain experienced bankers may adversely affect our internal asset growth. A significant decrease in our historical rate of asset growth may adversely

impact our results of operations and financial condition.

We may be unable to complete future acquisitions, and once complete, may not be able to integrate our acquisitions successfully.

Our growth strategy includes our desire to acquire other financial institutions. We may not be able to complete any future acquisitions and, for completed acquisitions, we may not be able to successfully integrate the operations, management, products and services of the entities we acquire. We may not realize expected cost savings or make revenue enhancements. Following each acquisition, we must expend substantial managerial, operating, financial and other resources to integrate these entities. In particular, we may be required to install and standardize adequate operational and control systems, deploy or modify equipment, implement marketing efforts in new as well as existing locations and employ and maintain qualified personnel. Our failure to successfully integrate the entities we acquire into our existing operations may adversely affect our financial condition and results of operations.

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Our ability to maintain our reputation is critical to the success of our business, and the failure to do so may materially adversely affect our business and the value of our common stock.
We are a community bank, and our reputation is one of the most valuable components of our business. Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, and questionable or fraudulent activities of our customers. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers, investors and employees, costly litigation, a decline in revenues and increased governmental regulation. If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results and the value of our common stock may be materially adversely affected.

Our risk management framework may not be effective in mitigating risks and/or losses to us.
Our risk management framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which we are subject, including, among others, credit, market, liquidity, interest rate and compliance. Our framework also includes financial or other modeling methodologies that involve management assumptions and judgment. Our risk management framework may not be effective under all circumstances and may not adequately mitigate any risk or loss to us. If our risk management framework is not effective, we could suffer unexpected losses and our business, financial condition, results of operations or growth prospects could be materially and adversely affected. We may also be subject to potentially adverse regulatory consequences.

We operate in a highly regulated environment and may be adversely affected by changes in federal and local laws and regulations.
We are subject to extensive regulation, supervision and examination by federal and state banking authorities. Any change in applicable regulations or federal or state legislation could have a substantial impact on us and our operations. Additional legislation and regulations may be enacted or adopted in the future that could significantly affect our powers, authority and operations, which could have a material adverse effect on our financial condition and results of operations. Further, regulators have significant discretion and power to prevent or remedy unsafe or unsound practices or violations of laws by banks and bank holding companies in the performance of their supervisory and enforcement duties. The exercise of this regulatory discretion and power may have a negative impact on us.

The price of our common stock may fluctuate significantly, and this may make it difficult for you to resell shares of common stock owned by you at times or at prices you find attractive.
The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility, which, in recent quarters, has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices for certain issuers without regard to those issuers' underlying financial strength. As a result, the trading volume in our common stock may fluctuate more than usual and cause significant price variations to occur. This may make it difficult for you to resell shares of common stock owned by you at times or at prices you find attractive. The low trading volume in our common shares on the NASDAQ Capital Market means that our shares may have less liquidity than other publicly traded companies. We cannot ensure that the volume of trading in our common shares will be maintained or will increase in the future.
The trading price of the shares of our common stock will depend on many factors, which may change from time to time and which may be beyond our control, including, without limitation, our financial condition, performance, creditworthiness and prospects, future sales or offerings of our equity or equity related securities, and other factors identified above in the forward-looking statement discussion under the section titled "Cautionary Statements Regarding Forward-Looking Statements" and below. These broad market fluctuations have adversely affected and may continue to adversely affect the market price of our common stock. Among the factors that could affect our stock price are:

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in financial estimates or publication of research reports and recommendations by financial analysts or actions taken by rating agencies with respect to our common stock or those of other financial institutions;

- failure to meet analysts’ revenue or earnings estimates;
- speculation in the press or investment community generally or relating to our reputation, our market area, our competitors or the financial services industry in general;
- strategic actions by us or our competitors, such as acquisitions, restructurings, dispositions or financings;
- actions by our current shareholders, including sales of common stock by existing shareholders and/or directors and executive officers;
- fluctuations in the stock price and operating results of our competitors;
- future sales of our equity, equity-related or debt securities;

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- changes in the frequency or amount of dividends or share repurchases;
- proposed or adopted regulatory changes or developments;
- anticipated or pending investigations, proceedings, or litigation that involves or affects us;
- trading activities in our common stock, including short-selling;
- domestic and international economic factors unrelated to our performance; and
- general market conditions and, in particular, developments related to market conditions for the financial services industry.

A significant decline in our stock price could result in substantial losses for individual shareholders.

ITEM 1B - UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2 - DESCRIPTION OF PROPERTY

The Company owns the property on which full-service branch offices are situated at the following California locations: the Clovis Main office in Clovis, the Foothill office in Prather, the Modesto office, the Kerman office, the Floral office in Visalia, and the Exeter office.

All other property is leased by the Company, including the principal executive offices in Fresno. This facility houses the Company's corporate offices, comprised of various departments, including accounting, information services, human resources, real estate department, loan servicing, credit administration, branch support operations, and compliance.

The Company continually evaluates the suitability and adequacy of the Company's offices and has a program of relocating or remodeling them as necessary to be efficient and attractive facilities. Management believes that its existing facilities are adequate for its present purposes.

Properties owned by the Bank are held without loans or encumbrances. All of the property leased is leased directly from independent parties. Management considers the terms and conditions of each of the existing leases to be in the aggregate favorable to the Company. See Note 12 of the Company's audited Consolidated Financial Statements in Item 8 of this Annual Report.

ITEM 3 - LEGAL PROCEEDINGS

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.

None of our directors, officers, affiliates, more than 5% shareholders or any associates of these persons is a party adverse to the Company or the Bank or has a material interest adverse to the Company or the Bank in any material legal proceeding.

ITEM 4 - MINE SAFETY DISCLOSURES

None to report.

PART II

ITEM 5 - MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed for trading on the Nasdaq Capital Market under the ticker symbol CVCY. As of March 7, 2019, we had approximately 1,020 shareholders of record.
The following table shows the high and low sales prices for the common stock for each quarter as reported by The NASDAQ Stock Market and cash dividend payment for each quarter presented.

Common Stock Prices and Dividends

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	Quarter 1 2017	Quarter 2 2017	Quarter 3 2017	Quarter 4 2017	Quarter 1 2018	Quarter 2 2018	Quarter 3 2018	Quarter 4 2018
High	$ 22.44	$ 23.94	$ 23.28	$ 22.75	$ 21.70	$ 22.34	$ 22.14	$ 21.89
Low	$ 18.42	$ 17.62	$ 18.57	$ 19.06	$ 18.05	$ 19.02	$ 20.82	$ 15.66
Dividends per share	$ 0.06	$ 0.06	$ 0.06	$ 0.06	$ 0.07	$ 0.07	$ 0.08	$ 0.09

We paid common share cash dividends of $0.31 and $0.24 per share in 2018 and 2017, respectively. The Company's primary source of income with which to pay cash dividends is dividends from the Bank. See Note 13 in the audited Consolidated Financial Statements in Item 8 of this Annual Report.
The amount of future dividends will depend upon our earnings, financial condition, capital requirements and other factors, and will be determined by our board of directors on a quarterly basis. It is Federal Reserve policy that bank holding companies generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also Federal Reserve policy that bank holding companies not maintain dividend levels that undermine the holding company's ability to be a source of strength to its banking subsidiaries. Additionally, in consideration of the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong. Under the federal Prompt Corrective Action regulations, the Federal Reserve or the FDIC may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as undercapitalized.
As a holding company, our ability to pay cash dividends is affected by the ability of our bank subsidiary, to pay cash dividends. The ability of the Bank (and our ability) to pay cash dividends in the future and the amount of any such cash dividends is and could be in the future further influenced by bank regulatory requirements and approvals and capital guidelines.
The decision whether to pay dividends will be made by our board of directors in light of conditions then existing, including factors such as our results of operations, financial condition, business conditions, regulatory capital requirements and covenants under any applicable contractual arrangements, including agreements with regulatory authorities.
The Company has outstanding trust preferred securities from special purpose trust and accompanying subordinated debt. The subordinated debt is senior to our shares of common stock. As a result, we must make payments on the subordinated debt before any dividends can be paid on our common stock. Under the terms of the subordinated debt, we may defer interest payments for up to five years. If the Company should ever defer such interest payments, we would be prohibited from declaring or paying any cash dividends on any shares of our common stock.
For information on the statutory and regulatory limitations on the ability of the Company to pay dividends and on the Bank to pay dividends to Company see "Item 1 - Business - Supervision and Regulation - Dividends."
ISSUER PURCHASES OF EQUITY SECURITIES

A summary of the repurchase activity of the Company's common stock for the fourth quarter of the year ended December 31, 2018 follows.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans (1) (2)	Approximate dollar value of shares that may yet be purchased under current plans (in thousands)
10/1/2018 - 10/31/2018	—	$ —	—	$ 10,000

11/1/2018 - 11/30/2018	—	—	—	10,000
12/1/2018 - 12/31/2018	47,862	18.68	47,862	9,106
Total	47,862	$ 18.68	47,862	

(1) The Company approved a stock repurchase program effective July 18, 2018 with the intent to purchase up to $10,000,000 worth of the Company's outstanding common stock, or approximately 470,810 shares. During the year ended December 31, 2018, the Company repurchased and retired a total of 47,862 shares at an approximate cost of $894,000. As adopted, the stock repurchase program will expire on July 18, 2019.
(2) All share repurchases were effected in accordance with the safe harbor provisions of Rule 10b-18 of the Securities Exchange Act.

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EQUITY COMPENSATION PLAN INFORMATION

The following chart sets forth information for the year ended December 31, 2018, regarding equity based compensation plans of the Company.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)		Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)	
Equity compensation plans approved by security holders	154,440	(1)	$ 8.68	809,996	(2)
Equity compensation plans not approved by security holders	N/A		N/A	N/A	
Total	154,440		$ 8.68	809,996	

(1) Under the Central Valley Community Bancorp 2015 Omnibus Incentive Plan (2015 Plan) and the Central Valley Community Bancorp 2005 Omnibus Incentive Plan (2005 Plan), the Company is authorized to issue restricted stock awards. Restricted stock awards are not included in the total in column (a). See Note 14 in the audited Consolidated Financial Statements in Item 8 of this Annual Report.

(2) Includes securities available for issuance of stock options and restricted stock.

At December 31, 2018, there were 63,529 shares of restricted common stock issued and outstanding. No options to purchase shares of the Company's common stock were issued during the years ended December 31, 2018 and 2017 from any of the Company's stock based compensation plans. During the year ended December 31, 2018, 22,204 shares of restricted common stock were granted under the 2015 Plan. No restricted common stock shares were granted during the year ended December 31, 2017.

ITEM 6 - SELECTED CONSOLIDATED FINANCIAL DATA

(In thousands, except per-share amounts)	Years Ended December 31, 2018	2017	2016	2015	2014
Statements of Income					
Total interest income	$64,187	$57,376	$46,676	$41,822	$41,039
Total interest expense	1,484	1,137	1,096	1,047	1,156
Net interest income before provision for credit losses	62,703	56,239	45,580	40,775	39,883
Provision for (reversal of) credit losses	50	(1,150)	(5,850)	600	7,985
Net interest income after provision for credit losses	62,653	57,389	51,430	40,175	31,898
Non-interest income	10,324	10,836	9,591	9,387	8,164
Non-interest expenses	45,068	44,406	38,922	36,016	35,338
Income before provision for (benefit from) income taxes	27,909	23,819	22,099	13,546	4,724
Provision for (benefit from) income taxes	6,620	9,793	6,917	2,582	(570)
Net income	$21,289	$14,026	$15,182	$10,964	$5,294
Basic earnings per share	$1.55	$1.12	$1.34	$1.00	$0.48
Diluted earnings per share	$1.54	$1.10	$1.33	$1.00	$0.48
Cash dividends declared per common share	$0.31	$0.24	$0.24	$0.18	$0.20

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	December 31,				
(In thousands)	2018	2017	2016	2015	2014
Balances at end of year:					
Investment securities, Federal funds sold and deposits in other banks	$477,932	$604,801	$558,132	$580,544	$520,511
Net loans	909,591	891,901	747,302	588,501	564,280
Total deposits	1,282,298	1,425,687	1,255,979	1,116,267	1,039,152
Total assets	1,537,836	1,661,655	1,443,323	1,276,736	1,192,183
Shareholders’ equity	219,738	209,559	164,033	139,323	131,045
Earning assets	1,406,987	1,505,436	1,319,065	1,173,591	1,074,942
Average balances:					
Investment securities, Federal funds sold and deposits in other banks	$526,606	$568,426	$560,860	$529,046	$513,866
Net loans	903,204	784,085	636,475	577,784	531,382
Total deposits	1,333,754	1,284,305	1,144,231	1,065,798	1,006,560
Total assets	1,577,410	1,491,696	1,321,007	1,222,526	1,157,483
Shareholders’ equity	211,324	182,507	154,325	135,062	130,414
Earning assets	1,435,025	1,358,930	1,205,142	1,112,758	1,052,097

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

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ITEM 7 - 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; (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 quality of the Company's earning assets; (7) 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. 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," "b 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 2018, we focused on asset quality and capital adequacy due to the uncertainty created by the economy. 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, 2018, the Bank operated 21 full-service offices. The Bank has a Real Estate Division, an Agribusiness Center and an SBA Lending Division in Fresno. 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

Over the last several years the economy, as evidenced by the California and Central Valley unemployment rates, and housing prices have shown slow but steady improvement. Housing in the Central Valley continues to be relatively more affordable than the major metropolitan areas in California.

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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.
An additional negative affect on the agricultural is the "Tariff War", especially with China. The increased tariffs on agricultural products by China has an adverse effect on demand potentially causing financial difficulty for farmers. We are closely monitoring how the agricultural industry is adapting through developing new markets for their products.

OVERVIEW

Diluted earnings per share (EPS) for the year ended December 31, 2018 was $1.54 compared to $1.10 and $1.33 for the years ended December 31, 2017 and 2016, respectively. Net income for 2018 was $21,289,000 compared to $14,026,000 and $15,182,000 for the years ended December 31, 2017 and 2016, respectively. The increase in net income and EPS was primarily driven by the increase in net interest income and decrease in provision for income taxes, offset by the increase in non-interest expense, increase in provision for credit losses, and decrease in non-interest income in 2018 compared to 2017. Total assets at December 31, 2018 were $1,537,836,000 compared to $1,661,655,000 at December 31, 2017.
Return on average equity for 2018 was 10.07% compared to 7.69% and 9.84% for 2017 and 2016, respectively. Return on average assets for 2018 was 1.35% compared to 0.94% and 1.15% for 2017 and 2016, respectively. Total equity was $219,738,000 at December 31, 2018 compared to $209,559,000 at December 31, 2017. The increase in equity in 2018 compared to 2017 was primarily driven by the retention of earnings, net of dividends paid, offset by a decrease in unrealized gains on available-for-sale securities, net of estimated taxes, recorded in accumulated other comprehensive income (AOCI).
Average total loans increased $118,785,000 or 14.97% to $912,128,000 in 2018 compared to $793,343,000 in 2017. In 2018, we recorded a provision for credit losses of $50,000 compared to a reverse provision of $1,150,000 in 2017 and a reverse provision of $5,850,000 in 2016. The Company had nonperforming assets consisting of $2,740,000 in nonaccrual loans at December 31, 2018. At December 31, 2017, nonperforming assets totaled $2,945,000. Net loan loss recoveries for 2018 were $276,000 compared to $602,000 for 2017 and $5,566,000 for 2016. Refer to "Asset Quality" below for further information.

Dividend Declared

On January 23, 2019, the Board of Directors declared a $0.10 per share cash dividend payable on February 23, 2019 to shareholders of record as of February 8, 2019.

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). ROE is a ratio that measures net income divided by average shareholders' equity. Our ROE was 10.07% for the year ended 2018 compared to 7.69% and 9.84% for the years ended 2017 and 2016, respectively.
Our net income for the year ended December 31, 2018 increased $7,263,000 compared to 2017 and decreased $1,156,000 in 2017 compared to 2016. During 2018, net income compared to 2017 was positively impacted by the decrease in tax expense. 2017 was negatively impacted by the re-measurement of our deferred tax asset and corresponding increase in tax

expense. Also contributing to the increase during 2018 was an increase in net interest income, partially offset by an increase in the provision for credit losses, an increase in non-interest expense and a decrease in non-interest income. Net interest income increased primarily because of increases in loan and investment income, offset by increases in interest expense on deposits. The impact to interest income from the accretion of the loan marks on acquired loans was an increase of $1,158,000 and $1,048,000 for the years ended December 31, 2018 and 2017, respectively. For 2018, our net interest margin (NIM) increased four basis points to 4.44% compared to 2017. Our net interest margin increased as a result of yield changes, increase in interest rates, asset mix changes, and an increase in average earning assets. The increase in net interest margin in the period-to-period comparison resulted primarily from the increase in the effective yield on interest earning deposits in other banks and Federal Funds sold, offset by the decrease in the effective yield on average investment securities, and the decrease in the yield on the Company's loan portfolio. Net interest income during 2018 was positively impacted by the collection of nonaccrual loans which resulted in a recovery of interest income of approximately $720,000. The recovery was partially offset by reversal of approximately $222,000 in interest income on loans placed on nonaccrual during the year. Net interest income during 2017 was positively impacted by the collection of nonaccrual loans which resulted in a net recovery of interest income of approximately $1,325,000. The recovery in 2017 was partially offset by reversal of approximately $12,000 in interest income on loans placed on nonaccrual during the year.

Non-interest income decreased 4.72% in 2018 compared to 2017 primarily due to a $1,488,000 decrease in net realized gains on sales and calls of investment securities and a decrease in service charge income of $67,000. The decrease in non-interest income was offset by a net gain of $462,000 on the sale of the Company's credit card portfolio, an increase in appreciation in cash surrender value of bank owned life insurance of $74,000, and a $147,000 increase in Federal Home Loan Bank dividends.

Non-interest expenses increased $662,000 or 1.49% to $45,068,000 in 2018 compared to $44,406,000 in 2017. The net increase year over year was primarily attributable to the FLB acquisition, which resulted in increases in salaries and employee benefits of $1,483,000, occupancy and equipment expenses of $786,000, operating losses of $302,000, information technology of $295,000, advertising fees of $120,000, and amortization of core deposit intangibles of $221,000,offset by decrease in acquisition and integration expenses of $1,611,000, a decrease of $124,000 in credit card expenses, a decrease of $132,000 in directors' expenses, and a decrease of $74,000 in data processing expenses, in 2018 compared to 2017. The Company recorded an income tax provision of $6,620,000 for the year ended December 31, 2018, compared to $9,793,000 for the year ended December 31, 2017. The Company recognized additional tax expense in 2017 in the amount of $3,535,000 related to a tax law change enacted in 2017. Basic EPS was $1.55 for 2018 compared to $1.12 and $1.34 for 2017 and 2016, respectively. Diluted EPS was $1.54 for 2018 compared to $1.10 and $1.33 for 2017 and 2016, respectively. The increase in EPS for 2018 is primarily due to the increase in net income.

Return on Average Assets

Our return on average assets (ROA) is a ratio that measures our performance compared with other banks and bank holding companies. Our ROA for the year ended 2018 was 1.35% compared to 0.94% and 1.15% for the years ended December 31, 2017 and 2016, respectively. The 2018 increase in ROA is primarily due to the increase in net income. Annualized ROA for our peer group was 1.31% at December 31, 2018. Peer group information from SNL Financial data includes bank holding companies in central California with assets from $600 million 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 the cost of funds. Our net interest margin (fully

tax equivalent basis) was 4.44% for the year ended December 31, 2018, compared to 4.40% and 4.06% for the years ended December 31, 2017 and 2016, respectively. We experienced an increase in 2018 net interest margin compared to 2017, resulting from the increase in the effective yield on interest earning deposits in other banks and Federal Funds sold, offset by the decrease in the effective yield on average investment securities, and the decrease in the yield on the Company's loan portfolio. The effective tax equivalent yield on total earning assets increased six basis points, while the cost of total interest-bearing liabilities increased slightly to 0.19% for the year ended December 31, 2018. Our cost of total deposits in 2018 and 2017 was 0.09% and 0.08%, respectively, compared to 0.09% for the same period in 2016. Our net interest income before provision for credit losses increased $6,464,000 or 11.49% to $62,703,000 for the year ended 2018 compared to $56,239,000 and $45,580,000 for the years ended 2017 and 2016, 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 2018 decreased $512,000 or 4.72% to $10,324,000 compared to $10,836,000 in 2017 and

$9,591,000 in 2016. The decrease resulted primarily from decreases in net realized gains on sales and calls of investment securities and service charge income, partially offset by a increase in loan placement fees, net gain on the sale of the Company's credit card portfolio, interchange fees, appreciation in cash surrender value of bank owned life insurance, and Federal Home Loan Bank dividends compared to 2017. Further detail on non-interest income is provided below.

Asset Quality

For all banks and bank holding companies, asset quality has a significant impact on the overall financial condition and results of operations. Asset quality is measured in terms of classified and nonperforming loans, and is a key element in estimating the future earnings of a company. Total nonperforming assets were $2,740,000 and $2,945,000 at December 31, 2018 and 2017, respectively. Nonperforming assets totaled 0.30% of gross loans as of December 31, 2018 and 0.33% of gross loans as of December 31, 2017. Nonperforming loans were $2,740,000 and $2,875,000 at December 31, 2018 and 2017, respectively. The Company had no other real estate owned at December 31, 2018, December 31, 2017, and December 31, 2016. The carrying value of foreclosed assets was $70,000 at December 31, 2017, and is included in other assets on the consolidated balance sheets. No foreclosed assets were recorded at December 31, 2018 or December 31, 2016. Management maintains certain loans that have been brought current by the borrower (less than 30 days delinquent) on nonaccrual status until such time as management has determined that the loans are likely to remain current in future periods.
The ratio of nonperforming loans to total loans was 0.30% as of December 31, 2018 and 0.32% as of December 31, 2017. The allowance for credit losses as a percentage of outstanding loan balance was 0.99% as of December 31, 2018 and 0.98% as of December 31, 2017. The ratio of net recoveries to average loans was 0.03% as of December 31, 2018 and 0.08% as of December 31, 2017.

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 decreased 7.45% during 2018 to $1,537,836,000 as of December 31, 2018 from $1,661,655,000 as of December 31, 2017. Total gross loans increased 2.00% to $918,695,000 as of December 31, 2018, compared to $900,679,000 at December 31, 2017. Total investment securities and Federal funds sold decreased 13.18% to $471,207,000 as of December 31, 2018 compared to $542,721,000 as of December 31, 2017. Total deposits decreased 10.06% to $1,282,298,000 as of December 31, 2018 compared to $1,425,687,000 as of December 31, 2017. Our loan to deposit ratio at December 31, 2018 was 71.64% compared to 63.18% at December 31, 2017. The loan to deposit ratio of our peers was 82.00% at December 31, 2018. Peer group information from S&P Global Market Intelligence data includes bank holding companies in central California with assets from $600 million to $3.5 billion.

Capital Adequacy

At December 31, 2018, we had a total capital to risk-weighted assets ratio of 16.44%, a Tier 1 risk-based capital ratio of 15.59%, common equity Tier 1 ratio of 15.13%, and a leverage ratio of 11.48%. At December 31, 2017, we had a total capital to risk-weighted assets ratio of 14.07%, a Tier 1 risk-based capital ratio of 13.28%, common equity Tier 1 ratio of 12.90%, and a leverage ratio of 9.71%. At December 31, 2018, on a stand-alone basis, the Bank had a total risk-based capital ratio of 16.23%, a Tier 1 risk based capital ratio of 15.38%, common equity Tier 1 ratio of 15.38%, and a leverage ratio of 11.32%. At December 31, 2017, the Bank had a total risk-based capital ratio of 13.74%, Tier 1 risk-based capital of 12.96% and a leverage ratio of 9.46%. Note 13 of the audited Consolidated Financial Statements provides more detailed information concerning the Company's capital amounts and ratios. As of January 1, 2015, bank

holding companies with consolidated assets of $1 billion or more ($3 Billion or more effective August 30, 2018) and banks like Central Valley Community Bank became subject to new capital requirements, and certain provisions of the new rules are being phased in through 2019 under the Dodd-Frank Act and Basel III. As of December 31, 2018, 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, 2018.

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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 61.23% for 2018 compared to 62.03% for 2017 and 64.72% for 2016. The improvement in the efficiency ratios in 2018 and 2017 was due to the growth in revenues outpacing the growth in non-interest expense. The Company's net interest income before provision for credit losses plus non-interest income increased 8.87% to $73,027,000 in 2018 compared to $67,075,000 in 2017 and $55,171,000 in 2016, while operating expenses increased 1.49% in 2018, 14.09% in 2017, and 8.07% in 2016.

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 $40,000,000 and secured borrowing lines of approximately $286,934,000 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 $502,886,000 or 32.70% of total assets at December 31, 2018 and $643,087,000 or 38.70% of total assets as of December 31, 2017.

RESULTS OF OPERATIONS

Net Income

Net income was $21,289,000 in 2018 compared to $14,026,000 and $15,182,000 in 2017 and 2016, respectively. Basic earnings per share was $1.55, $1.12, and $1.34 for 2018, 2017, and 2016, respectively. Diluted earnings per share was $1.54, $1.10, and $1.33 for 2018, 2017, and 2016, respectively. ROE was 10.07% for 2018 compared to 7.69% for 2017 and 9.84% for 2016. ROA for 2018 was 1.35% compared to 0.94% for 2017 and 1.15% for 2016. The increase in net income for 2018 compared to 2017 was primarily due to a decrease in provision for income taxes and an increase in net interest income, partially offset by an increase in the provision for credit losses, an increase in non-interest expense and a decrease in non-interest income. The decrease in net income for 2017 compared to 2016 was primarily attributed to an increase in provision for income taxes and an increase in non-interest expense, partially offset by an increase in the provision for credit losses, an increase in net interest income, and an increase in non-interest income.

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.

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SCHEDULE OF AVERAGE BALANCES, AVERAGE YIELDS AND RATES

(Dollars in thousands)	Year Ended December 31, 2018			Year Ended December 31, 2017			Year Ended December 31, 2016		
	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	$24,055	$459	1.91 %	$36,709	$424	1.16 %	$53,514	$289	0.54 %
Securities									
Taxable securities	391,549	10,254	2.62 %	310,876	6,526	2.10 %	313,006	5,876	1.88 %
Non-taxable securities (1)	110,962	4,478	4.04 %	220,806	10,443	4.73 %	194,224	9,787	5.04 %
Total investment securities	502,511	14,732	2.93 %	531,682	16,969	3.19 %	507,230	15,663	3.09 %
Federal funds sold	40	1	2.10 %	35	—	1.50 %	116	—	0.51 %
Total securities and interest-earning deposits	526,606	15,192	2.88 %	568,426	17,393	3.06 %	560,860	15,952	2.84 %
Loans (2) (3)	908,419	49,936	5.50 %	790,504	43,534	5.51 %	644,282	34,051	5.29 %
Total interest-earning assets	1,435,025	$65,128	4.54 %	1,358,930	$60,927	4.48 %	1,205,142	$50,003	4.15 %
Allowance for credit losses	(8,924)			(9,258)			(10,098)		
Nonaccrual loans	3,709			2,839			2,291		
Cash and due from banks	27,199			24,989			23,840		
Bank premises and equipment	9,148			9,310			9,053		
Other assets	111,253			104,886			90,779		
Total average assets	$1,577,410			$1,491,696			$1,321,007		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
Savings and NOW accounts	$383,667	$451	0.12 %	$382,071	$350	0.09 %	$337,804	$317	0.09 %
Money market accounts	285,568	419	0.15 %	264,581	211	0.08 %	249,620	133	0.05 %
Time certificates of deposit	111,214	283	0.25 %	137,666	408	0.30 %	139,656	525	0.38 %
Total interest-bearing deposits	780,449	1,153	0.15 %	784,318	969	0.12 %	727,080	975	0.13 %
Other borrowed funds	12,180	331	2.72 %	6,930	168	2.42 %	5,157	121	2.35 %
Total interest-bearing liabilities	792,629	$1,484	0.19 %	791,248	$1,137	0.14 %	732,237	$1,096	0.15 %
Non-interest bearing demand deposits	553,305			499,987			417,151		

Other liabilities	20,152				17,954				17,294			
Shareholders' equity	211,324				182,507				154,325			
Total average liabilities and shareholders' equity	$1,577,410				$1,491,696				$1,321,007			
Interest income and rate earned on average earning assets		$65,128	4.54	%		$60,927	4.48	%		$50,003	4.15	%
Interest expense and interest cost related to average interest-bearing liabilities		1,484	0.19	%		1,137	0.14	%		1,096	0.15	%
Net interest income and net interest margin (4)		$63,644	4.44	%		$59,790	4.40	%		$48,907	4.06	%

(1) Interest income is calculated on a fully tax equivalent basis, which includes Federal tax benefits relating to income earned on municipal bonds totaling $940, $3,551, and $3,327 in 2018, 2017, and 2016, respectively.
(2) Loan interest income includes loan fees of $397 in 2018, $684 in 2017, and $134 in 2016.
(3) Average loans do not include nonaccrual loans.
(4) Net interest margin is computed by dividing net interest income by total average interest-earning assets.

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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.

Changes in Volume/Rate	For the Years Ended December 31, 2018 Compared to 2017			For the Years Ended December 31, 2017 Compared to 2016		
(In thousands)	Volume	Rate	Net	Volume	Rate	Net
Increase (decrease) due to changes in:						
Interest income:						
Interest-earning deposits in other banks	$(146)	$181	$35	$(90)	$225	$135
Investment securities:						
Taxable	1,694	2,034	3,728	(39)	689	650
Non-taxable (1)	(5,196)	(769)	(5,965)	1,339	(683)	656
Total investment securities	(3,502)	1,265	(2,237)	1,300	6	1,306
Federal funds sold	1	—	1	—	—	—
Loans	6,493	(91)	6,402	7,728	1,755	9,483
FHLB Stock	—	—	—	123	(310)	(187)
Total earning assets (1)	2,846	1,355	4,201	9,061	1,676	10,737
Interest expense:						
Deposits:						
Savings, NOW and MMA	17	292	309	49	62	111
Time certificate of deposits	(78)	(47)	(125)	(7)	(110)	(117)
Total interest-bearing deposits	(61)	245	184	42	(48)	(6)
Other borrowed funds	127	36	163	41	6	47
Total interest bearing liabilities	66	281	347	83	(42)	41
Net interest income (1)	$2,780	$1,074	$3,854	$8,978	$1,718	$10,696

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

Interest and fee income from loans increased $6,402,000 or 14.71% in 2018 compared to 2017. Interest and fee income from loans increased $9,483,000 or 27.85% in 2017 compared to 2016. The increase in 2018 is primarily attributable to an increase in average total loans outstanding, offset by a slight decrease in the yield on loans by one basis point. The net interest income during 2018 was positively impacted by the FLB acquisition in addition to the collection of nonaccrual loans which resulted in a recovery of interest income of approximately $720,000. The recovery was partially offset by reversal of approximately $222,000 in interest income on loans placed on nonaccrual status during the year. Net interest income during 2017 was positively impacted by the collection of nonaccrual loans which resulted in a recovery of interest income of approximately $1,325,000. The recovery was partially offset by reversal of approximately $12,000 in interest income on loans placed on nonaccrual status during the year.
Average total loans for 2018 increased $118,785,000 to $912,128,000 compared to $793,343,000 for 2017 and $646,573,000 for 2016. The yield on loans for 2018 was 5.50% compared to 5.51% and 5.29% for 2017 and 2016, respectively. The impact to interest income from the accretion of the loan marks on acquired loans was an increase of $1,158,000 and $1,048,000 for the years ended December 31, 2018 and 2017, 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 $409,000 or 2.95% in 2018 compared to 2017. The yield on average investments decreased 18 basis points to 2.88% for the year ended December 31, 2018 from 3.06% for the year ended December 31, 2017. Average total investments decreased $41,820,000 to $526,606,000 in 2018 compared to $568,426,000 in 2017. In 2017, total investment income on a non tax-equivalent basis increased $1,217,000 or 9.64% compared to 2016.
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, 2018, we held $361,080,000 or 77.83% of the total market value of the investment portfolio in MBS and CMOs with an average yield of 2.81%. We invest in CMOs and MBS as part of our overall strategy to increase our net interest margin. CMOs and MBS by their nature are affected by prepayments which are impacted by changes in interest rates. In a normal declining rate environment, prepayments from MBS and CMOs would be expected to increase and the

expected life of the investment would be expected to shorten. Conversely, if interest rates increase, prepayments normally would be expected to decline and the average life of the MBS and CMOs would be expected to extend. Premium amortization and discount accretion of these investments affects our net interest income. Our management monitors the prepayment trends of these investments and adjusts premium amortization and discount accretion based on several factors. These factors include the type of investment, the investment structure, interest rates, interest rates on new mortgage loans, expectation of interest rate changes, current economic conditions, the level of principal remaining on the bond, the bond coupon rate, the bond origination date, and volume of available bonds in market. The calculation of premium amortization and discount accretion is by nature inexact, and represents management's best estimate of principal pay downs inherent in the total investment portfolio.

The cumulative net-of-tax effect of the change in market value of the available-for-sale investment portfolio as of December 31, 2018 was an unrealized loss of $4,407,000 and is reflected in the Company's equity. At December 31, 2018, the effective duration of the investment portfolio was 3.54 years and the market value reflected a pre-tax unrealized loss of $6,257,000. 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, 2018 and 2017, no OTTI was recorded. For the year ended December 31, 2016, OTTI was recorded in the amount of $136,000. 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, 2018, an immediate rate increase of 200 basis points would result in an estimated decrease in the market value of the investment portfolio by approximately $33,989,000. Conversely, with an immediate rate decrease of 200 basis points, the estimated increase in the market value of the investment portfolio would be $32,468,000. 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 2018 increased $6,811,000 to $64,187,000 compared to $57,376,000 in 2017 and $46,676,000 in 2016. The increase was the result of yield changes, increase in interest rates, asset mix changes, and an increase in average earning assets. The tax-equivalent yield on interest earning assets increased to 4.54% for the year ended December 31, 2018 from 4.48% for the year ended December 31, 2017. Average interest earning assets increased to $1,435,025,000 for the year ended December 31, 2018 compared to $1,358,930,000 for the year ended December 31, 2017. Average interest-earning deposits in other banks decreased $12,654,000 comparing 2018 to 2017. Average yield on these deposits was 1.91% compared to 1.16% on December 31, 2018 and December 31, 2017 respectively. Average investments and interest-earning deposits decreased $41,820,000 but the tax equivalent yield on those assets decreased 18 basis points. Average total loans increased $118,785,000 and the yield on average loans decreased one basis point.

The increase in total interest income for 2017 was the result of yield changes, asset mix changes, and an increase in average earning assets. The yield on interest-earning assets increased to 4.48% for the year ended December 31, 2017 from 4.15% for the year ended December 31, 2016. Average interest-earning assets increased to $1,358,930,000 for the year ended December 31, 2017 compared to $1,205,142,000 for the year ended December 31, 2016.

Interest expense on deposits in 2018 increased $184,000 or 18.99% to $1,153,000 compared to $969,000 in 2017 and increased as compared to $975,000 in 2016. The yield on interest-bearing deposits increased 3 basis points to 0.15% in 2018 from 0.12% in 2017. The yield on interest-bearing deposits decreased one basis point to 0.12% in 2017 from 0.13% in 2016. Average interest-bearing deposits were $780,449,000 for 2018 compared to $784,318,000 and $727,080,000 for 2017 and 2016, respectively.

Average other borrowings were $12,180,000 with an effective rate of 2.72% for 2018 compared to $6,930,000 with an effective rate of 2.42% for 2017. In 2016, the average other borrowings were $5,157,000 with an effective rate of 2.35%. Included in other borrowings are the junior subordinated deferrable interest debentures acquired from Service 1st, advances on lines of credit, advances from the Federal Home Loan Bank (FHLB), and overnight borrowings. The debentures carry a floating rate based on the three month LIBOR plus a margin of 1.60%. The rate was 4.04% for 2018, 2.96% for 2017, and 2.48% for 2016.

The cost of all interest-bearing liabilities was 0.19% and 0.14% basis points for 2018 and 2017, respectively, compared to 0.15% for 2016. The cost of total deposits increased to 0.09% for the year ended December 31, 2018, compared to 0.08% and 0.09% for the years ended December 31, 2017 and 2016, respectively. Average demand deposits increased 10.66% to $553,305,000 in 2018 compared to $499,987,000 for 2017 and $417,151,000 for 2016. The ratio of average non-interest demand deposits to average total deposits increased to 41.48% for 2018 compared to 38.93% and 36.46% for 2017 and 2016, respectively.

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Net Interest Income before Provision for Credit Losses

Net interest income before provision for credit losses for 2018 increased $6,464,000 or 11.49% to $62,703,000 compared to $56,239,000 for 2017 and $45,580,000 for 2016. The increase in 2018 was due to the increase in average earning assets while the yield on interest bearing liabilities increased 5 basis point. Our net interest margin (NIM) increased 4 basis points. Yield on interest earning assets increased 6 basis points. The change in the mix of average interest earning assets also affected NIM. The increase in net interest margin in the period-to-period comparison resulted primarily from the increase in the effective yield on interest earning deposits in other banks and Federal Funds sold, offset by the decrease in the effective yield on average investment securities, and the decrease in the yield on the Company’s loan portfolio. Net interest income before provision for credit losses increased $10,659,000 in 2017 compared to 2016, primarily due to the increase in average earning assets. Average interest-earning assets were $1,435,025,000 for the year ended December 31, 2018 with a NIM of 4.44% compared to $1,358,930,000 with a NIM of 4.40% in 2017, and $1,205,142,000 with a NIM of 4.06% in 2016. 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 change in balance and 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. Loans are charged off when they are considered uncollectible or when continuance as an active earning bank asset is not warranted.

The establishment of an adequate credit allowance is based on both an accurate risk rating system and loan portfolio management tools. The Board of Directors have established initial responsibility for the accuracy of credit risk grades with the individual credit officer. The Credit Review Officer (CRO) will review loans to ensure the accuracy of the risk grade and is empowered to change any risk grade, as appropriate. The CRO is not involved in loan originations. Quarterly, the credit officers must certify the current risk grade of the loans in their portfolio. The CRO reviews the certifications. At least quarterly the CRO reports his activities to the Board of Directors Audit Committee; and at least annually the loan portfolio is reviewed by a third party credit reviewer and by various regulatory agencies.

Quarterly, the Chief Credit Officer (CCO) sets the specific reserve for all impaired credits. Additionally, the CCO is responsible to ensure that the general reserves on non-impaired loans are properly set each quarter. This process includes the utilization of loan delinquency reports, classified asset reports, collateral analysis and portfolio concentration reports to assist in accurately assessing credit risk and establishing appropriate reserves.

The allowance for credit losses is reviewed at least quarterly by the Board of Directors Audit Committee and by the Board of Directors. General reserves are allocated to loan portfolio categories 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 credit 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. Changes in the allowance for credit losses 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 allowance does not properly reflect the portfolio’s probable loss exposure. Management believes that all adjustments, if any, to the allowance for credit losses are supported by the timely and consistent application of methodologies and processes resulting in detailed documentation of the allowance calculation and other portfolio trending analysis.

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The allocation of the allowance for credit losses is set forth below (in thousands):

Loan Type	December 31, 2018	December 31, 2017
Commercial:		
Commercial and industrial	$ 1,604	$ 1,784
Agricultural production	67	287
Real estate:		
Owner occupied	1,131	1,252
Real estate construction and other land loans	1,271	1,004
Commercial real estate	3,017	1,958
Agricultural real estate	947	1,441
Other real estate	173	140
Consumer:		
Equity loans and lines of credit	419	464
Consumer and installment	407	361
Unallocated reserves	68	87
Total allowance for credit losses	$ 9,104	$ 8,778

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 incurred credit losses that exist in the portfolio at that time. We assign qualitative and environmental factors (Q factors) to each loan category. Q factors include reserves held for the effects of lending policies, economic trends, and portfolio trends along with other dynamics which may cause additional stress to the portfolio.

Managing high-risk credits identified through the risk evaluation methodology includes developing a business strategy with the customer to mitigate our potential losses. Management continues to monitor these credits with a view to identifying as early as possible when, and to what extent, additional provisions may be necessary. Management believes that the level of allowance for loan losses allocated to commercial and real estate loans has been adjusted accordingly.

During the year ended December 31, 2018, the Company recorded a provision for credit losses of $50,000 compared to a reverse provision of $1,150,000 and a reverse provision of $5,850,000 for the same periods in 2017 and 2016, respectively. The recorded provision and reverse 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, 2018, 2017 and 2016 the Company had net recoveries totaling $276,000, $602,000, and $5,566,000, respectively. The net charge-off (recovery) ratio, which reflects net charge-offs (recoveries) to average loans, was (0.03)%, (0.08)% and (0.86)% for 2018, 2017, and 2016, respectively.

Nonperforming loans were $2,740,000 and $2,875,000 at December 31, 2018 and 2017, respectively. Nonperforming loans as a percentage of total loans were 0.30% at December 31, 2018 compared to 0.32% at December 31, 2017. The Company had no other real estate owned at December 31, 2018, December 31, 2017, and December 31, 2016. The carrying value of foreclosed assets was $70,000 at December 31, 2017, and is included in other assets on the consolidated balance sheets. No foreclosed assets were recorded at December 31, 2018 or December 31, 2016. At December 31, 2018, we had $1,208,000 loans past due, not including nonaccrual loans compared to $1,281,000 loans past due at December 31, 2017.

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

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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, 2018, there were $28.4 million in classified loans of which $19.2 million related to agricultural real estate, $2.6 million to commercial and industrial loans, $0.9 million to real estate owner occupied, $3.0 million to real estate construction, and $1.1 million to commercial real estate. This compares to $50.0 million in classified loans as of December 31, 2017 of which $26.5 million related to agricultural real estate, $3.9 million to real estate construction, $7.9 million to commercial and industrial, $3.9 million to agricultural production, and $3.4 million to commercial real estate.

As of December 31, 2018, 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 $62,653,000 for 2018 compared to $57,389,000 and $51,430,000 for 2017 and 2016, 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 $10,324,000 in 2018 compared to $10,836,000 and $9,591,000 in 2017 and 2016, respectively. The $512,000 or 4.72% decrease in non-interest income in 2018 resulted primarily from decreases in net realized gains on sales and calls of investment securities and service charge income, partially offset by a increase in loan placement fees, net gain on the sale of the Company's credit card portfolio, interchange fees, appreciation in cash surrender value of bank owned life insurance, and Federal Home Loan Bank dividends compared to 2017. The $1,245,00 or 12.98% increases in non-interest income in 2017 compared to 2016 was due to increases in net realized gains on sales and calls of investment securities, service charge income, interchange fees, and other income, partially offset by a decrease in Federal Home Loan Bank dividends, and loan placement fees.

Customer service charges decreased $67,000 to $2,986,000 in 2018 compared to $3,053,000 in 2017 and $2,849,000 in 2016. The increase in 2017 from 2016 resulted from increase in our customer base from the SVB and FLB acquisitions.

During the year ended December 31, 2018, we realized net gains on sales and calls of investment securities of $1,314,000, compared to $2,802,000 in 2017 and $1,920,000 in 2016. In 2016, we recorded an other-than-temporary impairment loss of $136,000 as compared to none during the years ended December 31, 2018, and 2017. The net gains in 2018, 2017, and 2016 were the results of partial restructuring of the investment portfolio designed to improve the future performance of the portfolio. See Note 4 to the audited Consolidated Financial Statements for more detail.

Income from the appreciation in cash surrender value of bank owned life insurance (BOLI) totaled $695,000 in 2018 compared to $621,000 and $558,000 in 2017 and 2016, 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 $1,462,000 in 2018 compared to $1,458,000 and $1,228,000 in 2017 and 2016, respectively. Part of the increases in 2018 and 2017 was attributable to the FLB and SVB acquisitions.

We earn loan placement fees from the brokerage of single-family residential mortgage loans provided for the convenience of our customers. Loan placement fees increased $2,000 in 2018 to $708,000 compared to $706,000 in 2017 and $1,083,000 in 2016.

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, 2018 and 2017, we held $6,843,000 in FHLB stock. Dividends in 2018 increased to $590,000 compared to $443,000 in 2017 and $630,000 in 2016.

A net gain of $462,000 on the sale of the Company’s credit card portfolio was recorded during the year ended December 31, 2018. Other income increased to $2,107,000 in 2018 compared to $1,753,000 and $1,459,000 in 2017 and 2016, respectively.

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 $662,000 or 1.49% to $45,068,000 in 2018 compared to $44,406,000 in 2017, and $38,922,000 in 2016. The net increase period-over-period is primarily due to the FLB and SVB acquisitions. Various items are discussed below.

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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 61.23% for 2018 compared to 62.03% for 2017 and 64.72% for 2016. The improvement in the efficiency ratio in 2018 and 2017 is due to the growth in revenues outpacing the growth in non-interest expense.

Salaries and employee benefits increased $1,483,000 or 5.99% to $26,221,000 in 2018 compared to $24,738,000 in 2017 and $21,881,000 in 2016. Full time equivalents were 316 for the year ended December 31, 2018 compared to 334 for the year ended December 31, 2017. The increase in salaries and employee benefits in 2018 compared to 2017 is a result of higher overall salary and benefit expenses.

For the years ended December 31, 2018, 2017, and 2016, the compensation cost recognized for share based compensation was $482,000, $384,000 and $284,000, respectively. As of December 31, 2018, there was $677,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all plans. The cost is expected to be recognized over a weighted average period of 2.04 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, 2018 and 2017. Restricted common stock awards of 22,204 shares were awarded in 2018. No restricted stock shares were awarded in 2017.

Occupancy and equipment expense increased $786,000 or 15.16% to $5,972,000 in 2018 compared to $5,186,000 in 2017 and $4,754,000 in 2016. The net increase year over year was primarily attributable to the FLB acquisition and consolidation of three branches in addition to increased contract repairs through out the entire Company. The addition of five new branches from the FLB and SVB acquisitions resulted in an approximately $338,000 increase in rent expense in 2017 as compared to 2016. The Company made no changes in its depreciation expense methodology.

Regulatory assessments were $619,000 in 2018 compared to $652,000 and $642,000 in 2017 and 2016, respectively. The assessment base for calculating the amount owed is average assets minus average tangible equity. Beginning in the third quarter of 2016, the FDIC approved a final rule revising DIF assessment formulas which resulted in lower assessments for the Company. 2017 and 2016 were higher as compared to 2018 due to the additional assessments on the acquired institutions.

Data processing expenses were $1,666,000 in 2018 compared to $1,740,000 in 2017 and $1,707,000 in 2016. The $74,000 or 4.25% decrease in 2018 is from the consolidation of processes after the conversion of the acquired institutions was completed in 2018. Acquisition and integration expenses related to the FLB and SVB mergers were $217,000 in 2018 compared to $1,828,000 in 2017 and $1,782,000 in 2016. Professional services decreased $34,000 in 2018 compared to 2017.

Amortization of core deposit intangibles was $455,000 for 2018, $234,000 for 2017, and $149,000 for 2016. During 2018, amortization expense related to FLB core deposit intangible (CDI) was $247,000, amortization expense related to SVB core deposit intangible (CDI) was $72,000, and amortization expense related to VCB CDI was $136,000. During 2017, amortization expense related to FLB CDI was $47,000, SVB CDI was $50,000 and amortization expense related to VCB CDI was $137,000. During 2016, amortization expense related to SVB CDI was $12,000, and amortization expense related to VCB CDI was $137,000.

ATM/Debit card expenses decreased $11,000 to $739,000 for the year ended December 31, 2018 compared to $750,000 in 2017 and $633,000 in 2016. Information technology expenses increased $295,000 to $1,113,000 for the year ended December 31, 2018 compared to $818,000 and $531,000 in 2017 and 2016, respectively. Other non-interest expenses decreased $375,000 or 7.48% to $4,636,000 in 2018 compared to $5,011,000 in 2017 and $3,801,000 in 2016.

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

For the years ended December 31, (Dollars in thousands)	Other Expense 2018	% Average Assets	Other Expense 2017	% Average Assets	Other Expense 2016	% Average Assets
Stationery/supplies	$ 281	0.02 %	$ 292	0.02 %	$ 247	0.02 %
Amortization of software	303	0.02 %	289	0.02 %	257	0.02 %
Telephone	217	0.01 %	265	0.02 %	357	0.03 %
Alarm	101	0.01 %	130	0.01 %	103	0.01 %
Postage	209	0.01 %	205	0.01 %	200	0.02 %
Armored courier fees	274	0.02 %	266	0.02 %	227	0.02 %
Risk management expense	195	0.01 %	207	0.01 %	150	0.01 %
Loss on sale or write-down of assets	2	— %	187	0.01 %	4	— %
Donations	243	0.02 %	249	0.02 %	171	0.01 %
Personnel other	167	0.01 %	259	0.02 %	161	0.01 %
Credit card expense	121	0.01 %	245	0.02 %	196	0.01 %
Education/training	172	0.01 %	174	0.01 %	154	0.01 %
Loan related expenses	77	— %	132	0.01 %	35	— %
General insurance	165	0.01 %	159	0.01 %	159	0.01 %
Travel and mileage Expense	267	0.02 %	211	0.01 %	146	0.01 %
Operating losses	452	0.03 %	150	0.01 %	175	0.01 %
Shareholder services	129	0.01 %	102	0.01 %	83	0.01 %
Other	1,261	0.08 %	1,489	0.10 %	976	0.07 %
Total other non-interest expense	$ 4,636	0.29 %	$ 5,011	0.34 %	$ 3,801	0.29 %

Provision for Income Taxes

Our effective income tax rate was 23.7% for 2018 compared to 41.1% for 2017 and 31.3% for 2016. The Company reported an income tax provision of $6,620,000, $9,793,000, and $6,917,000 for the years ended December 31, 2018, 2017, and 2016, respectively. With the Tax Cuts and Jobs Act (the “Act”) enacted on December 22, 2017, the Company’s federal income tax rate changed from 35% to 21% effective as of the beginning of 2018. The decrease in the effective tax rate was the result of the change in the federal rate offset by a sizable decrease in tax exempt interest. As a result of the enactment of the Act the federal tax rate applied to the Company’s deferred taxes was adjusted as of December 31, 2017 to reflect the 2018 tax rates (the rates at which the deferred tax items are expected to reverse). The change to the tax rates (including the rate change applied to deferred taxes reflected in other comprehensive income and certain tax-advantaged investments as reflected in other assets) resulted in an increase to the Company’s tax provision of $3,535,000 in 2017. As part of the Act for tax years beginning after December 31, 2017, alternative minimum tax credit carryforwards are refundable and are expected to be fully refunded by 2022. As such, they are not dependent on future taxable income to be realized and have been classified as an other receivable. The effective tax rate in 2016 was affected by the large negative provision for credit losses which resulted in higher pretax and taxable income and also diluted the impact of the Company’s tax exempt municipal bonds and other tax planning strategies. 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 $11.183 million and $8.024 million at December 31, 2018 and 2017,

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, 2018 and 2017 will be fully realized in future years.

FINANCIAL CONDITION

Summary of Changes in Consolidated Balance Sheets

Total assets were $1,537,836,000 as of December 31, 2018, compared to $1,661,655,000 as of December 31, 2017, a decrease of 7.45% or $123,819,000. Total gross loans were $918,695,000 as of December 31, 2018, compared to $900,679,000 as of December 31, 2017, an increase of $18,016,000 or 2.00%. The total investment portfolio (including Federal funds sold and interest-earning deposits in other banks) decreased 20.98% or $126,869,000 to $477,932,000. Total deposits decreased 10.06% or $143,389,000 to $1,282,298,000 as of December 31, 2018, compared to $1,425,687,000 as of December 31, 2017. Shareholders' equity increased $10,179,000 or 4.86% to $219,738,000 as of December 31, 2018, compared to $209,559,000 as of December 31, 2017. The increase in shareholders' equity was driven by the retention of earnings, net of dividends paid, offset by a decrease in net unrealized gains on available-for-sale (AFS) securities recorded, net of estimated taxes, in accumulated other comprehensive income (AOCI). Accrued interest payable and other liabilities were $20,645,000 as of December 31, 2018, compared to $21,254,000 as of December 31, 2017, a decrease of $609,000.

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 3 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	Amortized Cost at December 31,		
(In thousands)	2018	2017	2016
Treasuries	$—	$—	$—
U.S. Government agencies	21,723	65,994	69,005
Obligations of states and political subdivisions	79,886	136,955	288,543
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	239,388	237,210	181,785
Private label mortgage and asset backed securities	129,165	91,033	1,807
Total Available-for-Sale Securities	$470,162	$531,192	$541,140

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, 2018, investment securities with a fair value of $79,662,000, or 17.17% 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 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, 2018 was 71.64% compared to 63.18% at December 31, 2017. The loan to deposit ratio of our peers was 82.00% at December 31, 2018. Peer group information from

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S&P Global Market Intelligence data includes bank holding companies in central California with assets from $600 million to $3.5 billion. The total investment portfolio, including Federal funds sold and interest-earning deposits in other banks, decreased 20.98% or $126,869,000 to $477,932,000 at December 31, 2018, from $604,801,000 at December 31, 2017. The market value of the portfolio reflected an unrealized loss of $6,257,000 at December 31, 2018, compared to an unrealized gain of $4,089,000 at December 31, 2017.

Losses recognized in 2018, 2017, and 2016 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 strategically several years ago in view of the rate environment at that time. The Company is addressing risks in the security portfolio by selling these securities and using proceeds to purchase securities that meet the Company's current risk profile.

We periodically evaluate each investment security for other-than-temporary impairment, relying primarily on industry analyst reports, observation of market conditions and interest rate fluctuations. The portion of the impairment that is attributable to a shortage in the present value of expected future cash flows relative to the amortized cost should be recorded as a current period charge to earnings. The discount rate in this analysis is the original yield expected at time of purchase.

As of December 31, 2018, the Company performed an analysis of the investment portfolio to determine whether any of the investments held in the portfolio had an other-than-temporary impairment (OTTI). Management evaluated all investment securities with an unrealized loss at December 31, 2018, and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at December 31, 2018 greater than 10% of the recorded book value on that date, or which had an unrealized loss of more than $10,000. Management also analyzed any securities that may have been downgraded by credit rating agencies.

For those securities that met the evaluation criteria, management obtained and reviewed the most recently published national credit ratings for those securities. For those securities 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 during March 2016 that a $136,000 credit related impairment related to one security with a fair value of $2,995,000 and a pre-impairment amortized cost of $3,131,000 existed. The Company recorded an other-than-temporary impairment loss of $136,000 during the twelve months ended December 31, 2016. There were no OTTI losses recorded during the twelve months ended December 31, 2018 or December 31, 2017.

At December 31, 2018, the Company had a total of 36 private label mortgage backed securities (PLMBS) with a remaining principal balance of $129,165,000 and a net unrealized loss of approximately $3,016,000. Eight of these PLMBS with a remaining principal balance of $1,137,000 had credit ratings below investment grade. The Company continues to monitor these securities for changes in credit ratings or other indications of credit deterioration. No credit related OTTI charges related to PLMBS were recorded during the years ended December 31, 2018 or December 31, 2017.

The amortized cost, maturities and weighted average yield of investment securities at December 31, 2018 are summarized in the following table.

(Dollars in thousands)	In one year or less		After one through five years		After five through ten years		After ten years		Total	
Available-for-Sale Securities	Amount	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Yield(1)
Debt securities(1)										
U.S. Government agencies	$—	—	$—	—	$ 5,591	6.16 %	$16,132	5.48 %	$21,723	5.65 %
Obligations of states and political subdivisions (2)	—	—	2,769	2.13 %	21,831	4.24 %	55,286	4.56 %	79,886	4.39 %
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	—	—	136	5.90 %	266	5.18 %	238,987	3.93 %	239,389	3.94 %
	47	4.75 %	—	— %	15	7.22 %	129,102	3.74 %	129,164	3.74 %

Private label residential mortgage and asset backed securities	$47	4.75 %	$2,905	2.31 %	$27,703	4.63 %	$439,507	4.15 %	$470,162	4.04 %

(1) Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties. Expected maturities will also differ from contractual maturities due to unscheduled principal pay downs.
(2) Not computed on a tax equivalent basis.

Loans

Total gross loans increased $18,016,000 or 2.00% to $918,695,000 as of December 31, 2018, compared to $900,679,000 as of December 31, 2017.

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The following table sets forth information concerning the composition of our loan portfolio as of December 31, 2018, 2017, 2016, 2015, and 2014.

Loan Type (Dollars in thousands)	2018 Amount	2018 % of Total Loans	2017 Amount	2017 % of Total Loans	2016 Amount	2016 % of Total Loans	2015 Amount	2015 % of Total Loans	2014 Amount	2014 % of Total Loans
Commercial:										
Commercial and industrial	$101,533	11.1 %	$100,856	11.2 %	$88,652	11.7 %	$102,197	17.1 %	$89,007	15.5 %
Agricultural production	7,998	0.9 %	14,956	1.7 %	25,509	3.4 %	30,472	5.1 %	39,140	6.8 %
Total commercial	109,531	12.0 %	115,812	12.9 %	114,161	15.1 %	132,669	22.2 %	128,147	22.3 %
Real estate:										
Owner occupied	183,169	19.9 %	204,452	22.7 %	191,665	25.3 %	168,910	28.2 %	176,804	30.9 %
Real estate-construction and other land loans	101,606	11.1 %	96,460	10.7 %	69,200	9.1 %	38,685	6.5 %	38,923	6.8 %
Commercial real estate	305,118	33.2 %	269,254	29.9 %	184,225	24.3 %	117,244	19.6 %	106,788	18.7 %
Agricultural real estate	76,884	8.4 %	76,081	8.4 %	86,761	11.5 %	74,867	12.5 %	57,501	10.0 %
Other real estate	32,799	3.6 %	31,220	3.5 %	18,945	2.7 %	10,520	1.8 %	6,611	1.2 %
Total real estate	699,576	76.2 %	677,467	75.2 %	550,796	72.9 %	410,226	68.6 %	386,627	67.6 %
Consumer:										
Equity loans and lines of credit	69,958	7.6 %	76,404	8.5 %	64,494	8.5 %	42,296	7.1 %	47,575	8.3 %
Consumer and installment	38,038	4.2 %	29,637	3.4 %	25,910	3.5 %	12,503	2.1 %	10,093	1.8 %
Total consumer	107,996	11.8 %	106,041	11.9 %	90,404	12.0 %	54,799	9.2 %	57,668	10.1 %
Deferred loan fees, net	1,592		1,359		1,267		417		146	
Total gross loans (1)	918,695	100.0%	900,679	100.0%	756,628	100.0%	598,111	100.0%	572,588	100.0%
Allowance for credit losses	(9,104)		(8,778)		(9,326)		(9,610)		(8,308)	
Total loans (1)	$909,591		$891,901		$747,302		$588,501		$564,280	
(1) Includes nonaccrual loans of:	$2,740		$2,875		$2,180		$2,413		$14,052	

At December 31, 2018, loans acquired in the FLB, SVB and VCB acquisitions had a balance of $189,719,000, of which $5,875,000 were commercial loans, $158,025,000 were real estate loans, and $25,819,000 were consumer loans, and at December 31, 2017, the acquired loans acquired had a balance of $243,712,000, of which $12,554,000 were commercial loans, $197,004,000 were real estate loans, and $34,154,000 were consumer loans.

At December 31, 2018, in management's judgment, a concentration of loans existed in commercial loans and real-estate-related loans, representing approximately 95.8% of total loans of which 12% were commercial and 83.8% were real-estate-related. This level of concentration is consistent with 96.6% at December 31, 2017. 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, 2018 and 2017.

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.

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, 2018.

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(In thousands) (net of deferred costs)	One Year or Less	After One Through Five Years	After Five Years	Total
Loan Maturities:				
Commercial and agricultural	$ 58,040	$ 25,372	$ 26,119	$ 109,531
Real estate construction and other land loans	89,665	9,687	3,130	102,482
Other real estate	29,220	117,222	450,652	597,094
Consumer and installment	9,730	13,724	84,542	107,996
	$ 186,655	$ 166,005	$ 564,443	$ 917,103
Sensitivity to Changes in Interest Rates:				
Loans with fixed interest rates	$ 78,692	$ 93,650	$ 80,448	$ 252,790
Loans with floating interest rates (1)	107,962	72,355	483,996	664,313
	$ 186,654	$ 166,005	$ 564,444	$ 917,103
(1) Includes floating rate loans which are currently at their floor rate in accordance with their respective loan agreement	$ 3,424	$ 12,659	$ 357,319	$ 373,402

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 cash basis 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 5 of the Company’s audited Consolidated Financial Statements in Item 8 of this Annual Report.

At December 31, 2018, total nonperforming assets totaled $2,740,000, or 0.18% of total assets, compared to $2,945,000, or 0.18% of total assets at December 31, 2017. Nonperforming assets totaled 0.30% of gross loans as of December 31, 2018 and 0.33% of gross loans as of December 31, 2017. Total nonperforming assets at December 31, 2018, included nonaccrual loans totaling $2,740,000, no OREO, and no repossessed assets. Nonperforming assets at December 31, 2017 consisted of $2,875,000 in nonaccrual loans, no OREO, and $70,000 in repossessed assets. At December 31, 2018, we had one loan considered a troubled debt restructuring (“TDR”) totaling $50,000 which is included in nonaccrual loans compared to one TDR totaling $59,000 at December 31, 2017. We have no outstanding commitments to lend additional funds to any of these borrowers. See Note 5 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, 2018, 2017, 2016, 2015, and 2014 is set forth below. The Company had no loans past due more than 90 days and still accruing interest at December 31, 2018

and 2017. Management is not aware of any potential problem loans, which were current and accruing at December 31, 2018, 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.

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Composition of Nonaccrual, Past Due and Restructured Loans

(As of December 31, Dollars in thousands)	2018	2017	2016	2015	2014
Nonaccrual Loans:					
Commercial and industrial	$298	$356	$447	$—	$7,265
Owner occupied real estate	215	—	87	324	1,363
Real estate construction and other land loans	1,439	1,397	—	—	—
Agricultural real estate	—	—	—	—	360
Commercial real estate	418	976	1,082	567	1,468
Equity loans and line of credit	320	87	526	172	1,751
Consumer and installment	—	—	18	13	19
Restructured loans (non-accruing):					
Commercial and industrial	—	—	—	29	—
Owner occupied	—	—	20	23	—
Real estate construction and other land loans	—	—	—	—	547
Equity loans and line of credit	50	59	—	1,285	1,279
Total nonaccrual	2,740	2,875	2,180	2,413	14,052
Accruing loans past due 90 days or more	—	—	—	—	—
Total nonperforming loans	$2,740	$2,875	$2,180	$2,413	$14,052
Interest foregone	$267	$210	$245	$340	$716
Nonperforming loans to total loans	0.30 %	0.32 %	0.29 %	0.40 %	2.45 %
Accruing loans past due 90 days or more	$—	$—	$—	$—	$—
Accruing troubled debt restructurings	$3,170	$3,491	$3,089	$4,774	$4,774
Ratio of nonperforming loans to allowance for credit losses	30.10 %	32.75 %	23.38 %	25.11 %	169.14 %
Loans considered to be impaired	$5,909	$6,366	$5,269	$6,699	$18,826
Related allowance for credit losses on impaired loans	$90	$36	$307	$164	$612

As of December 31, 2018 and 2017, we had impaired loans totaling $5,909,000 and $6,366,000, 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 at least 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 appraised value less selling costs of the collateral. We perform quarterly internal reviews on substandard loans.

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We place loans on nonaccrual status and classify them as impaired when it becomes probable that we will not receive 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 $267,000 for the year ended December 31, 2018 of which $4,000 was attributable to troubled debt restructurings. Foregone interest on nonaccrual loans totaled $210,000 and $245,000 for the years ended December 31, 2017 and 2016, respectively of which $17,000 and $2,000 was attributable to troubled debt restructurings, respectively.
The following table provides a reconciliation of the change in non-accrual loans for the year ended December 31, 2018.

(In thousands)	Balances December 31, 2017	Additions to Nonaccrual Loans	Net Pay Downs	Transfer to Foreclosed Collateral	Returns to Accrual Status	Charge Offs	Balances December 31, 2018
Non-accrual loans:							
Commercial and industrial	$ 356	$ 40	$ (98)	$ —	$ —	$ —	$ 298
Real estate	976	1,379	(1,252)	—	(470)	—	633
Real estate construction and other land loans	1,397	42	—	—	—	—	1,439
Equity loans and lines of credit	87	283	(42)	—	(8)	—	320
Consumer	—	12	—	—	—	(12)	—
Restructured loans (non-accruing):							
Equity loans and lines of credit	59	—	(9)	—	—	—	50
Total non-accrual	$ 2,875	$ 1,756	$ (1,401)	$ —	$ (478)	$ (12)	$ 2,740

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, 2018 and December 31, 2017, the Bank had no OREO properties. The Company held no repossessed assets at December 31, 2018 compared to $70,000 at December 31, 2017, which is included in other assets on the consolidated balance sheets.
As of December 31, 2016 the Bank had no OREO properties. The carrying vale of foreclosed assets was $362,000 at December 31, 2016.

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 20 quarters, and qualitative factors including economic trends in the Company’s service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company’s underwriting policies, the character of the loan portfolio, and probable losses incurred in the portfolio taken as a whole. Management has determined that the most recent 20 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/

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Compliance Committee. They delegate the authority to the Chief Credit Officer (CCO) to determine the loss reserve ratio for each type of asset and to review, at least quarterly, the adequacy of the allowance based on an evaluation of the portfolio, past experience, prevailing market conditions, amount of government guarantees, concentration in loan types and other relevant factors.

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

Management adheres to an internal 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.

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)	2018	2017	2016	2015	2014
Loans outstanding at December 31,	$917,103	$899,320	$755,361	$597,694	$572,442
Average loans outstanding during the year	$912,128	$793,343	$646,573	$586,762	$539,529
Allowance for credit losses:					
Balance at beginning of year	$8,778	$9,326	$9,610	$8,308	$9,208
Deduct loans charged off:					
Commercial and industrial	(94)	(197)	(621)	(802)	(7,423)
Agricultural production	—	(10)	—	—	(1,722)
Owner occupied	—	(22)	—	—	(183)
Commercial real estate	—	—	—	—	—
Consumer loans	(116)	(235)	(262)	(159)	(506)
Total loans charged off	(210)	(464)	(883)	(961)	(9,834)
Add recoveries of loans previously charged off:					
Commercial and industrial	207	850	3,656	954	171
Agricultural production	—	10	1,631	90	—
Owner occupied	21	49	—	—	150
Real estate construction and other land loans	—	—	702	32	364
Commercial real estate	81	17	283	—	—
Consumer loans	177	140	177	587	264
Total recoveries	486	1,066	6,449	1,663	949
Net recoveries (charge offs)	276	602	5,566	702	(8,885)
(Reversal) Provision charged to credit losses	50	(1,150)	(5,850)	600	7,985
Balance at end of year	$9,104	$8,778	$9,326	$9,610	$8,308
Allowance for credit losses as a percentage of outstanding loan balance	0.99%	0.98%	1.23%	1.61%	1.45%
Net recoveries (charge offs) to average loans outstanding	0.03%	0.08%	0.86%	0.12%	(1.65)%

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

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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.

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

Loan Type (Dollars in thousands)	2018 Amount	2018 Percent of Loans in Each Category to Total Loans	2017 Amount	2017 Percent of Loans in Each Category to Total Loans	2016 Amount	2016 Percent of Loans in Each Category to Total Loans	2015 Amount	2015 Percent of Loans in Each Category to Total Loans	2014 Amount	2014 Percent of Loans in Each Category to Total Loans
Commercial:										
Commercial and industrial	$1,604	11.1 %	$1,784	11.2 %	$1,884	11.7 %	$3,143	17.1 %	$2,753	15.5 %
Agricultural production	67	0.9 %	287	1.7 %	296	3.4 %	419	5.1 %	377	6.8 %
Real estate:										
Owner occupied	1,131	19.9 %	1,252	22.7 %	1,408	25.3 %	1,556	28.2 %	1,380	30.9 %
Real estate construction and other land loans	1,271	11.1 %	1,004	10.7 %	698	9.1 %	694	6.5 %	837	6.8 %
Commercial real estate	3,017	33.2 %	1,958	29.9 %	1,969	24.3 %	1,686	19.6 %	1,201	18.7 %
Agricultural real estate	947	8.4 %	1,441	8.4 %	1,969	11.5 %	1,149	12.5 %	564	10 %
Other real estate	173	3.6 %	140	3.5 %	156	2.7 %	119	1.8 %	76	1.2 %
Consumer:										
Equity loans and lines of credit	419	7.6 %	464	8.5 %	483	8.5 %	500	7.1 %	811	8.3 %
Consumer and installment	407	4.2 %	361	3.4 %	369	3.5 %	234	2.1 %	267	1.8 %
Unallocated reserves	68		87		94		110		42	
Total allowance for credit losses	$9,104	100 %	$8,778	100.0 %	$9,326	100 %	$9,610	100 %	$8,308	100 %

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 environmental factors (Q factors) to each loan category. Q factors include reserves held for the effects of lending policies, economic trends, and portfolio trends along with other dynamics which may cause additional stress to the portfolio.

As of December 31, 2018, the allowance for credit losses (ALLL) was $9,104,000, compared to $8,778,000 at December 31, 2017, a net increase of $326,000. The increase in the ALLL was due to net recoveries and by a provision for credit losses during the year ended December 31, 2018 which was necessitated by management's observations and assumptions about the existing credit quality of the loan portfolio. Net recoveries totaled $276,000 while the provision for credit losses was $50,000. The balance of classified loans and loans graded special mention, totaled $28,394,000 and $26,254,000 at December 31, 2018 and $49,998,000 and $21,908,000 at December 31, 2017. The balance of undisbursed commitments to extend credit on construction and other loans and letters of credit was $312,274,000 as of December 31, 2018, compared to $350,141,000 as of December 31, 2017. At December 31, 2018 and 2017, the balance of a contingent allocation for probable loan loss experience on unfunded obligations was $225,000 and $326,000, 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 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 0.99% at December 31, 2018, and 0.98% at December 31, 2017. Total loans include FLB, SVB and VCB loans that were recorded at fair value in connection with the acquisitions of $189,719,000 at December 31, 2018 and $243,712,000 at December 31, 2017. Excluding these acquired loans from the calculation, the ALLL to total gross loans was 1.25% and 1.34% as of December 31, 2018 and 2017, respectively, and general reserves associated with non-impaired loans to total non-impaired loans was 1.25% and 1.34%, respectively. The loan portfolio acquired in the mergers was booked at fair value with no associated allocation in the ALLL. The size of the fair value discount remains adequate for all non-impaired acquired loans; therefore, there is no associated allocation in the ALLL.

The Company's loan portfolio balances in 2018 increased from 2017 through organic growth. Management believes that the change in the allowance for credit losses to total loans ratios is directionally consistent with the composition of loans

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and the level of nonperforming and classified loans, partially offset by the general economic conditions experienced in the central California communities serviced by the Company and recent improvements in real estate collateral values. 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 (or peer data) by portfolio segment over the most recent 20 quarters, and qualitative factors. 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 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, 2018. Non-performing loans totaled $2,740,000 as of December 31, 2018, and $2,875,000 as of December 31, 2017. The allowance for credit losses as a percentage of nonperforming loans was 332.26% and 305.32% as of December 31, 2018 and December 31, 2017, 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, 2018 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, 2018 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 Folsom Lake Bank, Sierra Vista Bank, Visalia Community Bank, 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 Bank's ability to generate net earnings after the acquisitions and is not deductible for tax purposes. A significant 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 2018; therefore, goodwill was not required to be retested.
The intangible assets at December 31, 2018 represent the estimated fair value of the core deposit relationships acquired in the 2017 acquisition of Folsom Lake Bank of $1,879,000, the 2016 acquisition of Sierra Vista Bank 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 P5Y to ten years from the date of acquisition. The carrying value of intangible assets at December 31, 2018 was $2,572,000, net of $1,180,000 in accumulated amortization expense. The carrying value at December 31, 2017 was $3,027,000, net of $725,000 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, 2018 and determined no impairment was necessary. In addition, management determined that no events had occurred between the annual evaluation date and December 31, 2018 which would necessitate further analysis. Amortization expense recognized was $455,000 for 2018, $234,000 for 2017 and $149,000 for 2016.

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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
2019	$ 696
2020	696
2021	661
2022	453
2023	66
Thereafter	—
Total	$ 2,572

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 decreased $143,389,000 or 10.06% to $1,282,298,000 as of December 31, 2018, compared to $1,425,687,000 as of December 31, 2017. Interest-bearing deposits decreased $109,007,000 or 12.97% to $731,641,000 as of December 31, 2018, compared to $840,648,000 as of December 31, 2017. Non-interest bearing deposits decreased $34,382,000 or 5.88% to $550,657,000 as of December 31, 2018, compared to $585,039,000 as of December 31, 2017. Average non-interest bearing deposits to average total deposits was 41.48% for the year ended December 31, 2018 compared to 38.93% for the same period in 2017. Based on FDIC deposit market share information published as of June 2018, our total market share of deposits in Fresno, Madera, San Joaquin, and Tulare counties was 3.42% in 2018 compared to 3.69% in 2017. Our total market share in the other counties we operate in (El Dorado, Merced, Placer, Sacramento, and Stanislaus), was less than 1.00% in 2018 and 2017.

The composition of the deposits and average interest rates paid at December 31, 2018 and December 31, 2017 is summarized in the table below.

(Dollars in thousands)	December 31, 2018	% of Total Deposits		Effective Rate		December 31, 2017	% of Total Deposits		Effective Rate	
NOW accounts	$ 252,439	19.7	%	0.16	%	$ 296,406	20.8	%	0.12	%
MMA accounts	267,820	20.9	%	0.15	%	299,638	21.0	%	0.08	%
Time deposits	96,817	7.6	%	0.25	%	128,070	9.0	%	0.30	%
Savings deposits	114,565	8.9	%	0.03	%	116,534	8.2	%	0.03	%
Total interest-bearing	731,641	57.1	%	0.15	%	840,648	59.0	%	0.12	%
Non-interest bearing	550,657	42.9	%			585,039	41.0	%		
Total deposits	$ 1,282,298	100.0	%			$ 1,425,687	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, 2018, 2017, and 2016.

	2018		2017		2016	
(Dollars in thousands)	Balance	Rate	Balance	Rate	Balance	Rate
Savings and NOW accounts	383,667	0.12%	382,071	0.09%	337,804	0.09%
Money market accounts	$285,568	0.15%	$264,581	0.08%	$249,620	0.05%
Time certificates of deposit	$111,214	0.25%	$137,666	0.30%	$139,656	0.38%

Non-interest bearing demand	$553,305	—	$499,987	—	$417,151	—
Total deposits	$1,333,754	0.09%	$1,284,305	0.08%	$1,144,231	0.09%

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The following table sets forth the maturity of time certificates of deposit and other time deposits of $100,000 or more at December 31, 2018.

(In thousands)	
Three months or less	$21,069
Over 3 through 6 months	10,775
Over 6 through 12 months	13,813
Over 12 months	17,459
	$63,116

As of December 31, 2018, the Company had $10,000,000 short-term Federal Home Loan Bank (FHLB) of San Francisco advances. As of December 31, 2017, the Company had no short-term or long-term FHLB borrowings. 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 $40,000,000 at December 31, 2018 and 2017, at interest rates which vary with market conditions. As of December 31, 2018 and 2017, 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 $219,738,000 as of December 31, 2018, compared to $209,559,000 as of December 31, 2017. The increase in shareholders' equity is the result of an increase in retained earnings from our net income of $21,289,000, the exercise of stock options, including the related tax benefit of $738,000, the effect of share-based compensation expense of $482,000, stock issued under employee stock purchase plan of $211,000, offset by a decrease in accumulated other comprehensive income (AOCI) of $7,233,000, payment of common stock cash dividends of $4,270,000, repurchase and retirement of common stock of $894,000, and cumulative effect of accounting change on equity securities of $144,000.

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

During 2017, the Bank declared and paid cash dividends to the Company in the amount of $3,133,000 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 $3,010,000 or $0.24 per common share cash dividend to shareholders of record during the year ended December 31, 2017.

During 2016, the Bank declared and paid cash dividends to the Company in the amount of $13,010,000 in connection with the cash dividends to the Company's shareholders approved by the Company's Board of Directors and the cash portion of the SVB transaction. The Company declared and paid a total of $2,715,000 or $0.24 per common share cash dividend to shareholders of record during the year ended December 31, 2016.

The following table sets forth certain financial ratios for the years ended December 31, 2018, 2017, and 2016.

	2018	2017	2016
Net income:			

To average assets	1.35 %	0.94 %	1.15 %
To average shareholders’ equity	10.07%	7.69 %	9.84 %
Dividends declared per share to net income per share	20.00%	23.53%	19.20%
Average shareholders’ equity to average assets	13.40%	12.23%	11.68%

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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, 2018 and December 31, 2017.

(Dollars in thousands)	Actual Ratio		Minimum regulatory requirement (1)	
December 31, 2018	Amount	Ratio	Amount	Ratio
Tier 1 Leverage Ratio	$171,149	11.48%	N/A	N/A
Common Equity Tier 1 Ratio (CET 1)	$166,149	15.13%	N/A	N/A
Tier 1 Risk-Based Capital Ratio	$171,149	15.59%	N/A	N/A
Total Risk-Based Capital Ratio	$180,478	16.44%	N/A	N/A
December 31, 2017				
Tier 1 Leverage Ratio	$153,676	9.71 %	$63,338	4.00%
Common Equity Tier 1 Ratio (CET 1)	$149,186	12.90%	$52,081	5.75%
Tier 1 Risk-Based Capital Ratio	$153,676	13.28%	$69,441	7.25%
Total Risk-Based Capital Ratio	$162,780	14.07%	$92,588	9.25%

(1) The 2017 minimum regulatory requirement threshold includes the capital conservation buffer of 1.250%.

The following table presents the Bank's regulatory capital ratios as of December 31, 2018 and December 31, 2017

(Dollars in thousands)	Actual Ratio		Minimum regulatory requirement (1)	
December 31, 2018	Amount	Ratio	Amount	Ratio
Tier 1 Leverage Ratio	$168,770	11.32%	$59,639	4.00%
Common Equity Tier 1 Ratio (CET 1)	$168,770	15.38%	$49,388	6.38%
Tier 1 Risk-Based Capital Ratio	$168,770	15.38%	$65,850	7.88%
Total Risk-Based Capital Ratio	$178,099	16.23%	$87,800	9.88%
December 31, 2017				
Tier 1 Leverage Ratio	$149,779	9.46 %	$63,332	4.00%
Common Equity Tier 1 Ratio (CET 1)	$149,779	12.96%	$52,040	5.75%
Tier 1 Risk-Based Capital Ratio	$149,779	12.96%	$69,387	7.25%
Total Risk-Based Capital Ratio	$158,882	13.74%	$92,516	9.25%

(1) The 2018 and 2017 minimum regulatory requirement threshold includes the capital conservation buffer of 1.250% and 0.625%, respectively. These ratios are not reflected on a fully phased-in basis, which will occur in January 2019.

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, 2018, 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%.

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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, 2018, the rate was 4.04%. Interest expense recognized by the Company for the years ended December 31, 2018, 2017, and 2016 was $199,000, $147,000 and $121,000, respectively.

LIQUIDITY

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

Our primary sources of liquidity are derived from financing activities which include the acceptance of customer and, to a lesser extent, broker deposits, Federal funds facilities and advances from the Federal Home Loan Bank of San Francisco (FHLB). These funding sources are augmented by payments of principal and interest on loans, the routine maturities and pay downs of securities from the securities portfolio, the stability of our core deposits and the ability to sell investment securities. As of December 31, 2018, the Company had unpledged securities totaling $391,497,000 available as a secondary source of liquidity and total cash and cash equivalents of $31,727,000. Cash and cash equivalents at December 31, 2018 decreased 68.39% compared to December 31, 2017. 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, 2018, our available borrowing capacity includes approximately $40,000,000 in Federal funds lines with our correspondent banks and $286,934,000 in unused FHLB advances. At December 31, 2018, 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, 2018 and 2017:

Credit Lines (In thousands)	December 31, 2018	December 31, 2017
Unsecured Credit Lines (interest rate varies with market):		
Credit limit	$ 40,000	$ 40,000
Balance outstanding	$ —	$ —
Federal Home Loan Bank (interest rate at prevailing interest rate):		
Credit limit	286,934	234,689
Balance outstanding	$ 10,000	$ —
Collateral pledged	$ 448,083	$ 357,393
Fair value of collateral	$ 399,027	$ 316,160

Federal Reserve Bank (interest rate at prevailing discount interest rate):		
Credit limit	$ 4,364	$ 6,740
Balance outstanding	$ —	$ —
Collateral pledged	$ 4,498	$ 7,431
Fair value of collateral	$ 4,475	$ 7,437

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

OFF-BALANCE SHEET ITEMS

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received. The balance of commitments to extend credit on undisbursed construction and other loans and letters of credit was $312,274,000 as of December 31, 2018 compared to $350,141,000 as of December 31, 2017. For a more detailed discussion of these financial instruments, see Note 12 to the audited Consolidated Financial Statements in this Annual Report.

Contractual Obligations

The contractual obligations of the Company, summarized by type of obligation and contractual maturity, at December 31, 2018, are as follows:

(In thousands)	Less Than One Year	One to Three Years	Three to Five Years	After Five Years	Total
Deposits	$1,257,349	$21,318	$2,521	$1,110	$1,282,298
Subordinated notes	—	—	—	5,155	5,155
Operating leases	2,384	3,883	3,000	4,334	13,601
Total	$1,259,733	$25,201	$5,521	$10,599	$1,301,054

Deposits represent both non-interest bearing and interest bearing deposits. Interest bearing deposits include interest bearing transaction accounts, money market and savings deposits and certificates of deposit. Deposits with indeterminate maturities, such as demand, savings and money market accounts are reflected as obligations due in less than one year.
Subordinated notes issued to a capital trust which was formed solely for the purpose of issuing trust preferred securities. These subordinated notes were acquired as a part of the merger with Service 1st. The aggregate amount indicated above represents the full amount of the contractual obligation. All of these securities are variable rate instruments. The trust preferred securities mature on October 7, 2036, and are redeemable quarterly at the Company's option.
In the ordinary course of business, the Company is party to various operating leases. For operating leases, the dollar balances reflected in the table above are categorized by the due date of the lease payments. Operating leases represent the total minimum lease payments under non-cancelable operating leases.

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.

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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 5 to the consolidated financial statements under the heading "Allowance for Credit Losses" .

Business Combinations

The Company accounts for acquisitions of businesses using the acquisition method of accounting. Under the acquisition method, assets acquired and liabilities assumed are recorded at their estimated fair values at the date of acquisition. This fair value may differ from the cost basis recorded on the acquired institution's financial statements. Management performs an initial assessment to determine which assets and liabilities must be designated for fair value analysis. Management typically engages experts in the field of valuation to perform the valuation of significant assets and liabilities and, after assessing the resulting fair value computation, will utilize such value in computing the initial purchase accounting adjustments for the acquired assets. It is possible that these values could be viewed differently through alternative valuation approaches or if performed by different experts. Management is responsible for determining that the values derived by experts are reasonable. Any excess of the purchase price over amounts allocated to the acquired assets, including identifiable intangible assets, and liabilities assumed is recorded as goodwill. 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. See Note 1 - under the heading "Business Combinations", and Note 7- Goodwill and Intangible Assets in the financial statements in this Form 10 K.

Goodwill and Other Intangible Assets

Goodwill and intangible assets are evaluated at least annually for impairment or more frequently if events or circumstances, such as changes in economic or market conditions, indicate that impairment may exist. When required, the goodwill impairment test involves a two-step process. The first test for goodwill impairment is done by comparing the reporting unit's aggregate fair value to its carrying value. Absent other indicators of impairment, if the aggregate fair value exceeds the carrying value, goodwill is not considered impaired and no additional analysis is necessary. If the carrying value of the reporting unit were to exceed the aggregate fair value, a second test would be performed to measure the amount of impairment loss, if any. To measure any impairment loss, the implied fair value would be determined in the same manner as if the reporting unit were being acquired in a business combination. If the implied fair value of goodwill is less than the recorded goodwill, an impairment charge would be recorded for the difference. During 2011, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2011-08, Intangibles-Goodwill and Other (Topic 350). Under the ASU, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. Thus, before the first step of goodwill impairment, the entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that the fair value of goodwill is less than carrying value. The qualitative assessment includes, but is not limited to, macroeconomic and State of California economic conditions, industry and market conditions and trends, the Company's financial performance, market capitalization, stock price, and any Company-specific events relevant to the assessment. If after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step process is unnecessary. As of December 31, 2018,

based on our qualitative assessment, there were no reporting units where we believed that it was more likely than not that the fair value of a reporting unit was less than its carrying amount, including goodwill. As a result, we had no reporting units where there was a reasonable possibility of failing Step 1 of the goodwill impairment test.
See Note 7"Goodwill and Intangible Assets" in the financial statements in this Form 10 K for further discussion.

INFLATION

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

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At December 31, 2018, 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.

ITEM 7A - 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, 2018, 72.44% 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, 2018, 75.36% 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.

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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, 2018. 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, 2018 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, 2018, 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, 2018	% Change from Rates at December 31, 2018
Up 400 bps	$ 67,200	$ 2,300	3.54 %
Up 300 bps	66,500	1,600	2.47 %
Up 200 bps	65,500	600	0.92 %
Up 100 bps	65,200	300	0.46 %
Unchanged	64,900	—	—
Down 100 bps	60,900	(4,000)	(6.16)%

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, 2018 and 2017:

	December 31, 2018		December 31, 2017	
Rate Type (Dollars in thousands)	Balance	Percent of Total	Balance	Percent of Total
Variable rate	$664,313	72.44 %	$634,900	70.60 %
Fixed rate	252,790	27.56 %	264,420	29.40 %
Total gross loans	$917,103	100.00%	$899,320	100.00%

Approximately 72.44% of our loan portfolio is tied to adjustable rate indices and 32.35% of our loan portfolio reprices within 90 days. As of December 31, 2018, we had 2,041 commercial and real estate loans totaling $546,984,000 with floors ranging from 3.25% to 7.50% and ceilings ranging from 6.00% to 30.00%.
The following table shows the repricing categories of the Company's loan portfolio at December 31, 2018 and 2017:

	December 31, 2018		December 31, 2017	
Repricing (Dollars in thousands)	Balance	Percent of Total	Balance	Percent of Total
< 1 Year	$334,910	36.52 %	$318,985	35.46%
1-3 Years	199,004	21.70 %	177,545	19.74%
3-5 Years	261,299	28.49 %	200,471	22.29%
> 5 Years	121,890	13.29 %	202,319	22.50%
Total gross loans	$917,103	100.00%	$899,320	99.99%

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.

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ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Central Valley Community Bancorp and Subsidiary (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively referred to as the “financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s financial statements and an opinion on the Company’s internal control over financial reporting 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal

control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the

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company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Crowe LLP

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

Sacramento, California
March 8, 2019

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2018 and 2017

(In thousands, except share amounts)	2018	2017
ASSETS		
Cash and due from banks	$24,954	$38,286
Interest-earning deposits in other banks	6,725	62,080
Federal funds sold	48	17
Total cash and cash equivalents	31,727	100,383
Available-for-sale debt securities	463,905	535,281
Equity securities	7,254	7,423
Loans, less allowance for credit losses of $9,104 at December 31, 2018 and $8,778 at December 31, 2017	909,591	891,901
Bank premises and equipment, net	8,484	9,398
Bank owned life insurance	28,502	27,807
Federal Home Loan Bank stock	6,843	6,843
Goodwill	53,777	53,777
Core deposit intangibles	2,572	3,027
Accrued interest receivable and other assets	25,181	25,815
Total assets	$1,537,836	$1,661,655
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Deposits:		
Non-interest bearing	$550,657	$585,039
Interest bearing	731,641	840,648
Total deposits	1,282,298	1,425,687
Short-term borrowings	10,000	—
Junior subordinated deferrable interest debentures	5,155	5,155
Accrued interest payable and other liabilities	20,645	21,254
Total liabilities	1,318,098	1,452,096
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: 13,754,965 at December 31, 2018 and 13,696,722 at December 31, 2017	103,851	103,314
Retained earnings	120,294	103,419
Accumulated other comprehensive (loss) income, net of tax	(4,407)	2,826
Total shareholders’ equity	219,738	209,559
Total liabilities and shareholders’ equity	$1,537,836	$1,661,655

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

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2018, 2017, and 2016

(In thousands, except per share amounts)	2018	2017	2016
Interest income:			
Interest and fees on loans	$49,936	$43,534	$34,051
Interest on deposits in other banks	459	424	289
Interest and dividends on investment securities:			
Taxable	10,254	6,526	5,876
Exempt from Federal income taxes	3,538	6,892	6,460
Total interest income	64,187	57,376	46,676
Interest expense:			
Interest on deposits	1,153	969	975
Interest on junior subordinated deferrable interest debentures	199	147	121
Other	132	21	—
Total interest expense	1,484	1,137	1,096
Net interest income before provision for credit losses	62,703	56,239	45,580
(Reversal of) Provision for credit losses	50	(1,150)	(5,850)
Net interest income after provision for credit losses	62,653	57,389	51,430
Non-interest income:			
Service charges	2,986	3,053	2,849
Appreciation in cash surrender value of bank owned life insurance	695	621	558
Interchange fees	1,462	1,458	1,228
Loan placement fees	708	706	1,083
Net realized gain on sale of credit card portfolio	462	—	—
Net realized gains on sales and calls of investment securities	1,314	2,802	1,920
Other-than-temporary impairment loss on investment securities	—	—	(136)
Federal Home Loan Bank dividends	590	443	630
Other income	2,107	1,753	1,459
Total non-interest income	10,324	10,836	9,591
Non-interest expenses:			
Salaries and employee benefits	26,221	24,738	21,881
Occupancy and equipment	5,972	5,186	4,754
Regulatory assessments	619	652	642
Data processing expense	1,666	1,740	1,707
Professional services	1,475	1,509	1,258
ATM/Debit card expenses	739	750	633
Information technology	1,113	818	531
Directors' expenses	465	597	530
Advertising	758	638	576
Internet banking expenses	732	705	678
Acquisition and integration expenses	217	1,828	1,782
Amortization of core deposit intangibles	455	234	149
Other expense	4,636	5,011	3,801
Total non-interest expenses	45,068	44,406	38,922
Income before provision for income taxes	27,909	23,819	22,099
Provision for income taxes	6,620	9,793	6,917
Net income	$21,289	$14,026	$15,182

Basic earnings per common share	$1.55	$1.12	$1.34
Diluted earnings per common share	$1.54	$1.10	$1.33
Cash dividends per common share	$0.31	$0.24	$0.24

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

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2018, 2017, and 2016

(In thousands)	2018	2017	2016
Net income	$21,289	$14,026	$15,182
Other Comprehensive Income (Loss):			
Unrealized gains (losses) on securities:			
Unrealized holdings (losses) gains arising during the period	(9,159)	7,705	(9,924)
Less: reclassification for net gains included in net income	1,314	2,802	1,224
Less: reclassification for other-than-temporary impairment loss included in net income	—	—	(136)
Transfer of investment securities from held-to-maturity to available-for-sale	—	—	2,647
Amortization of net unrealized gains transferred	—	—	(64)
Other comprehensive (loss) income, before tax	(10,473)	4,903	(8,429)
Tax benefit (expense) related to items of other comprehensive income	3,096	(2,062)	3,451
Total other comprehensive (loss) income	(7,377)	2,841	(4,978)
Comprehensive income	$13,912	$16,867	$10,204

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

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2018, 2017, and 2016

	Common Stock				
(In thousands, except share amounts)	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss) (Net of Taxes)	Total Shareholders' Equity
Balance, January 1, 2016	10,996,773	$54,424	$80,437	$ 4,462	$ 139,323
Net income	—	—	15,182	—	15,182
Other comprehensive loss	—	—	—	(4,978)	(4,978)
Restricted stock granted, forfeited and related tax benefit	52,911	(2)	—	—	(2)
Cash dividend ($0.24 per common share)	—	—	(2,715)	—	(2,715)
Stock issued for acquisition	1,058,851	16,678	—	—	16,678
Stock-based compensation expense	—	284	—	—	284
Stock options exercised and related tax benefit	35,280	261	—	—	261
Balance, December 31, 2016	12,143,815	71,645	92,904	(516)	164,033
Net income	—	—	14,026	—	14,026
Other comprehensive income	—	—	—	2,841	2,841
Reclassification associated with the adoption of ASU 2018-02	—	—	(501)	501	—
Stock issued under employee stock purchase plan	2,441	45	—	—	45
Restricted stock granted, (forfeited) and related tax benefit	(2,360)	—			—
Stock issued for acquisition	1,276,888	28,405	—	—	28,405
Stock-based compensation expense	—	384	—	—	384
Cash dividend ($0.24 per common share)	—	—	(3,010)	—	(3,010)
Stock options exercised and related tax benefit	275,938	2,835	—	—	2,835
Balance, December 31, 2017	13,696,722	103,314	103,419	2,826	209,559
Cumulative effect of equity securities gains reclassified	—	—	(144)	144	—
Adjusted Balance, January 1, 2018	13,696,722	103,314	103,275	2,970	209,559
Net income	—	—	21,289	—	21,289
Other comprehensive loss	—	—	—	(7,377)	(7,377)
Restricted stock granted, (forfeited) and related tax benefit	20,494	—	—	—	—
Stock issued under employee stock purchase plan	11,581	211	—	—	211
Stock-based compensation expense	—	482	—	—	482
Cash dividend ($0.31 per common share)	—	—	(4,270)	—	(4,270)
Stock options exercised and related tax benefit	74,030	738	—	—	738
Repurchase and retirement of common stock	(47,862)	(894)	—	—	(894)
Balance, December 31, 2018	13,754,965	$103,851	$120,294	$ (4,407)	$ 219,738

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

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018, 2017, and 2016

(In thousands)	2018	2017	2016
Cash flows from operating activities:			
Net income	$21,289	$14,026	$15,182
Adjustments to reconcile net income to net cash provided by operating activities:			
Net decrease (increase) in deferred loan costs	233	(92)	(851)
Depreciation	1,703	1,429	1,320
Accretion	(898)	(766)	(1,142)
Amortization	6,457	8,519	7,912
Stock-based compensation	482	384	284
Excess tax benefit from exercise of stock options	—	—	(30)
Provision for (reversal of) credit losses	50	(1,150)	(5,850)
Other than temporary impairment losses on investment securities	—	—	136
Net realized gains on sales and calls of available-for-sale investment securities	(1,314)	(2,802)	(1,224)
Net realized gains on sales or calls of held-to-maturity investment securities	—	—	(696)
Net loss on sale and disposal of equipment	2	—	4
Write down of equity investments	42	—	—
Increase in bank owned life insurance, net of expenses	(695)	(621)	(558)
Net gain on sale of credit card portfolio	(462)	—	—
Net gain on bank owned life insurance	—	—	(190)
Net decrease (increase) in accrued interest receivable and other assets	3,218	(2,263)	(4,711)
Net (decrease) increase in accrued interest payable and other liabilities	(599)	1,370	821
Benefit for deferred income taxes	403	7,184	2,592
Net cash provided by operating activities	29,911	25,218	12,999
Cash Flows From Investing Activities:			
Net cash and cash equivalents acquired in acquisitions	—	26,279	13,241
Purchases of available-for-sale investment securities	(225,970)	(226,740)	(278,664)
Proceeds from sales or calls of available-for-sale investment securities	246,824	228,405	167,163
Proceeds from sales or calls of held-to-maturity investment securities	—	—	9,257
Proceeds from maturity and principal repayment of available-for-sale investment securities	36,495	44,956	50,531
Proceeds from sale of credit card portfolio	2,954	—	—
Net increase in loans	(20,477)	(25,542)	(29,930)
Purchases of premises and equipment	(791)	(859)	(861)
Proceeds from bank owned life insurance	—	—	928
Proceeds from sale of premises and equipment	—	—	7
Net cash provided by (used in) investing activities	39,035	46,499	(68,328)
Cash Flows From Financing Activities:			
Net (decrease) increase in demand, interest-bearing and savings deposits	(112,134)	45,672	26,372
Net decrease in time deposits	(31,253)	(48,044)	(25,038)
Proceeds from short-term borrowings from Federal Home Loan Bank	568,500	—	—
Repayments of short-term borrowings to Federal Home Loan Bank	(558,500)	(7,000)	—
Proceeds of borrowings from other financial institutions	19,705	—	400
Repayments of borrowings from other financial institutions	(19,705)	(400)	—
Purchase and retirement of common stock	(894)	—	—
Proceeds from stock issued under employee stock purchase plan	211	45	—
Proceeds from exercise of stock options	738	2,835	231

Excess tax benefit from exercise of stock options	—	—	30
Cash dividend payments on common stock	(4,270)	(3,010)	(2,715)
Net cash used in financing activities	(137,602)	(9,902)	(720)
(Decrease) increase in cash and cash equivalents	(68,656)	61,815	(56,049)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	100,383	38,568	94,617
CASH AND CASH EQUIVALENTS AT END OF YEAR	$31,727	$100,383	$38,568

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(continued)
For the Years Ended December 31, 2018, 2017, and 2016

(In thousands)	2018	2017	2016
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$1,460	$1,171	$1,053
Income taxes	$2,700	$4,720	$5,840
Non-cash investing and financing activities:			
Transfer of securities from held-to-maturity to available-for-sale	$—	$—	$23,131
Unrealized gain on transfer of securities from held-to-maturity to available-for-sale	$—	$—	$526
Transfer of loans to other assets	$—	$—	$363
Common stock issued in acquisitions	$—	$28,405	$16,678

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

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Central Valley Community Bancorp and Subsidiary
Notes to 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 21 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.

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.

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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, 2018, 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.
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 20 quarters, and qualitative factors including economic trends in the Company’s service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company’s underwriting policies, the character of the loan portfolio, and probable losses inherent in the portfolio taken as a whole.

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

Commercial:
Commercial and industrial - Commercial and industrial loans are generally underwritten to existing cash flows of operating businesses. Additionally, economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Past due payments may indicate the borrower's capacity to repay their obligations may be deteriorating.
Agricultural production - Loans secured by crop production and livestock are especially vulnerable to two risk factors that are largely outside the control of Company and borrowers: commodity prices and weather conditions.

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

Real estate construction and other land loans - Land and construction loans generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within specified costs and time lines. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.
Agricultural real estate - Agricultural loans secured by real estate generally possess a higher inherent risk of loss caused by changes in concentration of permanent plantings, government subsidies, and the value of the U.S. dollar affecting the export of commodities.
Investor commercial real estate - Investor commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments, except land and construction loans. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for properties to produce sufficient cash flows to service debt obligations.
Other real estate - Primarily loans secured by agricultural real estate for development and production of permanent plantings that have not reached maximum yields. Also real estate loans where agricultural vertical integration exists in packing and shipping of commodities. Risk is primarily based on the liquidity of the borrower to sustain payment during the development period.

Consumer:
Equity loans and lines of credit - The degree of risk in residential real estate lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower’s ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends may indicate that the borrowers’ capacity to repay their obligations may be deteriorating.
Installment and other consumer loans - An installment loan portfolio is usually comprised of a large number of small loans scheduled to be amortized over a specific period. Most installment loans are made directly for consumer purchases. Other consumer loans include other open ended unsecured consumer loans. Open ended unsecured loans generally have a higher rate of default than all other portfolio segments and are also impacted by weak economic conditions and trends. Open ended unsecured loans in homogeneous loan portfolio segments are not evaluated for specific impairment.
Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the adequacy of the allowance, including consideration of the relative risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Company’s primary regulators, the FDIC and California Department of Business Oversight, as an integral part of their examination process, review the adequacy of the allowance. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

Risk Rating - The Company assigns a risk rating to all loans, and periodically performs detailed reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. The most recent review of risk rating was completed in December 2018. 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

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reasonably specific pending factors, which may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans. Doubtful classification is considered temporary and short term.
Loss - Loans classified as loss are considered uncollectible and charged off immediately.
The general reserve component of the allowance for credit losses also consists of reserve factors that are based on management's assessment of the following for each portfolio segment: (1) inherent credit risk, (2) historical losses and (3) other qualitative factors including economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan portfolio, and probable losses inherent in the portfolio taken as a whole. Inherent credit risk and qualitative reserve factors are inherently subjective and are driven by the repayment risk associated with each class of loans.

Bank Premises and Equipment - Land is carried at cost. Bank premises and equipment are carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of Bank premises are estimated to be between twenty and forty 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 Funds is reported in other assets on the consolidated balance sheet.

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

Foreclosed Assets - Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through operations. Operating costs after acquisition are expensed. Gains and losses on disposition are included in noninterest expense. The carrying value of foreclosed assets was $0 at December 31, 2018 and $70,000 at December 31, 2017, and is included in other assets on the consolidated balance sheets.

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.

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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. Total goodwill at December 31, 2018 and 2017 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 purchase 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 2018, so goodwill was not required to be retested. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Intangible Assets - The intangible assets at December 31, 2018 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, 2018 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 2018, 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

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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 3. 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) 2014-09 - Revenue from Contracts with Customers (Topic 606): Revenue from Contracts with Customers was issued in May 2014. This ASU is the result of a joint project initiated by the FASB and the International Accounting Standards Board (IASB) to clarify the principles for recognizing revenue, and to develop common revenue standards and disclosure requirements that would: (1) remove inconsistencies and weaknesses in revenue requirements; (2) provide a more robust framework for addressing revenue issues; (3) improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; (4) provide more useful information to users of financial statements through improved disclosures; and (5) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. The guidance affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. The core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Qualitative and quantitative information is required with regard to contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods therein, with early adoption permitted for reporting periods beginning after December 15, 2016. The Company adopted ASU 2014-09 on January 1, 2018 utilizing the modified retrospective approach. Since the guidance does not apply to revenue associated with financial instruments such as loans and investments, which are accounted for under other provisions of GAAP, there was no impact to interest income, our largest component of income. The Company adopted this ASU effective January 1, 2018 and it did not have a material impact on the Company's consolidated financial position, cash flows or results of operations. No cumulative adjustment was required upon adoption.

The Company performed an overall assessment of revenue streams potentially affected by the ASU, including certain deposit related fees and interchange fees, to determine the potential impact of this guidance on our consolidated financial statements. Approximately 90% of our revenue, including all of our net interest income and a portion of our noninterest income, is out of

scope of the guidance. The contracts that are in scope of the guidance are primarily related to service charges and fees on deposit accounts, debit card fees, ATM processing fees, and other service charges, commissions and fees. We have completed analyzing the individual contracts in scope and determined our revenue recognition practices within the scope of the ASU as described below did not change in any material regard upon adoption of the ASU.

Service Charges on Deposit Accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Merchant and Debit Card Fees: The Company earns interchange fees from cardholder transactions conducted through the payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

FASB Accounting Standards Update (ASU) 2016-01 - Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, was issued January 2016. The main provisions of the update are to eliminate the available-for-sale classification of accounting for equity securities and to adjust the fair value disclosures for financial instruments carried at amortized costs such that the disclosed fair values represent an exit price as opposed to an entry price. The provisions of this update will require that equity securities be carried at fair market value on the balance sheet and any periodic changes in value will be adjustments to the income statement. A practical expedient is provided for equity securities without a readily determinable fair value, such that these securities can be carried at cost less any impairment. ASU No. 2016-01 was effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The impact of adoption of this ASU by the Company was not material, but did result in a reclassification of an equity investment from securities available-for-sale to equity securities. The Company was required to adopt the ASU provisions on January 1, 2018, and for those equity securities with readily determinable fair values, the Company elected the modified retrospective transition approach with a cumulative effect adjustment to the balance sheet. The impact of the adoption of this accounting standard on the Company's consolidated financial statements will be subject to the price volatility of the equity investments. As a result of the adoption, $144,000 of after-tax unrealized losses on equity securities was reclassified on January 1, 2018, from accumulated other comprehensive income to beginning retained earnings. In addition, the fair value disclosures for financial instruments in Note 3 are computed using an exit price notion as required by the ASU.

FASB Accounting Standards Update (ASU) 2016-02 - Leases - Overall (Subtopic 845), was issued February 2016. ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, "Revenue from Contracts with Customers." ASU 2016-02 will be effective for us on January 1, 2019 and initially required transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842) - Targeted Improvements," which, among other things, provides an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

In December 2018, the FASB also issued ASU 2018-20, “Leases (Topic 842) - Narrow-Scope Improvements for Lessors,” which provides for certain policy elections and changes lessor accounting for sales and similar taxes and certain lessor costs. As of January 1, 2019, the Company adopted ASU 2016-02 and has recorded a right-of-use asset and lease liability of approximately $10 million on the balance sheet for its operating leases where it is a lessee. We elected to apply certain practical expedients provided under ASU 2016-02 whereby we will not reassess(i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for any existing leases. We also do not expect to apply the recognition requirements of ASU 2016-02 to any short-term leases (as defined by related accounting guidance). We expect to account for lease and non-lease components separately because such amounts are readily determinable under our lease contracts and because we expect this election will result in a lower impact on our balance sheet.

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

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methodology. Under CECL, reserves required for financial assets measured at amortized cost will reflect an organization's estimate of all expected credit losses over the contractual term of the financial asset and thereby require the use of reasonable and supportable forecasts to estimate future credit losses. Because CECL encompasses all financial assets carried at amortized cost, the requirement that reserves be established based on an organization's reasonable and supportable estimate of expected credit losses extends to held to maturity ("HTM") debt securities. Under the provisions of the update, credit losses recognized on available for sale ("AFS") debt securities will be presented as an allowance as opposed to a write-down. In addition, CECL will modify the accounting for purchased loans, with credit deterioration since origination, so that reserves are established at the date of acquisition for purchased loans. Under current GAAP a purchased loan's contractual balance is adjusted to fair value through a credit discount and no reserve is recorded on the purchased loan upon acquisition. Since under CECL reserves will be established for purchased loans at the time of acquisition, the accounting for purchased loans is made more comparable to the accounting for originated loans. Finally, increased disclosure requirements under CECL require organizations to present the currently required credit quality disclosures disaggregated by the year of origination or vintage. The FASB expects that the evaluation of underwriting standards and credit quality trends by financial statement users will be enhanced with the additional vintage disclosures. For public business entities that are SEC filers, the amendments of the update will become effective beginning January 1, 2020.

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 in 2019. 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 and investment securities as well as the economic conditions as of the date of adoption. The Company also anticipates significant changes to the processes and procedures for calculating the reserve for credit losses and continues to evaluate the potential impact on our consolidated financial statements.

FASB Accounting Standards Update (ASU) 2017-04 - Intangibles Goodwill and Other (Subtopic 350): Simplifying the Test for Goodwill Impairment, was issued January 2017. The provisions of the update eliminate the existing second step of the goodwill impairment test which provides for the allocation of reporting unit fair value among existing assets and liabilities, with the net leftover amount representing the implied fair value of goodwill. In replacement of the existing goodwill impairment rule, the update will provide that impairment should be recognized as the excess of any of the reporting unit's goodwill over the fair value of the reporting unit. Under the provisions of this update, the amount of the impairment is limited to the carrying value of the reporting unit's goodwill. For public business entities that are SEC filers, the amendments of the update will become effective in fiscal years beginning after December 15, 2019 with earlier adoption permitted. The Company adopted ASU 2017-04 effective during the first quarter of 2019 and it did not have a material impact on the Company's financial position, results of operations or cash flows.

FASB Accounting Standards Update (ASU) 2017-08 - Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities, was issued March 2017. The provisions of the update require premiums recognized upon the purchase of callable debt securities to be amortized to the earliest call date in order to avoid losses recognized upon call. For public business entities that are SEC filers, the amendments of the update will become effective in fiscal years beginning after December 15, 2018. The Company adopted this ASU

effective January 1, 2019 and it did not have a material impact on the Company’s financial position, results of operations or cash flows.

FASB Accounting Standards Update (ASU) 2017-09 - Compensation - Stock Compensation (Subtopic 718): Scope of Modification Accounting, was issued May 2017. The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. An entity should account for the effects of a modification unless all of the following conditions are met: the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified; the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The amendments in this Update should be applied prospectively to an award modified on or after the adoption date. The amendments in this Update are effective for annual periods, and interim periods within those annual periods, beginning after December 31, 2017. The Company adopted this ASU effective January 1, 2018 and it did not have a material impact on the Company’s Consolidated Financial Statements.

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FASB Accounting Standards Update (ASU) 2018-13 - Fair Value Measurement (Subtopic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, was issued August 2018. The primary focus of ASU 2018-13 is to improve the effectiveness of the disclosure requirements for fair value measurements. The changes affect all companies that are required to include fair value measurement disclosures. In general, the amendments in ASU 2018-13 are effective for all entities for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019. An entity is permitted to early adopt the removed or modified disclosures upon the issuance of ASU 2018-13 and may delay adoption of the additional disclosures, which are required for public companies only, until their effective date. Management is currently evaluating the impact these changes will have on the Company’s consolidated financial statements and disclosures.

2. ACQUISITIONS

On October 1, 2017, the Company completed the acquisition of Folsom Lake Bank (“FLB”) for an aggregate transaction value of $28,475,000. FLB was merged into the Bank, and the Company issued 1,276,888 shares of common stock to the former shareholders of FLB. The Company also assumed the outstanding FLB stock options. With the FLB acquisition, the Company added two full service branches, located in Folsom, and Rancho Cordova, California. The FLB Roseville branch was consolidated with the Company’s Roseville branch in October 2017. FLB’s assets as of October 1, 2017 totaled approximately $196,148,000.

In accordance with GAAP guidance for business combinations, the Company recorded $13,466,000 of goodwill and $1,879,000 of other intangible assets on the acquisition date. The other intangible assets are primarily related to core deposits and are being amortized using a straight-line method over a period of five years with no significant residual value. For tax purposes, purchase accounting adjustments including goodwill are all non-taxable and/or non-deductible. Acquisition related costs of $217,000 and $1,828,000 are included in the income statement for the years ended December 31, 2018 and 2017, respectively.

The acquisition was consistent with the Company’s strategy to build a regional presence in Central California. The acquisition offers the Company the opportunity to increase profitability by introducing existing products and services to the acquired customer base as well as add new customers in the expanded region. Goodwill arising from the acquisition consisted largely of synergies and the expected cost savings resulting from the combined operations.

The following table summarizes the consideration paid for FLB and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date (in thousands):

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Merger consideration:	
Common stock issued	$28,475
Fair Value of Total Consideration Transferred	$28,475
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	$26,279
Loans, net	117,815
Investments	41,280
Core deposit intangible	1,879
Premises and equipment	561
Federal Home Loan Bank stock	1,559
Deferred taxes and taxes receivable	2,186
Bank owned life insurance	3,997
Other assets	592
Total assets acquired	196,148
Deposits	171,948
Deposit premium	132
Short-term borrowings - Federal Home Loan Bank	7,000
Other liabilities	2,059
Total liabilities assumed	181,139
Total identifiable net assets	15,009
Goodwill	$13,466

The fair value of net assets acquired includes fair value adjustments to certain loans that were not considered impaired as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. As such, these loans were not considered impaired at the acquisition date and were not subject to the guidance relating to purchased credit impaired loans, which have shown evidence of credit deterioration since origination. Loans acquired that were not subject to these requirements include non-impaired loans and customer receivables with a fair value and gross contractual amounts receivable of $117,815,000 and $121,872,000, respectively, on the date of acquisition. See Note 5 for discussion of purchased credit impaired loans.

On October 1, 2016, the Company acquired Sierra Vista Bank, headquartered in Folsom, California, wherein Sierra Vista Bank, with one branch in Folsom, one branch in Fair Oaks, and one branch in Cameron Park, merged with and into Central Valley Community Bancorp’s subsidiary, Central Valley Community Bank, in a combined cash and stock transaction. Sierra Vista Bank’s assets as of October 1, 2016 totaled approximately $155,154,000. The acquired assets and liabilities were recorded at fair value at the date of acquisition. Under the terms of the merger agreement, the Company issued an aggregate of approximately 1,058,851 shares of its common stock and cash totaling approximately $9,468,000 to the former shareholders of Sierra Vista Bank.

In accordance with GAAP guidance for business combinations, the Company recorded $10,314,000 of goodwill and $508,000 of other intangible assets on the acquisition date. The other intangible assets are primarily related to core deposits and are being amortized using a straight-line method over a period of five years with no significant residual value. For tax purposes, purchase accounting adjustments including goodwill are all non-taxable and/or non-deductible. Acquisition related costs of $1,782,000 are included in the income statement for the year ended December 31, 2016.

The acquisition was consistent with the Company’s strategy to build a regional presence in Central California. The acquisition offers the Company the opportunity to increase profitability by introducing existing products and services to the acquired customer base as well as add new customers in the expanded region. Goodwill arising from the acquisition consisted largely of synergies and the cost savings resulting from the combined operations.

The following table summarizes the consideration paid for Sierra Vista Bank and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date (in thousands):

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Merger consideration:	
Cash	$9,468
Common stock issued	16,793
Fair Value of Total Consideration Transferred	$26,261

Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	$22,709
Loans, net	122,533
Core deposit intangible	508
Premises and equipment	586
Federal Home Loan Bank stock	771
Deferred taxes and taxes receivable	4,417
Bank owned life insurance	2,664
Other assets	966
Total assets acquired	155,154
Deposits	138,236
Deposit premium	142
Other liabilities	829
Total liabilities assumed	139,207
Total identifiable net assets	15,947
Goodwill	$10,314

The fair value of net assets acquired includes fair value adjustments to certain loans that were not considered impaired as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. As such, these loans were not considered impaired at the acquisition date and were not subject to the guidance relating to purchased credit impaired loans, which have shown evidence of credit deterioration since origination. Loans acquired that were not subject to these requirements include non-impaired loans and customer receivables with a fair value and gross contractual amounts receivable of $121,902,000 and $124,396,000, respectively, on the date of acquisition. See Note 5 for discussion of purchased credit impaired loans.

Pro Forma Results of Operations

The accompanying consolidated financial statements include the accounts of Sierra Vista Bank since October 1, 2016 and Folsom Lake Bank since October 1, 2017. The following table presents pro forma results of operations information for the periods presented as if the acquisitions had occurred on January 1, 2016 after giving effect to certain adjustments. The unaudited pro forma results of operations for the years ended December 31, 2017 and 2016 include the historical accounts of the Company, Folsom Lake Bank, and Sierra Vista Bank and pro forma adjustments as may be required, including the amortization of intangibles with definite lives and the amortization or accretion of any premiums or discounts arising from fair value adjustments for assets acquired and liabilities assumed. The pro forma information is intended for informational purposes only and is not necessarily indicative of the Company’s future operating results or operating results that would have occurred had the acquisitions been completed at the beginning of each respective year. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions. (In thousands, except per-share amounts):

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	For the Years Ended December 31,	
	2017	2016
Net interest income	$61,059	$56,531
Provision for (reversal of) credit losses	(1,150)	(5,800)
Non-interest income	11,240	10,205
Non-interest expense	51,415	52,131
Income before provision for income taxes	22,034	20,405
Provision for income taxes	9,168	6,381
Net income	$12,866	$14,024
Net income available to common shareholders	$12,866	$14,024
Basic earnings per common share	$1.03	$1.24
Diluted earnings per common share	$1.01	$1.23

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

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

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

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

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

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

	December 31, 2018				
	Carrying	Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$24,954	$24,954	$ —	$ —	$24,954
Interest-earning deposits in other banks	6,725	6,725	—	—	6,725
Federal funds sold	48	48	—	—	48
Available-for-sale investment securities	463,905	—	463,905	—	463,905
Equity securities	7,254	7,254	—	—	7,254
Loans, net	909,591	—	—	899,214	899,214
Federal Home Loan Bank stock	6,843	N/A	N/A	N/A	N/A
Accrued interest receivable	6,429	32	2,323	4,074	6,429
Financial liabilities:					
Deposits					