CENTRAL VALLEY COMMUNITY BANCORP
Form 10-K
March 15, 2016
Table of Contents

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, 2015
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 000-31977
CENTRAL VALLEY COMMUNITY BANCORP
(Exact name of registrant as specified in its charter)

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

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

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

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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, 2015, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $103,500,000 based on the price at which the stock was last sold on June 30, 2015.

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, 2016	
[Common Stock, No par value per share]	11,015,929	shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts into Which Incorporated
Proxy Statement for the Annual Meeting of Shareholders to be held May 18, 2016 (Proxy Statement)	Part III

Table of Contents

TABLE OF CONTENTS

ITEM 1 -	DESCRIPTION OF BUSINESS	1
ITEM 1A -	RISK FACTORS	23
ITEM 1B -	UNRESOLVED STAFF COMMENTS	23
ITEM 2 -	DESCRIPTION OF PROPERTY	29
ITEM 3 -	LEGAL PROCEEDINGS	29
ITEM 4 -	MINE SAFETY DISCLOSURES	29
ITEM 5 -	MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	29
ITEM 6 -	SELECTED FINANCIAL DATA	30
ITEM 7-	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	32
ITEM 7A-	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	58
ITEM 8 -	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	61
ITEM 9 -	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	110
ITEM 9A -	CONTROLS AND PROCEDURES	110
ITEM 9B-	OTHER INFORMATION	111
ITEM 10 -	DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT	111
ITEM 11 -	EXECUTIVE COMPENSATION	111
ITEM 12 -	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	111
ITEM 13 -	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	111
ITEM 14 -	PRINCIPAL ACCOUNTING FEES AND SERVICES	112
ITEM 15 -	EXHIBITS, FINANCIAL STATEMENT SCHEDULES	112
SIGNATURES		113

Table of Contents

ADDITIONAL INFORMATION; INQUIRIES

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

•Form 10-K — Annual Report;
•Form 10-Q — Quarterly Report;
•Form 8-K — Report of Unscheduled Material Events; and
•Form DEF 14A — Proxy Statement.

We may file additional forms. The SEC maintains an Internet site, www.sec.gov, in which all forms filed electronically may be accessed. Additional shareholder information regarding the Company and our Directors is available on our website: www.cvcb.com. None of the information on or hyperlinked from our website is incorporated into this Report.
Copies of the annual report on Form 10-K for the year ended December 31, 2015 may be obtained without charge upon written request to Dave Kinross, Chief Financial Officer, at the Company's administrative offices, 7100 N. Financial Dr., Suite 101, Fresno, CA 93720.
Inquiries regarding Central Valley Community Bancorp's accounting, internal controls or auditing concerns should be directed to Steven D. McDonald, chairman of the Board of Directors' Audit Committee, at steve.mcdonald@cvcb.com or anonymously at www.ethicspoint.com or EthicsPoint, Inc. at 1-866-294-9588.
General inquiries about Central Valley Community Bancorp or Central Valley Community Bank should be directed to Cathy Ponte, Assistant Corporate Secretary at 1-800-298-1775.

PART I

ITEM 1 - DESCRIPTION OF BUSINESS

General

Central Valley Community Bancorp (the Company) was incorporated on February 7, 2000 as a California corporation, for the purpose of becoming the holding company for Central Valley Community Bank (the Bank), formerly known as Clovis Community Bank, a California state chartered bank, through a corporate reorganization. In the reorganization, the Bank became the wholly-owned subsidiary of the Company, and the shareholders of the Bank became the shareholders of the Company. The Company is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (the BHC Act), and is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the Board of Governors).
At December 31, 2015, we had one banking subsidiary, the Bank. Our principal business is to provide, through our banking subsidiary, financial services in our primary market area in California. We serve seven contiguous counties in California's central valley including Fresno County, Madera County, Merced County, Sacramento County, San Joaquin County, Stanislaus County, and Tulare County, and their surrounding areas through the Bank. We do not currently conduct any operations other than through the Bank. Unless the context otherwise requires, references to us refer to the Company and the Bank on a consolidated basis. At December 31, 2015, we had consolidated total assets of approximately $1,276,736,000. See Items 7 and 8, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Financial Statements.
Effective July 1, 2013, the Company and Visalia Community Bank (VCB) completed a merger under which Visalia Community Bank, with three full-service offices in Visalia and one in Exeter, merged with and into the Bank.
On August 18, 2011, the Company entered into a Securities Purchase Agreement (SPA) with the Small Business Lending Fund of the United States Department of the Treasury (the Treasury), under which the Company issued 7,000 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series C (Series C Preferred) to the Treasury for an

aggregate purchase price of $7,000,000. Simultaneously, the Company agreed with Treasury under a Letter Agreement to redeem, for an aggregate price of $7,000,000, the 7,000 shares of the Company's Series A Fixed Rate Cumulative Preferred Stock (Series A Stock) originally issued pursuant to the Treasury's Capital Purchase Program (CPP) in 2009. The redemption of the Series A Stock resulted in an acceleration of the remaining discount booked at the time of the CPP transaction. In connection with the repurchase of the Series A Stock, the Company also repurchased the warrant (the Warrant) to purchase 79,037 shares of the Company's common stock that was originally issued to Treasury in connection with the CPP transaction for total consideration of $185,000.

On December 31, 2013, the Company redeemed all 7,000 outstanding shares of its Series C Preferred from the Treasury, in exercise of its optional redemption rights pursuant to the terms of the Series C Preferred under the Company's charter and the SPA. The Company paid the Treasury $7,087,500 in connection with the redemption, representing $1,000 per

Table of Contents

share of the Series C Preferred plus all accrued and unpaid dividends through the date of the redemption. The obligations of the Company under the SPA are terminated as a result of the redemption. No shares of Series C Preferred remain outstanding.

As of March 1, 2016, we had a total of 282 employees and 272 full time equivalent employees, including the employees of the Bank.

The Bank

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

The Bank operates 21 full-service banking offices in Clovis, Exeter, Fresno, Kerman, Lodi, Madera, Merced, Modesto, Oakhurst, Prather, Sacramento, Stockton, Tracy, and Visalia. The Oakhurst and Madera branches were added through the Bank of Madera County merger in 2005. The Tracy, Stockton and Lodi offices were added through the merger with Service 1st Bank in November of 2008. The Exeter and Visalia offices were added through the Visalia Community Bank merger in 2013. The Bank has a Real Estate Division, an Agribusiness Center and an SBA Lending Division in Fresno. All real estate related transactions are conducted and processed through the Real Estate Division, including interim construction loans for single family residences and commercial buildings. We offer permanent single family residential loans through our mortgage broker services. Our total market share of deposits in Fresno, Madera, and Tulare counties were 4.76% in 2015 compared to 4.81% in 2014 based on FDIC deposit market share information published as of June 30, 2015.

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

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

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

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

In 2013, the Company acquired Visalia Community Bank, adding four branches located in Exeter and Visalia, California.

Branch expansions provide the Company with opportunities to expand its 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. The Bank anticipates additional future branch openings to meet the growing service needs of its customers, although none are planned during 2016. After extensive analysis combined with the rising popularity of online and mobile banking trends, the Company has chosen to consolidate the Sunnyside office into our Fresno Downtown office in April 2016.

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

The Company terminated its interest in Central Valley Community Insurance Services, LLC (CVCIS) at the beginning of the third quarter of 2015. The Bank's interest in CVCIS was originally established in 2006 for the purpose of providing health, commercial property and casualty insurance products and services primarily to business customers. The operating results of CVCIS were not significant to the Company's operations. The termination of this entity did not have a material impact on the Company's financial statements.

Since August of 1995 the Bank has been a party to an agreement with Investment Centers of America, pursuant to which Investment Centers of America provides Bank customers with access to investment services. In connection with entering into this agreement, the Bank adopted a policy intended to comply with FDIC Regulation Section 337.4, which outlines the guidelines under which an insured non-member bank may be affiliated with a company that directly engages in the sale, distribution, or underwriting of stocks, bonds, debentures, notes, or other securities.
The Bank’s operating policy since its inception has emphasized serving the banking needs of individuals and the business and professional communities in the central valley area of California. At December 31, 2015, we had total loans of $598,111,000. Total commercial and industrial loans outstanding were $102,197,000, total agricultural land and production loans outstanding were $30,472,000, total real estate construction and other land loans outstanding were $38,685,000; total other real estate loans outstanding were $371,541,000, total equity loans and lines of credit were $42,296,000 and total consumer installment loans outstanding were $12,503,000. We accept real estate, listed securities, savings and time deposits, automobiles, inventory, accounts receivable, machinery and equipment as collateral for loans.

No individual or single group of related accounts is considered material in relation to the Bank's assets or deposits, or in relation to the overall business of the Company. However, at December 31, 2015 approximately 75.7% of our loan portfolio held for investment consisted of real estate-related loans, including construction loans, equity loans and lines of credit and commercial loans secured by real estate and 22.2% consisted of commercial loans. See Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations. We believe that these concentrations are mitigated by the diversification of our loan portfolio among commercial, real estate and consumer loans. In addition, our business activities currently are mainly concentrated in Fresno, Madera, Merced, Sacramento, San Joaquin, Stanislaus, and Tulare County, California. Consequently, our results of operations and financial condition are dependent upon the general trends in this part of the California economy and, in particular, the residential and commercial real estate markets. Further, our concentration of operations in this area of California exposes us to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires, droughts, and floods in this region, or as a result of energy shortages in California.

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.

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

Table of Contents

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

	Drive Up 8:30 a.m. to 5:30 p.m.	Drive Up 8:30 a.m. to 6:00 p.m.	
Financial Drive	8:00 a.m. to 5:00 p.m.	8:00 a.m. to 5:00 p.m.	None

* The Sunnyside office is scheduled for closure and consolidation with the Fresno Downtown office in April 2016.

Automated teller machines operate at 19 branch locations. All operate 24 hours per day, seven days per week. No automated teller machines are currently located at the Sacramento office. Our Real Estate, Small Business Administration (SBA) Departments and Agribusiness office maintain business hours of 8:00 A.M. to 5:00 P.M., Monday through Friday, and extended hours are available upon customer request.

Table of Contents

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

In Fresno and Madera Counties, in addition to our 11 full-service branch locations serving the Bank's primary service areas, as of June 30, 2015 there were 147 operating banking and credit union offices in our primary service area, which consists of the cities of Clovis, Fresno, Kerman, Oakhurst, Madera, and Prather, California. Prather does not contain any banking offices other than our office. The June 2015 FDIC Summary of Deposits report indicated the Company had 4.76% of the total deposits held by all depositories in Fresno County and 8.62% in Madera County. In San Joaquin County, in addition to our three full service branch locations, as of June 30, 2015 there were 102 operating banking and credit union offices. The FDIC Summary of Deposits as of June 2015 report indicated the Company had 1.67% of total deposits held by all depositories in San Joaquin County. In Merced County, in addition to our one branch, as of June 30, 2015 there were 30 operating banking and credit union offices in our primary service area. In Sacramento County, in addition to our one branch, as of June 30, 2015 there were 225 operating banking and credit union offices in our primary service area. In Stanislaus County, in addition to our one branch, there were 88 operating banking and credit union offices in our primary service area. In Tulare County, in addition to our four branches there were 55 operating banking and credit union offices in our primary service area. Business activity in our primary service area is oriented toward light industry, small business and agriculture.

The banking business in California generally, and our primary service area specifically, is highly competitive with respect to both loans and deposits, and is dominated by a relatively small number of major banks with many offices operating over a wide geographic area. Among the advantages such major banks have over us is their ability to finance wide-ranging advertising campaigns and to allocate their investment assets, including loans, to regions of higher yield and demand. Major banks offer certain services such as international banking and trust services which we do not offer directly but which we usually can offer indirectly through correspondent institutions. In addition, by virtue of their greater total capitalization, such banks have substantially higher lending limits than we do. Legal lending limits to an individual customer are limited to a percentage of our total capital. As of December 31, 2015, the Bank's legal lending limits to individual customers were $17,173,000 for unsecured loans and $28,622,000 for unsecured and secured loans combined. As of December 31, 2015 the Bank's largest lending relationships totaled $139,205,000 on an unsecured basis and $85,890,000 on a secured basis.

For borrowers desiring loans in excess of the Bank's lending limits, the Bank makes, and may in the future make, such loans on a participation basis with other community banks taking the amount of loans in excess of the Bank's lending limits. In other cases, the Bank may refer such borrowers to larger banks or other lending institutions.

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

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

Statistical Disclosure

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

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

Table A sets forth our average consolidated balance sheets for the years ended December 31, 2015, 2014, and 2013 and an analysis of interest rates and the interest rate differential for the years then ended. Table B sets forth the changes in interest income and interest expense in 2015 and 2014 resulting from changes in volume and changes in rates.

Table of Contents

Investment Portfolio

The book value (amortized cost) of investment securities at December 31, 2015, 2014, and 2013 and the book value, maturities and weighted average yield of investment securities at December 31, 2015 are set forth in Table C.

Loan Portfolio

The composition of the loan portfolio at December 31, 2015, 2014, 2013, 2012, and 2011, is summarized in Table D. Maturities and sensitivity to changes in interest rates in the loan portfolio at December 31, 2015 are summarized in Table E. Table F shows the composition of nonaccrual, past due and restructured loans at December 31, 2015, 2014, 2013, 2012, and 2011. Set forth in the text accompanying Table F is a discussion of the Company's policy for placing loans on nonaccrual status.

Summary of Loan Loss Experience

Table G sets forth an analysis of loan loss experience as of and for the years ended December 31, 2015, 2014, 2013, 2012, and 2011.
Set forth in the text accompanying Table G is a description of the factors which influenced management's judgment in determining the amount of the additions to the allowance charged to operating expense in each fiscal year, a table showing the allocation of the allowance for credit losses to the various types of loans in the portfolio, as well as a discussion of management's policy for establishing and maintaining the allowance for credit losses.

Deposits

Table H sets forth the average amount of and the average rate paid on major deposit categories for the years ended December 31, 2015, 2014, and 2013. Table I sets forth the maturity of time certificates of deposit of $100,000 or more at December 31, 2015.

Return on Equity and Assets

Table J sets forth certain financial ratios for the years ended December 31, 2015, 2014, and 2013.

Table of Contents

Table A

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

The following table sets forth consolidated average assets, liabilities and shareholders' equity; interest income earned and interest expense paid; and the average yields earned or rates paid thereon for the years ended December 31, 2015, 2014, and 2013. The average balances reflect daily averages except nonaccrual loans, which were computed using quarterly averages.

	2015			2014			2013		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
ASSETS:									
Interest-earning deposits in other banks	$64,963	$209	0.32 %	$53,781	$175	0.32 %	$46,672	$164	0.35 %
Securities:									
Taxable securities	285,585	4,793	1.68 %	296,014	5,538	1.87 %	235,487	2,375	1.01 %
Non-taxable securities (1)	178,247	9,569	5.37 %	163,778	8,837	5.40 %	163,494	8,755	5.35 %
Total investment securities	463,832	14,362	3.10 %	459,792	14,375	3.13 %	398,981	11,130	2.79 %
Federal funds sold	251	1	0.25 %	293	1	0.25 %	206	1	0.25 %
Total securities and interest-earning deposits	529,046	14,572	2.75 %	513,866	14,551	2.83 %	445,859	11,295	2.53 %
Loans (2)(3)	578,899	30,504	5.27 %	533,531	29,493	5.53 %	445,300	26,519	5.96 %
Federal Home Loan Bank stock	4,813	580	12.05 %	4,700	327	6.96 %	4,171	177	4.24 %
Total interest-earning assets (1)	1,112,758	$45,656	4.10 %	1,052,097	$44,371	4.22 %	895,330	$37,991	4.24 %
Allowance for credit losses	(8,978)			(8,147)			(9,713)		
Nonaccrual loans	7,863			5,998			9,183		
Other real estate owned	33			36			50		
Cash and due from banks	25,019			23,905			21,296		
Bank premises and equipment	9,664			10,511			7,816		
Other non-earning assets	76,167			73,083			62,962		
Total average assets	$1,222,526			$1,157,483			$986,924		

Table of Contents

(Dollars in thousands)	2015 Average Balance	Interest Income/ Expense	Average Interest Rate	2014 Average Balance	Interest Income/ Expense	Average Interest Rate	2013 Average Balance	Interest Income/ Expense	Average Interest Rate
LIABILITIES AND SHAREHOLDERS' EQUITY:									
Interest-bearing liabilities									
Interest-bearing deposits:									
Savings and NOW accounts	$300,741	$261	0.09 %	$265,751	$241	0.09 %	$215,668	$291	0.13 %
Money market accounts (MMA)	227,743	141	0.06 %	229,769	174	0.08 %	193,833	229	0.12 %
Time certificates of deposit, under $100,000	59,810	191	0.32 %	60,630	228	0.38 %	48,729	219	0.45 %
Time certificates of deposit, $100,000 and over	89,573	355	0.40 %	101,588	417	0.41 %	106,307	531	0.50 %
Total interest-bearing deposits	677,867	948	0.14 %	657,738	1,060	0.16 %	564,537	1,270	0.22 %
Other borrowed funds	5,156	99	1.89 %	5,155	96	1.83 %	5,645	116	2.05 %
Total interest-bearing liabilities	683,023	$1,047	0.15 %	662,893	$1,156	0.17 %	570,182	$1,386	0.24 %
Non-interest bearing demand deposits	387,931			348,822			283,956		
Other liabilities	16,510			15,354			13,040		
Shareholders' equity	135,062			130,414			119,746		
Total average liabilities and shareholders' equity	$1,222,526			$1,157,483			$986,924		
Interest income and rate earned on average earning assets (1)		$45,656	4.10 %		$44,371	4.22 %		$37,991	4.24 %
Interest expense and interest cost related to average interest-bearing liabilities		1,047	0.15 %		1,156	0.17 %		1,386	0.24 %
Net interest income and net interest margin (4)		$44,609	4.01 %		$43,215	4.11 %		$36,605	4.09 %

(1) Interest income is calculated on a fully tax equivalent basis, which includes Federal tax benefits relating to income earned on municipal bonds totaling $3,254, $3,005 and $2,977 in 2015, 2014 and 2013, respectively.
(2) Loan interest income includes loan fees of $255 in 2015, $272 in 2014, and $320 in 2013.
(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.

Table of Contents

Table B

VOLUME AND RATE ANALYSIS

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

	Years Ended December 31,					
	2015 Compared to 2014			2014 Compared to 2013		
(In thousands)	Volume	Rate	Net	Volume	Rate	Net
Increase (decrease) due to changes in:						
Interest income:						
Interest-earning deposits in other banks	$36	$(2)	$34	$21	$(10)	$11
Investment securities:						
Taxable	(195)	(550)	(745)	731	2,432	3,163
Non-taxable (1)	780	(48)	732	15	67	82
Total investment securities	585	(598)	(13)	746	2,499	3,245
Loans	2,507	(1,496)	1,011	4,479	(1,505)	2,974
FHLB Stock	7	246	253	25	125	150
Total earning assets (1)	3,135	(1,850)	1,285	5,271	1,109	6,380
Interest expense:						
Deposits:						
Savings, NOW and MMA	30	(43)	(13)	169	(274)	(105)
Time certificates of deposit under $100,000	(3)	(34)	(37)	27	(18)	9
Time certificates of deposit $100,000 and over	(50)	(12)	(62)	(23)	(91)	(114)
Total interest-bearing deposits	(23)	(89)	(112)	173	(383)	(210)
Other borrowed funds	1	2	3	(10)	(10)	(20)
Total interest bearing liabilities	(22)	(87)	(109)	163	(393)	(230)
Net interest income (1)	$3,157	$(1,763)	$1,394	$5,108	$1,502	$6,610

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

Table of Contents

Table C

INVESTMENT PORTFOLIO

The amortized cost of investment securities at December 31, 2015, 2014, and 2013 is set forth in the following table. At December 31, 2015, we held no investment securities from any issuer which totaled over 10% of our shareholders' equity.

Available-for-Sale Securities	Amortized Cost at December 31,		
(In thousands)	2015	2014	2013
U.S. Government agencies	$52,803	$33,088	18,172
Obligations of states and political subdivisions	181,785	143,343	162,018
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	225,636	236,629	254,978
Private label residential mortgage backed securities	2,356	3,079	4,344
Other equity securities	7,500	7,500	7,596
Total Available-for-Sale Securities	$470,080	$423,639	$447,108

Held-to-Maturity Securities	Amortized Cost at December 31,		
(In thousands)	2015	2014	2013
Obligations of states and political subdivisions	$31,712	$31,964	$—

The amortized cost, maturities and weighted average yield of investment securities at December 31, 2015 are summarized in the following table.

(Dollars in thousands)	In one year or less		After one through five years		After five through ten years		After ten years		Total	
Available-for-Sale Securities	Amount	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Yield(1)
Debt securities(2)										
U.S. Government agencies	$—	—	$7,627	1.94 %	$4,046	4.33 %	$41,130	3.96 %	$52,803	3.70 %
Obligations of states and political subdivisions	—	—	12,297	3.02 %	37,376	3.82 %	132,112	4.87 %	181,785	4.53 %
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	3	7.60 %	30,331	3.48 %	20,810	2.95 %	174,492	4.22 %	225,636	4.00 %
Private label residential mortgage backed securities	—	—	212	4.73 %	6	5.00 %	2,138	5.89 %	2,356	5.78 %
Other equity securities	7,500	2.13 %	—	—	—	—	—	—	7,500	2.13 %
	$7,503	2.32 %	$50,467	3.14 %	$62,238	3.56 %	$349,872	4.44 %	$470,080	4.18 %

(Dollars in thousands)	In one year or less		After one through five years		After five through ten years		After ten years		Total	
Held-to-Maturity Securities	Amount	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Yield(1)
Debt securities(2)										
Obligations of states and political subdivisions	$—	— %	$—	— %	—	— %	31,712	3.08 %	31,712	3.08 %

(1) Not computed on a tax equivalent basis.

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

Table of Contents

Table D

LOAN PORTFOLIO

The composition of the loan portfolio at December 31, 2015, 2014, 2013, 2012, and 2011 is summarized in the table below.

(In thousands)	2015	2014	2013	2012	2011
Commercial:					
Commercial and industrial	$102,197	$89,007	$87,082	$77,956	$78,089
Agricultural land and production	30,472	39,140	31,649	26,599	29,958
Total commercial	132,669	128,147	118,731	104,555	108,047
Real estate:					
Owner occupied	168,910	176,804	156,781	114,444	113,183
Real estate construction and other land loans	38,685	38,923	42,329	33,199	33,047
Commercial real estate	117,244	106,788	86,117	53,797	62,523
Agricultural real estate	74,867	57,501	44,164	28,400	42,596
Other real estate	10,520	6,611	4,548	8,098	7,892
Total real estate	410,226	386,627	333,939	237,938	259,241
Consumer:					
Equity loans and lines of credit	42,296	47,575	48,594	42,932	51,106
Consumer and installment	12,503	10,093	11,252	10,346	9,765
Total consumer	54,799	57,668	59,846	53,278	60,871
Deferred loan costs (fees), net	417	146	(159)	(453)	(764)
Total gross loans (1)	598,111	572,588	512,357	395,318	427,395
Allowance for credit losses	(9,610)	(8,308)	(9,208)	(10,133)	(11,396)
Total (1)	$588,501	$564,280	$503,149	$385,185	$415,999

	2015	2014	2013	2012	2011
(1) Includes nonaccrual loans of:	$2,413	$14,052	$7,586	$9,695	$14,434

Table of Contents

Table E

LOAN MATURITIES AND SENSITIVITY TO CHANGES IN INTEREST RATES

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, 2015.

(In thousands)	One Year or Less	After One Through Five Years	After Five Years	Total
Loan Maturities:				
Commercial and agricultural	$90,970	$24,245	$17,454	$132,669
Real estate construction and other land loans	33,985	3,504	1,196	38,685
Other real estate	27,348	35,719	308,474	371,541
Consumer and installment	8,146	10,295	36,358	54,799
	$160,449	$73,763	$363,482	$597,694
Sensitivity to Changes in Interest Rates:				
Loans with fixed interest rates	$32,353	$47,006	$46,578	$125,937
Loans with floating interest rates (1)	128,096	26,757	316,904	471,757
	$160,449	$73,763	$363,482	$597,694

(In thousands)	One Year or Less	After One Through Five Years	After Five Years	Total
(1) Includes floating rate loans which are currently at their floor rate in accordance with their respective loan agreement	$42,214	$18,012	$201,831	$262,057

Table F

COMPOSITION OF NONACCRUAL, PAST DUE AND RESTRUCTURED LOANS

A summary of nonaccrual, restructured and past due loans at December 31, 2015, 2014, 2013, 2012, and 2011 is set forth below:

	December 31,				
(Dollars in thousands)	2015	2014	2013	2012	2011
Nonaccrual	$1,076	$12,226	$2,991	$450	$3,833
Restructured nonaccrual loans	1,337	1,826	4,595	9,245	10,601
	$2,413	$14,052	$7,586	$9,695	$14,434
Interest foregone	$340	$716	$661	$693	$954
Accruing loans past due 90 days or more	—	—	—	—	—
Accruing troubled debt restructurings	$4,286	$4,774	$5,771	$7,410	$—
Nonaccrual loans to total loans	0.40 %	2.45 %	1.48 %	2.45 %	3.38 %

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.

Included in nonaccrual loans at December 31, 2015 were four loans totaling $1,337,000 that were considered troubled debt restructurings (TDRs). None of these TDR loans were in default at December 31, 2015. There are no outstanding commitments to lend additional funds to any of these borrowers. Included in nonaccrual loans at December 31, 2014 were three loans that totaled $1,826,000 that were considered to be TDRs at December 31, 2014. At December 31, 2013, the Company had ten loans totaling $4,595,000 that were on nonaccrual and considered TDR. The Company had seven loans at December 31, 2012 totaling $9,245,000 that were considered to be TDRs. As of December 31, 2011, the Company had six loans totaling $10,601,000 that were on nonaccrual and considered TDR. 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. 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. We perform quarterly internal reviews on substandard loans. We place loans on nonaccrual status and classify them as impaired when a reasonable doubt exists as to the collectability of interest and principal under the original contractual terms, or when loans are delinquent 90 days or more unless the loan is both well secured and in the process of collection. Management maintains certain loans that have been brought current by the borrower (less than 30 days delinquent) on nonaccrual status until such time as management has determined that the loans are likely to remain current in future periods.

Foregone interest on nonaccrual loans totaled $340,000 for the year ended December 31, 2015 of which $104,000 was attributable to troubled debt restructurings. Foregone interest on nonaccrual loans was $716,000 and $661,000 for 2014 and 2013, respectively of which $139,000 and $279,000 was attributable to troubled debt restructurings, respectively.

Other than as discussed above, as of December 31, 2015, we had no loans where known information about possible credit problems of borrowers caused management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as impaired loans.

Table of Contents

Table G

SUMMARY OF LOAN LOSS EXPERIENCE

The following table summarizes loan loss experience as of and for the years ended December 31, 2015, 2014, 2013, 2012, and 2011.

(Dollars in thousands)	2015	2014	2013	2012	2011
Loans outstanding at December 31,	$597,694	$572,442	$512,516	$395,771	$428,159
Average loans outstanding during the year	$586,762	$539,529	$454,483	$405,040	$428,291
Allowance for credit losses:					
Balance at beginning of year	$8,308	$9,208	$10,133	$11,396	$11,014
Deduct loans charged off:					
Commercial and industrial	(802)	(7,423)	(713)	(123)	(280)
Agricultural production	—	(1,722)	—	—	—
Owner occupied	—	(183)	(281)	(217)	—
Real estate construction and other land loans	—	—	—	(319)	(286)
Commercial real estate	—	—	(4)	(1,430)	(26)
Consumer loans	(159)	(506)	(448)	(761)	(940)
Total loans charged off	(961)	(9,834)	(1,446)	(2,850)	(1,532)
Add recoveries of loans previously charged off:					
Commercial and industrial	954	171	315	515	286
Agricultural production	90	—	—	—	—
Owner occupied	—	150	—	45	—
Real estate construction and other land loans	32	364	16	—	52
Commercial real estate	—	—	—	—	176
Consumer loans	587	264	190	327	350
Total recoveries	1,663	949	521	887	864
Net recoveries (charge offs)	702	(8,885)	(925)	(1,963)	(668)
Add provision charged to operating expense	600	7,985	—	700	1,050
Balance at end of year	$9,610	$8,308	$9,208	$10,133	$11,396
Allowance for credit losses as a percentage of outstanding loan balance	1.61%	1.45%	1.80%	2.56%	2.66%
Net recoveries (charge offs) to average loans outstanding	0.12%	(1.65)%	(0.20)%	(0.48)%	(0.16)%

Managing credits identified through the risk evaluation methodology includes developing a business strategy with the customer to mitigate our losses. Our management continues to monitor these credits with a view to identifying as early as possible when, and to what extent, additional provisions may be necessary.
The allowance for credit losses is reviewed at least quarterly by the Bank's and our Board of Directors' Audit/Compliance Committee. Reserves are allocated to loan portfolio segments using percentages which are based on both historical risk elements such as delinquencies and losses and predictive risk elements such as economic, competitive and environmental factors. We have adopted the specific reserve approach to allocate reserves to each impaired asset for the purpose of estimating potential loss exposure. Although the allowance for credit losses is allocated to various portfolio categories, it is general in nature and available for the loan portfolio in its entirety.

Additions may be required based on the results of independent loan portfolio examinations, regulatory agency examinations, or our own internal review process. Additions are also required when, in management's judgment, the reserve does not properly reflect the potential loss exposure.

During the year ended December 31, 2015, the Company recorded a provision for credit losses of $600,000. The amount of provision is primarily the result of our assessment of the overall adequacy of the allowance for credit losses considering a number of factors, including the increase or decrease in the volume of outstanding loans and the level of net recoveries during the year. The provision of $7,985,000 in 2014 was recorded in connection with the partial charge off of a single commercial and agricultural relationship. Net charge-offs were $8,885,000 in 2014. No provision was added to the allowance for credit losses for the year ended December 31, 2013, and net charge-offs were $925,000. The provision for credit

Table of Contents

losses for the year ended December 31, 2012 was $700,000 and net charge-offs were $1,963,000. For 2011, the provision was $1,050,000 and net charge offs which were $668,000.
Using the criteria on the previous page, the allocation of the allowance for credit losses is set forth below:

Loan Type (Dollars in thousands)	2015 Amount	Percent of Loans in Each Category to Total Loans		2014 Amount	Percent of Loans in Each Category to Total Loans		2013 Amount	Percent of Loans in Each Category to Total Loans		2012 Amount	Percent of Loans in Each Category to Total Loans		2011 Amount	Percent of Loans in Each Category to Total Loans	
Commercial:															
Commercial and industrial	3,143	17.1	%	2,753	15.5	%	1,928	17	%	2,071	19.7	%	1,924	18.3	%
Agricultural land and production	419	5.1	%	377	6.8	%	516	6.1	%	605	6.7	%	342	7	%
Real estate:															
Owner occupied	1,556	28.2	%	1,380	30.9	%	1,697	30.6	%	2,153	28.9	%	1,578	26.4	%
Real estate construction and other land loans	694	6.5	%	837	6.8	%	1,289	8.3	%	1,035	8.4	%	2,954	7.7	%
Commercial real estate	1,686	19.6	%	1,201	18.7	%	1,406	16.8	%	1,886	13.6	%	2,043	14.6	%
Agricultural real estate	1,149	12.5	%	564	10	%	672	8.6	%	646	7.2	%	489	9.9	%
Other real estate	119	1.8	%	76	1.2	%	110	0.9	%	157	2	%	91	1.8	%
Consumer:															
Equity loans and lines of credit	500	7.1	%	811	8.3	%	874	9.5	%	1,158	10.9	%	1,419	12	%
Consumer and installment	234	2.1	%	267	1.8	%	294	2.2	%	383	2.6	%	417	2.3	%
Unallocated reserves	110			42			422			39			139		
Total allowance for credit losses	$9,610	100	%	$8,308	100	%	$9,208	100	%	$10,133	100	%	$11,396	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.

Table of Contents

Table H

DEPOSITS

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, 2015, 2014, and 2013.

	2015			2014			2013		
(Dollars in thousands)	Balance	Rate		Balance	Rate		Balance	Rate	
NOW accounts	$222,839	0.10	%	$197,630	0.11	%	$163,034	0.15	%
Money market accounts	$227,743	0.06	%	$229,769	0.08	%	$193,833	0.12	%
Time certificates of deposit	$149,383	0.37	%	$162,218	0.40	%	$155,036	0.48	%
Non-interest bearing demand	$387,931	—		$348,822	—		$283,956	—	
Total deposits	$1,065,798	0.09	%	$1,006,560	0.11	%	$848,493	0.15	%

Table I

TIME DEPOSITS

The following table sets forth the maturity of time certificates of deposit and other time deposits of $100,000 or more at December 31, 2015.

(In thousands)	
Three months or less	$33,923
Over 3 through 6 months	18,195
Over 6 through 12 months	20,980
Over 12 months	20,412
	$93,510

Table J

FINANCIAL RATIOS

The following table sets forth certain financial ratios for the years ended December 31, 2015, 2014, and 2013.

	2015		2014		2013	
Net income:						
To average assets	0.90	%	0.46	%	0.84	%
To average shareholders' equity	8.12	%	4.06	%	6.89	%
Dividends declared per share to net income per share	18.00	%	41.67	%	26.32	%
Average shareholders' equity to average assets	11.05	%	11.27	%	12.13	%

Supervision and Regulation

GENERAL

The banking and financial services businesses in which we engage are highly regulated. Such regulation is intended, among other things, to protect depositors whose deposits are insured by the FDIC and the banking system as a whole. The monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the

Board of Governors, also influence the commercial banking business. The Board of Governors implements national monetary policies (with objectives such as curbing inflation and combating recession) by its open-market operations in United States Government securities, by adjusting the required level of reserves for financial intermediaries subject to its reserve requirements and by varying the discount rates applicable to borrowings by depository institutions. The actions of the Board of Governors in these

areas influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. Indirectly such actions may also affect the ability of non-bank financial institutions to compete with the Bank. The nature and impact of any future changes in monetary policies cannot be predicted.

The laws, regulations, and policies affecting financial services businesses are continuously under review by Congress and state legislatures, and federal and state regulatory agencies. From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial intermediaries. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial intermediaries are frequently made in Congress, in the California legislature and before various bank regulatory and other professional agencies. Changes in the laws, regulations or policies that affect us cannot necessarily be predicted, but they may have a material effect on our business and earnings.

BANK HOLDING COMPANY REGULATION

The Company, as a bank holding company, is subject to regulation under the 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.

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. 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. 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. 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.

Table of Contents

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 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.
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.

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, and also subject to the restrictions of the California Corporations Code. See Note 14 of the Company's audited Consolidated Financial Statements in Item 8 of this Annual Report concerning preferred stock issued through the Small Business Lending Fund of the United States Department of the Treasury on August 18, 2011.
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 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.

CAPITAL STANDARDS

Banks and bank holding companies are subject to various capital requirements administered by state and federal banking agencies. Capital adequacy guidelines involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

Table of Contents

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. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off-balance-sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain U.S. government securities, to 100% for assets with relatively higher credit risk, such as business loans.

A banking organization's risk-based capital ratios are obtained by dividing its qualifying capital by its total risk-adjusted assets and off-balance-sheet items. The regulators measure risk-adjusted assets and off-balance-sheet items against both total qualifying capital (the sum of Tier 1 capital and limited amounts of Tier 2 capital) and Tier 1 capital. Tier 1 capital consists of common stock, retained earnings, noncumulative perpetual preferred stock and minority interests in certain subsidiaries, less most other intangible assets. Tier 2 capital may consist of a limited amount of the allowance for possible loan and lease losses and certain other instruments with some characteristics of equity. The inclusion of elements of Tier 2 capital is subject to certain other requirements and limitations of the federal banking agencies.

In December 2010, the internal Basel Committee on Bank Supervision ("Basel Committee") released its final framework for strengthening international capital and liquidity regulation, now officially identified as "Basel III," which, when fully phased-in, would require bank holding companies and their bank subsidiaries to maintain substantially more capital than currently required, with a greater emphasis on common equity. The Basel III capital framework, among other things:

- introduces as a new capital measure, Common Equity Tier 1 ("CET1"), more commonly known in the United States as "Tier 1 Common," and defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and expands the scope of the adjustments as compared to existing regulations;
- when fully phased in, requires banks to maintain: (i) a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7%); (ii) an additional "SIFI buffer" for those large institutions deemed to be systemically important, ranging from 1.0% to 2.5%, and up to 3.5% under certain conditions; (iii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation); (iv) a minimum ratio of Total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and (v) as a newly adopted international standard, a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (as the average for each quarter of the month-end ratios for the quarter); and
- an additional "countercyclical capital buffer," generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, that would be a CET1 add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented.

In July 2013, the U.S. banking agencies approved the U.S. version of Basel III. The federal bank regulatory agencies adopted version of Basel III revises the risk-based and leverage capital requirements and the method for calculating risk-weighted assets to make them consistent with Basel III and to meet the requirements of the Dodd-Frank Act. Although many of the rules contained in these final regulations are applicable only to large, internationally active banks, some of them apply on a phased in basis to all banking organizations, including the Company and the Bank. Among other things, the rules establish a new minimum common equity Tier 1 ratio (4.5% of risk-weighted assets), a higher minimum Tier 1 risk-based capital requirement (6.0% of risk-weighted assets) and a minimum non-risk-based leverage ratio (4.00% eliminating a 3.00% exception for higher rated banks). The new additional capital conservation buffer of 2.5% of risk weighted assets over each of the required capital ratios will be phased in from 2016 to 2019 and

must be met to avoid limitations on the ability of the Company and the Bank to pay dividends, repurchase shares or pay discretionary bonuses. The additional "countercyclical capital buffer" is also required for larger and more complex institutions. The new rules assign higher risk weighting to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property. The rules also change the permitted composition of Tier 1 capital to exclude trust preferred securities, mortgage servicing rights and certain deferred tax assets and include unrealized gains and losses on available for sale debt and equity securities (with a one-time opt out option for Standardized Banks (banks with less than $250 billion of total consolidated assets and less than $10 billion of foreign exposures) which the Company and the Bank intend to exercise). The rules, including alternative requirements for smaller community financial institutions like the Company and the Bank, would be phased in through 2019. The implementation of the Basel III framework commenced on January 1, 2015.

Table of Contents

A bank that does not achieve and maintain the required capital levels may be issued a capital directive by the FDIC to ensure the maintenance of required capital levels. As discussed above, the Company and the Bank are required to maintain certain levels of capital. The regulatory capital guidelines as well as the actual capitalization for the Bank and the Company on a consolidated basis as of December 31, 2015 are as follows:

	Requirement				Actual			
	Adequately Capitalized		For the Bank to be Well Capitalized		Bank		Company	
Total risk-based capital ratio	8.00	%	10.00	%	14.93	%	15.04	%
Tier 1 risk-based capital ratio	6.00	%	8.00	%	13.67	%	13.79	%
Common equity tier 1 ratio	4.50	%	6.50	%	13.67	%	13.44	%
Tier 1 leverage capital ratio	4.00	%	5.00	%	8.58	%	8.65	%

VOLCKER RULE

The final rules adopted on December 10, 2013, to implement a part of the Dodd-Frank Act commonly referred to as the “Volcker Rule”, would prohibit insured depository institutions and companies affiliated with insured depository institutions (“banking entities”) from engaging in short-term proprietary trading of certain securities, derivatives, commodity futures and options on these instruments, for their own account. The final rules also impose limits on banking entities’ investments in, and other relationships with, hedge funds or private equity funds. These rules became effective on April 1, 2014. Certain collateralized debt obligations (“CDOs”), securities backed by trust preferred securities which were initially defined as covered funds subject to the investment prohibitions, have been exempted to address the concern that many community banks holding such CDOs securities may have been required to recognize significant losses on those securities.
Like the Dodd-Frank Act, the final rules provide exemptions for certain activities, including market making, underwriting, hedging, trading in government obligations, insurance company activities, and organizing and offering hedge funds or private equity funds. The final rules also clarify that certain activities are not prohibited, including acting as agent, broker, or custodian.
The compliance requirements under the final rules vary based on the size of the banking entity and the scope of activities conducted. Banking entities with significant trading operations will be required to establish a detailed compliance program and their CEOs will be required to attest that the program is reasonably designed to achieve compliance with the final rule. Independent testing and analysis of an institution’s compliance program will also be required. The final rules reduce the burden on smaller, less-complex institutions by limiting their compliance and reporting requirements. Additionally, a banking entity that does not engage in covered trading activities will not need to establish a compliance program. The Company and the Bank held no investment positions at December 31, 2015 that were subject to the final rule. Therefore, while these new rules may require us to conduct certain internal analysis and reporting, we believe that they will not require any material changes in our operations or business.

USA PATRIOT ACT

On October 26, 2001, President Bush signed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001. The USA PATRIOT Act also made significant changes to the Bank Secrecy Act. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and of identifying customers when establishing new relationships and standards in their dealings with foreign financial institutions and foreign customers. For example, the enhanced due diligence policies, procedures, and controls generally require financial institutions to take reasonable steps:

* To conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transaction;
* To ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions;
* To ascertain for any foreign bank, the shares of which are not publicly traded, the identity of the owners of the foreign bank, and the nature and extent of the ownership interest of each such owner; and
* To ascertain whether any foreign bank provides correspondent accounts to other foreign banks and, if so, the identity of those foreign banks and related due diligence information.

Under the USA PATRIOT Act, financial institutions are to establish anti-money laundering programs to enhance their Bank Secrecy Act program. The USA PATRIOT Act sets forth minimum standards for these programs, including:

Table of Contents

* The development of internal policies, procedures, and controls;
* The designation of a compliance officer;
* An ongoing employee training program; and
* An independent audit function to test the programs.

Bank management believes that the Bank is currently in compliance with the US PATRIOT Act.

FINANCIAL SERVICES MODERNIZATION LEGISLATION

On November 12, 1999, President Clinton signed into law the Gramm-Leach-Bliley Act, also known as the Financial Services Modernization Act. This legislation eliminated many of the barriers that have separated the insurance, securities and banking industries since the Great Depression. The federal banking agencies (the Board of Governors, FDIC and the Office of the Comptroller of the Currency) among others, continue to draft regulations to implement the Gramm-Leach-Bliley Act. The Gramm-Leach-Bliley Act is the result of a decade of debate in the Congress regarding a fundamental reformation of the nation's financial system. The law is subdivided into seven titles, by functional area. The major provisions of the Gramm-Leach-Bliley Act are:

FINANCIAL HOLDING COMPANIES AND FINANCIAL ACTIVITIES. Title I establishes a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms, and other financial service providers by revising and expanding the BHC Act framework to permit a holding company system to engage in a full range of financial activities through qualification as a new entity known as a financial holding company. Final regulations adopted by the FDIC in January 2001, in the form of amendments to Part 362 of the FDIC rules and regulations, provide the framework for subsidiaries of state nonmember banks to engage in financial activities that the Gramm-Leach-Bliley Act permits national banks to conduct through a financial subsidiary.

Activities permissible for financial subsidiaries of national banks, and, pursuant to Section 362 of the FDIC rules and regulations, also permissible for financial subsidiaries of state nonmember banks, include, but are not limited to, the following: (a) Lending, exchanging, transferring, investing for others, or safeguarding money or securities; (b) Insuring, guaranteeing, or indemnifying against loss, harm, damage, illness, disability, or death, or providing and issuing annuities, and acting as principal, agent, or broker for purposes of the foregoing, in any State; (c) Providing financial, investment, or economic advisory services, including advising an investment company; (d) Issuing or selling instruments representing interests in pools of assets permissible for a bank to hold directly; and (e) Underwriting, dealing in, or making a market in securities.

SECURITIES ACTIVITIES. Title II narrows the exemptions from the securities laws previously enjoyed by banks and creates a new, voluntary investment bank holding company. The Board of Governors and the SEC continue to work together to draft rules governing certain securities activities of banks.

INSURANCE ACTIVITIES. Title III restates the proposition that the states are the functional regulators for all insurance activities, including the insurance activities of federally-chartered banks, and bars the states from prohibiting insurance activities by depository institutions.

PRIVACY. Under Title V, federal banking regulators were required to adopt rules that have limited the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. Federal banking regulators issued final rules on May 10, 2000 to implement the privacy provisions of Title V. Under the rules, financial institutions must provide:

* initial notices to customers about their privacy policies, describing the conditions under which they may disclose nonpublic personal information to nonaffiliated third parties and affiliates;
* annual notices of their privacy policies to current customers; and
* a reasonable method for customers to "opt out" of disclosures to nonaffiliated third parties.

Compliance with these rules was mandatory after July 1, 2001. The Company and the Bank were in full compliance with the rules as of or prior to their respective effective dates.

SAFEGUARDING CONFIDENTIAL CUSTOMER INFORMATION. Under Title V, federal banking regulators are required to adopt rules requiring financial institutions to implement a program to protect confidential customer information. In January 2000, the federal banking agencies adopted guidelines requiring financial institutions to establish an information security program.

The Bank implemented a security program appropriate to its size and complexity and the nature and scope of its operations prior to the July 1, 2001 effective date of the regulatory guidelines, and since initial implementation has, as necessary, updated and improved that program.

COMMUNITY REINVESTMENT ACT SUNSHINE REQUIREMENTS. The federal banking agencies have adopted final regulations implementing Section 711 of Title VII of the Gramm-Leach-Bliley Act, the Sunshine Requirements. The regulations require nongovernmental entities or persons and insured depository institutions and affiliates that are parties to written agreements made in connection with the fulfillment of the institution’s CRA obligations to make available to the public and the federal banking agencies a copy of each agreement. Neither the Company nor the Bank is a party to any agreement that would be the subject of reporting pursuant to the CRA Sunshine Requirements.

Table of Contents

The Company continues to evaluate the strategic opportunities presented by the broad powers granted to bank holding companies that elect to be treated as financial holding companies. In the event that the Company determines that access to the broader powers of a financial holding company is in the best interests of the Company, its shareholders and the Bank, the Company will file the appropriate election with the Board of Governors.
The Company and the Bank intend to comply with all provisions of the Gramm-Leach-Bliley Act and all implementing regulations as they become effective.

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 Dodd-Frank Act transferred rulemaking authority for many consumer protection laws from various Federal agencies to the Consumer Financial Protection Bureau (CFPB). The Bank is subject to many federal consumer protection statutes and regulations, some of which are discussed below.
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 regulatory agencies, in examining insured depository institutions, to assess a bank’s record of helping meet the credit needs of its 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, mergers or acquisitions, or holding company formations. The agencies use the CRA assessment factors in order to provide a rating to the financial institution. The ratings range from a high of “outstanding” to a low of “substantial noncompliance.” The Bank was last examined for CRA compliance by its primary regulator, the FDIC, as of February 2013.
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 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.

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

Table of Contents

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.

CHECK 21 ACT

On December 22, 2003, the Board of Governors amended Regulation CC and its commentary to implement the Check Clearing for the 21st Century Act (Check 21 Act). The Check 21 Act became effective on October 28, 2004.
To facilitate check truncation and electronic check exchange, the Check 21 Act authorizes a new negotiable instrument called a “substitute check” and provides that a properly prepared substitute check is the legal equivalent of the original check for all purposes. A substitute check is a paper reproduction of the original check that can be processed just like the original check. The Check 21 Act does not require any bank to create substitute checks or to accept checks electronically. The amendments: 1) set forth the requirements of the Check 21 Act that applies to banks; 2) provide a model disclosure and model notices relating to substitute checks; and 3) set forth bank endorsement and identification requirements for substitute checks.
The Bank has been imaging its customers’ checks since 2000. Check 21 Act has had limited impact on the Bank.

Other

Other legislation which has been or may be proposed to the United States Congress and the California Legislature and regulations which may be proposed by the Board of Governors, FDIC and the DBO may affect our business. It cannot be predicted whether any pending or proposed legislation or regulations will be adopted or the effect such legislation or regulations may have upon our business.

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 economic conditions in the United States in general and within California and in our operating markets have not fully recovered from the economic downturn of 2007 through 2010. Unemployment nationwide and in California increased significantly through this economic downturn and has returned to more normal historical levels, however, there is no certainty that these levels will continue in the future. Availability of credit and consumer spending, real estate values, and consumer confidence have all been adversely affected. The volatility of the capital markets and the

credit, capital and liquidity problems confronting the U.S. financial system have not been resolved despite massive government expenditures and legislative efforts to stabilize the U.S. financial system. There is no assurance that such conditions will improve or be resolved in the foreseeable future.

The Bank conducts banking operations principally in California's Central Valley. As a result, our financial condition, results of operations and cash flows are subject to changes in the economic conditions in California's Central Valley. Our business results are dependent in large part upon the business activity, population, income levels, deposits and real estate activity in the Central Valley, and continued adverse economic conditions could have a material adverse effect upon us. In addition, the Central Valley remains largely dependent on agriculture. A downturn in agriculture and agricultural related business could indirectly and adversely affect our results of operations and financial condition. Since the beginning of 2014, California has been experiencing a severe drought. If the drought significantly harms the business of our customers, the credit quality of the loans to those customers could decline as a specific consequence of the drought.

Table of Contents

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.

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

At December 31, 2015, our non-performing loans and leases were 0.40% of total loans and leases compared to 2.45% at December 31, 2014, and 1.48% at December 31, 2013, and our non-performing assets (which include foreclosed real estate) were 0.19% of total assets compared to 1.18% at December 31, 2014. The allowance for credit losses as a percentage of non-performing loans and leases was 398.26% as of December 31, 2015 compared to 59.12% at December 31, 2014. 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.

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.

We have a concentration risk in real estate related loans.

At December 31, 2015, $453 million, or 75.70% of our total loan and lease portfolio, consisted of real estate related loans. Substantially all of our real property collateral is located in our operating markets in the Central Valley in California. In the past decade, deteriorating economic conditions in California and in our operating markets adversely affected commercial and residential real estate values; a return of such conditions could harm the performance of the Company's real estate related loans, as could a continuing substantial decline in commercial and residential real estate values in our primary market areas as a result of natural disasters such as earthquakes, fires, drought, and floods. Such a decline in values could have an adverse impact on us by limiting repayment of defaulted loans through sale of commercial and residential real estate collateral and by a likely increase in the number of defaulted loans to the extent that the financial condition of our borrowers is adversely affected by such a decline in values. The adverse effects of the foregoing matters upon our real estate portfolio could necessitate a material increase in the provision for loan and lease losses.

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

Table of Contents

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. In determining the size of the allowance, we rely on our experience and our evaluation of economic conditions. If our assumptions prove to be incorrect, our current allowance may 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. Significant additions to our allowance would materially decrease our net income.

In addition, federal and state regulators periodically review our allowance for credit losses and may require us to increase our provision for credit losses or recognize further loan charge-offs, based on judgments different than those we make. Any increase in our allowance or charge-offs as required by these regulatory agencies could have a negative effect on us.

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:

- 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 current mix that is approximately half loans and half 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.

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 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.

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.

Technology implementation problems or computer system failures could adversely affect us.
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.

Information security breaches or other technological difficulties could adversely affect us.
We cannot be certain that the continued implementation of safeguards will eliminate the risk of vulnerability to technological difficulties or failures or ensure the absence of a breach of information security. We will continue to rely on the services of various vendors who provide data processing and communication services to the banking industry. Nonetheless, if information security is compromised or other technology difficulties or failures occur at the Bank or with one of our vendors, information may be lost or misappropriated, services and operations may be interrupted and the Bank could be exposed to claims from its customers as a result.

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.

We may not be successful in raising additional capital needed in the future.
If additional capital is needed in the future as a result of losses, our business strategy or regulatory requirements, there is no assurance that our efforts to raise such additional capital will be successful or that shares sold in the future will be sold at prices or on terms equal to or better than the current market price. The inability to raise additional capital when needed or at prices and terms acceptable to us could adversely affect our ability to implement our business strategies.

The effects of legislation in response to current credit conditions may adversely affect us.
Legislation that has or may be passed at the Federal level and/or by the State of California in response to current conditions affecting credit markets could cause us to experience higher credit losses if such legislation reduces the amount that the Bank's borrowers are otherwise contractually required to pay under existing loan contracts. Such legislation could also result in the imposition of limitations upon the Bank's ability to foreclose on property or other collateral or make foreclosure less economically feasible. Such events could result in increased loan and lease losses and require a material increase in the allowance for credit losses.

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 the Consumer Protection Act (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 lowers 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. The assessment rate in total is

Table of Contents

between 2.5 and 9 basis points on the broader base for banks in the lowest risk category, and 30 to 45 basis points for banks in the highest risk category.

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. 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, 2015, we held stock in the FHLB totaling $4,823,000. 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, 2015, 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, 2015, we had approximately $29,917,000 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, and Visalia Community Bank in July 2013. 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 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.

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.

Table of Contents

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;
- 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.

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.

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.

Table of Contents

We are experiencing an influx of locally based competition that could affect near term results.
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.

ITEM 1B - UNRESOLVED STAFF COMMENTS

Not applicable

ITEM 2 - DESCRIPTION OF PROPERTY.

The Company owns the property on which the Main Office, a full-service branch office, is located in Clovis, California. In addition, the Company owns the property on which the Foothill Office, a full-service branch office, is located in Prather, California, the property on which the Modesto office, a full-service branch office, is located in Modesto, California, the property on which the Kerman Office, a full-service branch office, is located in Kerman, California, the property on which the Floral office, a full-service branch office, is located in Visalia, California, and the property on which the Exeter office, a full service branch office, is located in Exeter, California.
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. The Sunnyside office is scheduled for closure and consolidation with the Fresno Downtown office in April 2016. Management believes that its remaining 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 13 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, 2016, we had approximately 943 shareholders of record.

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

Common Stock Prices

Table of Contents

	Quarter 1 2014	Quarter 2 2014	Quarter 3 2014	Quarter 4 2014	Quarter 1 2015	Quarter 2 2015	Quarter 3 2015	Quarter 4 2015
High	$11.90	$13.90	$13.46	$11.61	12.16	12.35	12.50	12.50
Low	$10.67	$10.61	$10.63	$10.45	9.55	10.25	10.66	10.51

We paid $0.18 and $0.20 per common share cash dividends in 2015 and 2014, respectively. The Company's primary source of income with which to pay cash dividends is dividends from the Bank. The Bank would not pay any dividend that would cause it to be deemed not "well capitalized" under applicable banking laws and regulations. See Note 14 in the audited Consolidated Financial Statements in Item 8 of this Annual Report.

ISSUER PURCHASES OF EQUITY SECURITIES

Not Applicable

EQUITY COMPENSATION PLAN INFORMATION

The following chart sets forth information for the year ended December 31, 2015, 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	240,695	(1)	$ 6.83	241,760	(2)
Equity compensation plans not approved by security holders	N/A		N/A	N/A	
Total	240,695		$ 6.83	241,760	

(1) Under 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). During 2015, the Company issued 9,268 shares of restricted stock. During 2014, the Company entered into an agreement with an executive to issue $100,000 of restricted stock per year during each of 2015 and 2016 (based on then-prevailing market prices). At December 31, 2015, there were 53,028 shares of restricted stock issued and outstanding. See Note 15 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.

No options to purchase shares of the Company's common stock were issued during the years ending December 31, 2015 and 2014 from any of the Company's stock based compensation plans. During the year ended December 31, 2015, 9,268 shares of restricted common stock were granted from the 2005 Plan as compared to 57,330 during the year ending December 31, 2014.

ITEM 6 - SELECTED CONSOLIDATED FINANCIAL DATA

Table of Contents

	Years Ended December 31,				
(In thousands, except per share amounts)	2015	2014	2013	2012	2011
Statements of Income					
Total interest income	$41,822	$41,039	$34,836	$31,820	$31,820
Total interest expense	1,047	1,156	1,385	1,883	2,942
Net interest income before provision for credit losses	40,775	39,883	33,451	29,937	31,357
Provision for credit losses	600	7,985	—	700	1,050
Net interest income after provision for credit losses	40,175	31,898	33,451	29,237	30,307
Non-interest income	9,387	8,164	7,831	7,242	6,271
Non-interest expenses	36,016	35,338	31,685	27,274	28,240
Income before provision for (benefit from) income taxes	13,546	4,724	9,597	9,205	8,338
Provision for (benefit from) income taxes	2,582	(570)	1,347	1,685	1,861
Net income	10,964	5,294	8,250	7,520	6,477
Preferred stock dividends and accretion of discount	—	—	350	350	486
Net income available to common shareholders	$10,964	$5,294	$7,900	$7,170	$5,991
Basic earnings per share	$1.00	$0.48	$0.77	$0.75	$0.63
Diluted earnings per share	$1.00	$0.48	$0.77	$0.75	$0.63
Cash dividends declared per common share	$0.18	$0.20	$0.20	$0.05	$—

	December 31,				
(In thousands)	2015	2014	2013	2012	2011
Balances at end of year:					
Investment securities, Federal funds sold and deposits in other banks	$580,544	$520,511	$529,398	$424,516	$353,808
Net loans	588,501	564,280	503,149	385,185	415,999
Total deposits	1,116,267	1,039,152	1,004,143	751,432	712,986
Total assets	1,276,736	1,192,183	1,145,635	890,228	849,023
Shareholders’ equity	139,323	131,045	120,043	117,665	107,482
Earning assets	1,173,591	1,074,942	1,042.552	801,098	762,654
Average balances:					
Investment securities, Federal funds sold and deposits in other banks	$529,046	$513,866	$445,859	$368,818	$299,935
Net loans	577,784	531,382	444,770	394,675	417,273
Total deposits	1,065,798	1,006,560	848,493	719,601	677,789
Total assets	1,222,526	1,157,483	986,924	853,078	800,178
Shareholders’ equity	135,062	130,414	119,746	114,561	103,386
Earning assets	1,112,758	1,052,097	895,330	766,937	715,862

Data from 2013 reflects the partial year impact of the acquisition of Visalia Community Bank on July 1, 2013.

Table of Contents

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, a decline in economic conditions at the international, national or local level on the Company's results of operations, the Company's ability to continue its internal growth at historical rates, the Company's ability to maintain its net interest margin, and the quality of the Company's earning assets; (3) changes in the regulatory environment; (4) fluctuations in the real estate market; (5) changes in business conditions and inflation; (6) changes in securities markets (7) 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."

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 Bank of Madera County (BMC) was merged with and into the Bank on January 1, 2005. BMC had two branches in Madera County which continue to be operated by the Bank. After the close of business on November 12, 2008, Service 1st Bancorp (Service 1st) was merged with and into the Company, and Service 1st Bank was merged with and into the Bank. Service 1st Bank had three branches in Stockton, Tracy, and Lodi which continue to be operated by the Bank. Service 1st Capital Trust 1 (the Trust) is a business trust formed for the 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 subsidiary of the Company. Effective July 1, 2013, the Company and Visalia Community Bank (VCB) completed a merger under which VCB was merged with and into the Bank. VCB had three full-service offices in Visalia and one in Exeter which continue to be operated by the Bank. The Company's market area includes the central valley area from Sacramento, California to Bakersfield, California.

During 2015, 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, 2015, the Bank operated 21 full-service offices. The Sunnyside office is scheduled for closure and consolidation with the Fresno Downtown office in April 2016. The Bank has a Real Estate Division, an Agribusiness Center and an SBA Lending Division in Fresno. All real estate related transactions are conducted and processed through the Real Estate Division, including interim construction loans for single family residences and commercial buildings. We offer permanent single family residential loans through our mortgage broker services.

Table of Contents

ECONOMIC CONDITIONS

The economy in California's Central Valley had been negatively impacted by the recession that began in 2007 and the related real estate market and the slowdown in residential construction. The recession impacted most industries in our market area. Initially, housing values throughout the nation and especially in the Central Valley decreased dramatically, which in turn negatively affected the personal net worth of much of the population in our service area. 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.
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. Since the beginning of 2012, California has been experiencing a severe drought. If the drought significantly harms the business of our customers, the credit quality of the loans to those customers could decline as a specific consequence of the drought. We closely monitored the water and the related issues affecting our customers in 2015 and 2014, and we will continue to remain vigilant for signs of deterioration within the loan portfolio in an effort to manage credit quality and work with borrowers where possible to mitigate any losses.

OVERVIEW

Diluted earnings per share (EPS) for the year ended December 31, 2015 was $1.00 compared to $0.48 and $0.77 for the years ended December 31, 2014 and 2013, respectively. Net income for 2015 was $10,964,000 compared to $5,294,000 and $8,250,000 for the years ended December 31, 2014 and 2013, respectively. The increase in net income and EPS was primarily driven by a decrease in provision for credit losses, an increase in net interest income, and an increase in non-interest income offset by increases in non-interest expense in 2015 compared to 2014. Total assets at December 31, 2015 were $1,276,736,000 compared to $1,192,183,000 at December 31, 2014.
Return on average equity for 2015 was 8.12% compared to 4.06% and 6.89% for 2014 and 2013, respectively. Return on average assets for 2015 was 0.90% compared to 0.46% and 0.84% for 2014 and 2013, respectively. Total equity was $139,323,000 at December 31, 2015 compared to $131,045,000 at December 31, 2014. The increase in equity in 2015 compared to 2014 was driven by the retention of earnings net of dividends paid offset by a decrease in unrealized gains on available-for-sale securities recorded in accumulated other comprehensive income (AOCI).
Average total loans increased $47,233,000 or 8.75% to $586,762,000 in 2015 compared to $539,529,000 in 2014. In 2015, we recorded $600,000 provision for credit losses compared to $7,985,000 in 2014 and none in 2013. The Company had nonperforming assets, consisting entirely of nonaccrual loans, totaling $2,413,000 at December 31, 2015. At December 31, 2014, nonperforming assets totaled $14,052,000. Net recoveries (charge-offs) for 2015 were $702,000 compared to $(8,885,000) for 2014 and $(925,000) for 2013. Refer to "Asset Quality" below for further information.

Key Factors in Evaluating Financial Condition and Operating Performance

As a publicly traded community bank holding company, 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). Our ROE was 8.12% for the year ended 2015 compared to 4.06% and 6.89% for the years ended 2014 and 2013, respectively. In 2015, compared to 2014 we experienced an increase in net income primarily driven by a decrease in provision for credit losses and an increase in non-interest income, offset by an increase in provision for income taxes and an increase in non-interest expenses. We experienced an increase in capital due to increases in retained earnings offset by a decrease in accumulated other comprehensive income.
Our net income for the year ended December 31, 2015 increased $5,670,000 compared to 2014 and decreased $2,956,000 in 2014 compared to 2013. During 2015, net income increased due to a decrease in the provision for credit losses,

Table of Contents

increases in net interest income, and increases in non-interest income, partially offset by an increase in tax expense and increases in non-interest expenses, compared to 2014. Net interest income increased because of increases in loan and investment income and decreases in interest expense on deposits. Net interest income increased as a result of yield changes, asset mix changes, and an increase in average earning assets, partially offset by an increase in interest-bearing liabilities. Net interest income during 2015 was positively impacted by the collection of nonaccrual loans which resulted in a recovery of interest income of approximately $431,000. The recovery was partially offset by reversal of approximately $7,000 in interest income on loans put on nonaccrual during the year. Net interest income during 2014 was positively impacted by the collection in full of a non-accrual loan of $1,870,000 which resulted in a recovery of foregone interest of $879,000, partially offset by the reversal of approximately $237,000 in interest income associated with loans placed on nonaccrual status during the year. During the year ended 2015, the non-interest income increase was primarily driven by a $591,000 increase in net realized gains on sales and calls of investment securities, an increase in loan placement fees of $498,000, a $253,000 increase in Federal Home Loan Bank dividends, and a $345,000 gain on life insurance which is included in other income, partially offset by a $210,000 decrease in service charge income, a $176,000 decrease in other income, a decrease of $52,000 in gains on the sale of other real estate owned, and a $8,000 decrease in interchange fees, in 2015 compared to 2014.
Non-interest expenses increased in 2015 compared to 2014 primarily due to increases in salary and employee benefit expenses of $1,115,000, internet banking expenses of $189,000, professional services of $328,000, regulatory assessments of $297,000, and advertising fees of $19,000, partially offset by decreases of data processing expenses of $681,000, occupancy and equipment expenses of $166,000, ATM/Debit card expenses of $76,000, and amortization of core deposit intangibles of $17,000. During 2015, our net interest margin (NIM) decreased 10 basis points to 4.01% compared to 2014. Basic EPS was $1.00 for 2015 compared to $0.48 and $0.77 for 2014 and 2013, respectively. Diluted EPS was $1.00 for 2015 compared to $0.48 and $0.77 for 2014 and 2013, respectively. The increase in EPS in 2015 was due primarily 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 2015 was 0.90% compared to 0.46% and 0.84% for the years ended December 31, 2014 and 2013, respectively. The 2015 increase in ROA is primarily due to the increase in net income. Annualized ROA for our peer group was 1.16% at December 31, 2015. Peer group information from SNL Financial data includes bank holding companies in central California with assets from $600 million to $2.5 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. Specially, we have focused on net interest income through a variety of processes, including increases in average interest earning assets, and minimizing the effects of the recent interest rate decline 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 4.01% for the year ended December 31, 2015, compared to 4.11% and 4.09% for the years ended December 31, 2014 and 2013, respectively. We experienced a decrease in 2015 net interest margin compared to 2014, resulting from the decline in loan and investment yields. The effective tax equivalent yield on total earning assets decreased 12 basis points, while the cost of total interest-bearing liabilities decreased 2 basis points and the cost of total deposits decreased 2 basis points. Our cost of total deposits in 2015 was 0.09% compared to 0.11% for the same period in 2014 and 0.15% for the year ended December 31, 2013. Our net interest income before provision for credit losses increased $892,000 or 2.24% to $40,775,000 for the year ended 2015 compared to $39,883,000 and $33,451,000 for the years ended 2014 and 2013, 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 2015 increased $1,223,000 or 14.98% to $9,387,000 compared to $8,164,000 in 2014 and $7,831,000 in 2013. The increase resulted primarily from increases in net realized gains on sales and calls of investment securities, loan placement fees, and Federal Home Loan Bank dividends, partially offset by a decrease in service charge income, interchange fees, appreciation in cash surrender value of bank owned life insurance, and gain on sale of other real estate owned compared to 2014. Customer service charges decreased $210,000 or 6.40% to $3,070,000 in 2015 compared to $3,280,000 and $3,156,000 in 2014 and 2013, respectively. 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 percentage of total loans and total assets, and is a key element in estimating the future earnings of a company. Total nonperforming assets were $2,413,000 and $14,052,000 at December 31, 2015 and 2014, respectively. Nonperforming assets totaled 0.40% of gross loans as of December 31, 2015 and 2.45% of gross

Table of Contents

loans as of December 31, 2014. The Company had no other real estate owned (OREO) at December 31, 2015 or December 31, 2014. 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.

Asset Growth

As revenues from both net interest income and non-interest income are a function of asset size, the continued growth in assets has a direct impact in increasing net income and therefore ROE and ROA. The majority of our assets are loans and investment securities, and the majority of our liabilities are deposits, and therefore the ability to generate deposits as a funding source for loans and investments is fundamental to our asset growth. Total assets increased 7.09% during 2015 to $1,276,736,000 as of December 31, 2015 from $1,192,183,000 as of December 31, 2014. Total gross loans increased 4.46% to $598,111,000 as of December 31, 2015, compared to $572,588,000 at December 31, 2014. Total investment securities and Federal funds sold increased 9.61% to $509,556,000 as of December 31, 2015 compared to $464,865,000 as of December 31, 2014. Total deposits increased 7.42% to $1,116,267,000 as of December 31, 2015 compared to $1,039,152,000 as of December 31, 2014. Our loan to deposit ratio at December 31, 2015 was 53.58% compared to 55.10% at December 31, 2014. The loan to deposit ratio of our peers was 75.73% at December 31, 2015.

Capital Adequacy

At December 31, 2015, we had a total capital to risk-weighted assets ratio of 15.04%, a Tier 1 risk-based capital ratio of 13.79%, common equity Tier 1 ratio of 13.44%, and a leverage ratio of 8.65%. At December 31, 2014, we had a total capital to risk-weighted assets ratio of 14.88%, a Tier 1 risk-based capital ratio of 13.67% and a leverage ratio of 8.36%. At December 31, 2015, on a stand-alone basis, the Bank had a total risk-based capital ratio of 14.93%, a Tier 1 risk based capital ratio of 13.67%, common equity Tier 1 ratio of 13.67%, and a leverage ratio of 8.58%. At December 31, 2014, the Bank had a total risk-based capital ratio of 14.80%, Tier 1 risk-based capital of 13.59% and a leverage ratio of 8.31%. Note 14 of the audited Consolidated Financial Statements provides more detailed information concerning the Company's capital amounts and ratios. Effective January 1, 2015, bank holding companies with consolidated assets of $1 billion or more were required to comply with new minimum capital ratio requirements to be phased-in between January 1, 2015 and January 1, 2019, which consist of the following: (i) a new common equity Tier 1 capital to total risk weighted assets ratio of 4.5%; (ii) a Tier 1 capital to total risk weighted assets ratio of 6% (increased from 4%); (iii) a total capital to total risk weighted assets ratio of 8% (unchanged from current rules); and (iv) a Tier 1 capital to adjusted average total assets ("leverage") ratio of 4%.

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 69.24% for 2015 compared to 69.42% for 2014 and 73.06% for 2013. The improvement in the efficiency ratio in 2015 is due to the growth in revenues outpacing the growth in non-interest expense. The increase in the efficiency ratio in 2014 compared to 2013 is 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 4.40% to $50,162,000 in 2015 compared to $48,047,000 in 2014 and $41,282,000 in 2013, while operating expenses increased 1.92% in 2015, 11.53% in 2014, and 16.17% in 2013.

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 $308,356,000 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.

Table of Contents

We had liquid assets (cash and due from banks, interest-earning deposits in other banks, Federal funds sold and available-for-sale securities) totaling $572,171,000 or 44.82% of total assets at December 31, 2015 and $509,863,000 or 42.77% of total assets as of December 31, 2014.

RESULTS OF OPERATIONS

Net Income

Net income was $10,964,000 in 2015 compared to $5,294,000 and $8,250,000 in 2014 and 2013, respectively. Basic earnings per share was $1.00, $0.48, and $0.77 for 2015, 2014, and 2013, respectively. Diluted earnings per share was $1.00, $0.48, and $0.77 for 2015, 2014, and 2013, respectively. ROE was 8.12% for 2015 compared to 4.06% for 2014 and 6.89% for 2013. ROA for 2015 was 0.90% compared to 0.46% for 2014 and 0.84% for 2013.
The increase in net income for 2015 compared to 2014 can be attributed to a decrease in the provision for credit losses, an increase in net interest income, and an increase in non-interest income, partially offset by an increase in provision for income taxes and an increase in non-interest expense. The decrease in net income for 2014 compared to 2013 can be attributed to an increase in the provision for credit losses and an increase in non-interest expense, partially offset by an increase in net-interest income before provision for credit losses, an increase in non-interest income, and a decrease in provision for income taxes.

Interest Income and Expense

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

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

Table of Contents

SCHEDULE OF AVERAGE BALANCES, AVERAGE YIELDS AND RATES

	Year Ended December 31, 2015			Year Ended December 31, 2014			Year Ended December 31, 2013		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
ASSETS									
Interest-earning deposits in other banks	$64,963	$209	0.32 %	$53,781	$175	0.32 %	$46,672	$164	0.35 %
Securities									
Taxable securities	285,585	4,793	1.68 %	296,014	5,538	1.87 %	235,487	2,375	1.01 %
Non-taxable securities (1)	178,247	9,569	5.37 %	163,778	8,837	5.40 %	163,494	8,755	5.35 %
Total investment securities	463,832	14,362	3.10 %	459,792	14,375	3.13 %	398,981	11,130	2.79 %
Federal funds sold	251	1	0.25 %	293	1	0.25 %	206	1	0.25 %
Total securities and interest-earning deposits	529,046	14,572	2.75 %	513,866	14,551	2.83 %	445,859	11,295	2.53 %
Loans (2) (3)	578,899	30,504	5.27 %	533,531	29,493	5.53 %	445,300	26,519	5.96 %
Federal Home Loan Bank stock	4,813	580	12.05 %	4,700	327	6.96 %	4,171	177	4.24 %
Total interest-earning assets	1,112,758	$45,656	4.10 %	1,052,097	$44,371	4.22 %	895,330	$37,991	4.24 %
Allowance for credit losses	(8,978)			(8,147)			(9,713)		
Nonaccrual loans	7,863			5,998			9,183		
Other real estate owned	33			36			50		
Cash and due from banks	25,019			23,905			21,296		
Bank premises and equipment	9,664			10,511			7,816		
Other non-earning assets	76,167			73,083			62,962		
Total average assets	$1,222,526			$1,157,483			$986,924		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
Savings and NOW accounts	$300,741	$261	0.09 %	$265,751	$241	0.09 %	$215,668	$291	0.13 %
Money market accounts	227,743	141	0.06 %	229,769	174	0.08 %	193,833	229	0.12 %
Time certificates of deposit, under $100,000	59,810	191	0.32 %	60,630	228	0.38 %	48,729	219	0.45 %

Time certificates of deposit, $100,000 and over	89,573	355	0.40	%	101,588	417	0.41	%	106,307	531	0.50	%
Total interest-bearing deposits	677,867	948	0.14	%	657,738	1,060	0.16	%	564,537	1,270	0.22	%
Other borrowed funds	5,156	99	1.89	%	5,155	96	1.83	%	5,645	116	2.05	%
Total interest-bearing liabilities	683,023	$1,047	0.15	%	662,893	$1,156	0.17	%	570,182	$1,386	0.24	%
Non-interest bearing demand deposits	387,931				348,822				283,956			
Other liabilities	16,510				15,354				13,040			
Shareholders’ equity	135,062				130,414				119,746			
Total average liabilities and shareholders’ equity	$1,222,526				$1,157,483				$986,924			
Interest income and rate earned on average earning assets		$45,656	4.10	%		$44,371	4.22	%		$37,991	4.24	%
Interest expense and interest cost related to average interest-bearing liabilities		1,047	0.15	%		1,156	0.17	%		1,386	0.24	%
Net interest income and net interest margin (4)		$44,609	4.01	%		$43,215	4.11	%		$36,605	4.09	%

37

Table of Contents

(1) Interest income is calculated on a fully tax equivalent basis, which includes Federal tax benefits relating to income earned on municipal bonds totaling $3,254, $3,005, and $2,977 in 2015, 2014, and 2013, respectively.
(2) Loan interest income includes loan fees of $255 in 2015, $272 in 2014, and $320 in 2013.
(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.

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, 2015 Compared to 2014			For the Years Ended December 31, 2014 Compared to 2013		
(In thousands)	Volume	Rate	Net	Volume	Rate	Net
Increase (decrease) due to changes in:						
Interest income:						
Interest-earning deposits in other banks	$36	$(2)	$34	$21	$(10)	$11
Investment securities:						
Taxable	(195)	(550)	(745)	731	2,432	3,163
Non-taxable (1)	780	(48)	732	15	67	82
Total investment securities	585	(598)	(13)	746	2,499	3,245
Federal funds sold	—	—	—	—	—	—
Loans	2,507	(1,496)	1,011	4,479	(1,505)	2,974
FHLB Stock	7	246	253	25	125	150
Total earning assets (1)	3,135	(1,850)	1,285	5,271	1,109	6,380
Interest expense:						
Deposits:						
Savings, NOW and MMA	30	(43)	(13)	169	(274)	(105)
Certificates of deposit under $100,000	(3)	(34)	(37)	27	(18)	9
Certificates of deposit $100,000 and over	(50)	(12)	(62)	(23)	(91)	(114)
Total interest-bearing deposits	(23)	(89)	(112)	173	(383)	(210)
Other borrowed funds	1	2	3	(10)	(10)	(20)
Total interest bearing liabilities	(22)	(87)	(109)	163	(393)	(230)
Net interest income (1)	$3,157	$(1,763)	$1,394	$5,108	$1,502	$6,610

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

Interest and fee income from loans increased $1,011,000 or 3.43% in 2015 compared to 2014. Interest and fee income increased $2,974,000 or 11.21% in 2014 compared to 2013. The increase in 2015 is attributable to an increase in average total loans outstanding offset by a 26 basis point decrease in the yield on loans. Interest income during 2015 was positively impacted by the collection of nonaccrual loans which resulted in a recovery of interest income of approximately $431,000. The recovery was partially offset by reversal of approximately $7,000 in interest income on loans put on nonaccrual status during the year. The increase in 2014 is attributable to a increase in average total loans outstanding offset by a 43 basis point decrease in the yield on loans. Interest and fee income from loans during 2014 was positively impacted by the collection in full of nonaccrual loans totaling $1,870,000 which resulted in a recovery of net interest income of approximately $642,000. Average total loans for 2015 increased $47,233,000 to $586,762,000 compared to $539,529,000 for 2014 and $454,483,000 for 2013. The yield on loans for 2015 was 5.27% compared to 5.53% and 5.96% for 2014 and 2013, respectively.

Interest income from total investments on a non tax-equivalent basis, (total investments include investment securities, Federal funds sold, interest-bearing deposits in other banks, and other securities), decreased $228,000 or 1.97% in 2015 compared to 2014. The yield on average investments decreased 8 basis points to 2.75% for the year ended

December 31, 2015 from 2.83% for the year ended December 31, 2014. Average total investments increased $15,180,000 to $529,046,000 in 2015 compared to $513,866,000 in 2014. In 2014, total investment income on a non tax-equivalent basis increased $3,229,000 or 38.82% compared to 2013.
A significant portion of the investment portfolio is mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs). At December 31, 2015, we held $228,849,000 or 44.94% of the total market value of the investment portfolio in MBS and CMOs with an average yield of 1.80%. We invest in Collateralized Mortgage Obligations (CMO) and

Table of Contents

Mortgage Backed Securities, (MBS) as part of the overall strategy to increase our net interest margin. CMOs and MBS by their nature react to changes in interest rates. In a normal declining rate environment, prepayments from MBS and CMOs would be expected to increase and the expected life of the investment would be expected to shorten. Conversely, if interest rates increase, prepayments normally would be expected to decline and the average life of the MBS and CMOs would be expected to extend. However, in the current economic environment, prepayments may not behave according to historical norms. Premium amortization and discount accretion of these investments affects our net interest income. Our management monitors the prepayment speed 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, 2015 was an unrealized gain of $4,462,000 and is reflected in the Company's equity. At December 31, 2015, the average life of the investment portfolio was 5.77 years and the market value reflected a pre-tax unrealized gain of $7,474,000. 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, 2015 and 2014, no OTTI was recorded. For the year ended December 31, 2013, OTTI was recorded in the amount of $17,000. 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, 2015, an immediate rate increase of 200 basis points would result in an estimated decrease in the market value of the investment portfolio by approximately $37,255,000. Conversely, with an immediate rate decrease of 200 basis points, the estimated increase in the market value of the investment portfolio would be $31,622,000. 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 2015 increased $783,000 to $41,822,000 compared to $41,039,000 in 2014 and $34,836,000 in 2013. The increase was the result of yield changes, asset mix changes, and an increase in average earning assets, partially offset by an increase in interest-bearing liabilities. The tax equivalent yield on interest earning assets decreased to 4.10% for the year ended December 31, 2015 from 4.22% for the year ended December 31, 2014. Average interest earning assets increased to $1,112,758,000 for the year ended December 31, 2015 compared to $1,052,097,000 for the year ended December 31, 2014. Average interest-earning deposits in other banks increased $11,182,000 comparing 2015 to 2014. Average yield on these deposits was 0.32%. Average investments and interest-earning deposits increased $15,180,000 but the tax equivalent yield on those assets decreased 8 basis points. Average total loans increased $47,233,000 and the yield on average loans decreased 26 basis points.

Impacting the increase in total interest income in 2014 was the collection of approximately $642,000 of net foregone interest, asset mix changes, and increase in average earning assets, partially offset by an increase in interest-bearing liabilities. The yield on interest-earning assets decreased to 4.22% for the year ended December 31, 2014 from 4.24% for the year ended December 31, 2013. Average interest-earning assets increased to $1,052,097,000 for the year ended December 31, 2014 compared to $895,330,000 for the year ended December 31, 2013.

Interest expense on deposits in 2015 decreased $112,000 or 10.57% to $948,000 compared to $1,060,000 in 2014 and $1,270,000 in 2013. The decrease in interest expense in 2015 compared to 2014 was primarily due to the repricing of interest-bearing deposits which decreased 2 basis points to 0.14% in 2015 from 0.16% in 2014. The decrease in interest expense in 2014 compared to 2013 was due to repricing of interest-bearing deposits, which decreased 6 basis points to 0.16% in 2014 from 0.22% in 2013. Average interest-bearing deposits were $677,867,000 for 2015 compared to $657,738,000 and $564,537,000 for 2014 and 2013, respectively. The increases in average interest-bearing deposits in 2015 and 2014 was the result of organic growth.

Average other borrowings were $5,156,000 with an effective rate of 1.89% for 2015 compared to $5,155,000 with an effective rate of 1.83% for 2014. In 2013, the average other borrowings were $5,645,000 with an effective rate of 2.05%. Included in other borrowings are the junior subordinated deferrable interest debentures acquired from Service 1st, advances on lines of credit and advances from the Federal Home Loan Bank (FHLB). The debentures were acquired in the merger with Service 1st and carry a floating rate based on the three month LIBOR plus a margin 1.60%. The rate was 1.92% for 2015, 1.83% for 2014, and 1.84% for 2013.

The cost of all of our interest-bearing liabilities decreased 2 basis points to 0.15% for 2015 compared to 0.17% for 2014 and 0.24% for 2013. The cost of total deposits decreased to 0.09% for the year ended December 31, 2015 compared to

Table of Contents

0.11% and 0.15% for the years ended December 31, 2014 and 2013, respectively. Average demand deposits increased 11.21% to $387,931,000 in 2015 compared to $348,822,000 for 2014 and $283,956,000 for 2013. The ratio of non-interest demand deposits to total deposits increased to 36.40% for 2015 compared to 34.65% and 33.47% for 2014 and 2013, respectively.

Net Interest Income before Provision for Credit Losses

Net interest income before provision for credit losses for 2015 increased $892,000 or 2.24% to $40,775,000 compared to $39,883,000 for 2014 and $33,451,000 for 2013. The increase in 2015 was due to the increase in average earning assets and 2 basis point decrease in the average interest rate on interest-bearing deposits, partially offset by the decrease in the average rate on earning assets. Our net interest margin (NIM) decreased 10 basis points. Yield on interest earning assets decreased 12 basis points while the effective rate on interest bearing liabilities decreased 2 basis points. The change in the mix of average interest earning assets also affected NIM. Interest-earning deposits in other banks and investment securities, which tend to have lower effective yields, increased. Net interest income before provision for credit losses increased $6,432,000 in 2014 compared to 2013, mainly due to the increase in average earning assets and 7 basis point decrease in the average interest rate on deposits liabilities. Average interest-earning assets were $1,112,758,000 for the year ended December 31, 2015 with a NIM of 4.01% compared to $1,052,097,000 with a NIM of 4.11% in 2014, and $895,330,000 with a NIM of 4.09% in 2013. For a discussion of the repricing of our assets and liabilities, refer to Quantitative and Qualitative Disclosure about Market Risk.

Provision for Credit Losses

We provide for probable incurred credit losses through a charge to operating income based upon the composition of the loan portfolio, delinquency levels, historical losses and nonperforming assets, economic and environmental conditions and other factors which, in management’s judgment, deserve recognition in estimating credit losses. Loans are charged off when they are considered uncollectible or of such little value that 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 has established initial responsibility for the accuracy of credit risk grades with the individual credit officer. The grading is then submitted to the Chief Credit Officer (CCO), who reviews the grades for accuracy and gives final approval. The CCO is not involved in loan originations. The risk grading and reserve allocation is analyzed quarterly by the Senior Risk Manager, CCO, Chief Financial Officer, and Board; and at least annually by a third party credit reviewer and by various regulatory agencies.

Quarterly, the Senior Risk Manager and the CCO set the specific reserve for all adversely risk-graded credits. 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. Reserves are also allocated to credits that are not impaired based on inherent risk in those loans.

The allowance for credit losses is reviewed at least quarterly by the Board’s Audit/Compliance Committee and by the Board of Directors. 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 of the allowance calculation and other portfolio trending analysis.

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

Table of Contents

Loan Type (Dollars in thousands)	December 31, 2015	December 31, 2014
Commercial:		
Commercial and industrial	$3,143	$2,753
Agricultural land and production	419	377
Real estate:		
Owner occupied	1,556	1,380
Real estate construction and other land loans	694	837
Commercial real estate	1,686	1,201
Agricultural real estate	1,149	564
Other real estate	119	76
Consumer:		
Equity loans and lines of credit	500	811
Consumer and installment	234	267
Unallocated reserves	110	42
Total allowance for credit losses	$9,610	$8,308

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 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.

There were $600,000 additions made to the allowance for credit losses in 2015, compared to $7,985,000 and none for the same periods in 2014 and 2013, respectively. These provisions 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 below. During the fourth quarter of 2014, the Company recorded a provision for credit losses of approximately $8.4 million in connection with the partial charge-off of a single commercial and agricultural relationship. The Company is actively working to collect all balances legally owed to the Company. The Company plans to continue to track and identify any expenses, net of recoveries, associated with the collection efforts of this commercial and agricultural relationship. For the year ended December 31, 2015 and 2014, collection expenses related to this relationship totaled $436,000 and $27,000, respectively.

During the year ended December 31, 2015, the Company had net recoveries totaling $702,000 compared to net charge-offs of $8,885,000 and $925,000 for the same periods in 2014 and 2013, respectively. The net charge-off (recovery) ratio, which reflects net charge-offs (recoveries) to average loans, was (0.12)%, 1.65% and 0.20% for 2015, 2014, and 2013, respectively.

Nonperforming loans were $2,413,000 and $14,052,000 at December 31, 2015 and 2014, respectively. Nonperforming loans as a percentage of total loans were 0.40% at December 31, 2015 compared to 2.45% at December 31, 2014. The Company had no other real estate owned at December 31, 2015 and December 31, 2014 as compared to $190,000 at December 31, 2013.

We had loans past due, not including nonaccrual loans, totaling $136,000 at December 31, 2015 compared to $336,000 at December 31, 2014. Excluding 2014, the Company has seen a decline in the amount of non-performing loans to an amount more in line with historical levels before the recession triggered by the financial crisis of 2008. Notwithstanding improvements in the economy, we anticipate weakness in economic conditions on national, state and local levels to continue. Continued economic pressures may negatively impact the financial condition of borrowers to whom the Company has extended credit and as a result we may be required to make further significant provisions to the allowance for credit losses in the future. Many of the agricultural crops grown by our Central Valley customers

have been harvested with preliminary results demonstrating that California's drought and unusual weather patterns have had an impact with lower crop yields compared to the previous year for certain crops. Many farmers and ranchers have instituted improved farming practices including planting less acreage, as part of the mitigation for the cost of water delivery and the expense of pumping. We closely monitored the water and the related issues affecting our customers in 2015 and 2014. 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 any further losses.

As of December 31, 2015, 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 of $600,000 in 2015, $7,985,000 in 2014, and none in 2013, was $40,175,000 for 2015 compared to $31,898,000 and $33,451,000 for 2014 and 2013, respectively.

Non-Interest Income

Non-interest income is comprised of customer service charges, gains on sales and calls of investment securities, income from appreciation in cash surrender value of bank owned life insurance, loan placement fees, Federal Home Loan Bank dividends, and other income. Non-interest income was $9,387,000 in 2015 compared to $8,164,000 and $7,831,000 in 2014 and 2013, respectively. The $1,223,000 or 14.98% increase in non-interest income was due to increases in net realized gains on sales and calls of investment securities, loan placement fees, Federal Home Loan Bank dividends, and other income, compared to the comparable 2014 period, partially offset by a decrease in service charge income, interchange fees, and appreciation in cash surrender value of bank owned life insurance. The $333,000 or 4.25% increases in non-interest income comparing 2014 to 2013 was due to increases in service charge income, interchange fees, appreciation in cash surrender value of bank owned life insurance, Federal Home Loan Bank dividends, and gain on sale of other real estate owned, partially offset by gains on sales and calls of investment securities and loan placement fees.

Customer service charges decreased $210,000 to $3,070,000 in 2015 compared to $3,280,000 in 2014 and $3,156,000 in 2013. The decrease in 2015 from 2014, is due to lower analyzed service charge fee income. The increase in 2014 from 2013 is mainly due to increases in overdraft and analyzed service charge fee income.

During the year ended December 31, 2015, we realized net gains on sales and calls of investment securities of $1,495,000. In 2014, we realized a net gain of $904,000 compared to a net gain of $1,265,000 in 2013 from sales and calls of investment securities. The net gains in 2015 , 2014, and 2013 were the results of partial restructuring of the investment portfolio designed to improve the future performance of the portfolio. See Footnote 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 $596,000 in 2015 compared to $614,000 and $495,000 in 2014 and 2013, respectively. The Bank’s salary continuation and deferred compensation plans and the related BOLI are used as a retention tool for directors and key executives of the Bank.

Interchange fees totaled $1,197,000 in 2015 compared to $1,205,000 and $962,000 in 2014 and 2013, respectively. Part of the increases in 2014 is attributable to the VCB acquisition.

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 $498,000 in 2015 to $1,042,000 compared to $544,000 in 2014 and $677,000 in 2013. Fees were higher in 2015 compared to 2014 and 2013. Refinancing and new mortgage activity increased in 2015 and decreased slightly in 2014. We continue to see the historically low mortgage rates and first time home buyer tax incentives.

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, 2015, we held $4,823,000 in FHLB stock compared to $4,791,000 at December 31, 2014. Dividends in 2015 increased to $580,000 compared to $327,000 in 2014 and $177,000 in 2013.

Other income increased to $1,396,000 in 2015 compared to $1,227,000 and $1,099,000 in 2014 and 2013, respectively. The period-to-period increase in 2015 compared to 2014 was primarily due to increases in electronic funds transfer fee income and non-customer check cashing fees. In addition, the Company realized a $345,000 tax-free gain related to the collection of life insurance proceeds in June 2015 which is included in Other income.

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, and professional services (consisting of audit, accounting, consulting and legal fees) are the major categories of non-interest expenses. Non-interest expenses increased $678,000 or 1.92% to $36,016,000 in 2015 compared to $35,338,000 in 2014, and $31,685,000 in 2013.

Our efficiency ratio, measured as the percentage of non-interest expenses (exclusive of amortization of core deposit intangibles and other real estate owned 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 69.24% for 2015 compared to 69.42% for 2014 and 73.06% for 2013. The improvement in the efficiency ratio in 2015 is due to the growth in revenues outpacing the growth in non-interest expense. The improvement in the efficiency ratio in 2014 compared to 2013 is also due to the growth in revenues outpacing the growth in non-interest expense.

Table of Contents

Salaries and employee benefits increased $1,115,000 or 5.65% to $20,836,000 in 2015 compared to $19,721,000 in 2014 and $17,427,000 in 2013. Full time equivalents were 273 for the year ended December 31, 2015 compared to 271 for the year ended December 31, 2014. In addition, the increase in 2015 as compared to 2014 is a result of higher commissions on loan originations, group health insurance expenses and profit sharing expenses. The Company had no profit sharing expense in 2014. 2015 also had higher loan origination costs which reduce the Company's total salaries and employee benefits.

At December 31, 2015, we had three share based compensation plans under which compensation expense is recognized based on the estimated fair value of the awards at the date of the grant. In May 2015, the Company adopted the Central Valley Community Bancorp 2015 Omnibus Incentive Plan (2015 Plan). The plan provides for awards in the form of incentive stock options, non-statutory stock options, stock appreciation rights, and restricted stock. The plan also allows for performance awards that may be in the form of cash or shares of the Company, including restricted stock. Currently under the 2015 Plan, there are 875,000 shares remain reserved for future grants as of December 31, 2015. The Central Valley Community Bancorp 2000 Stock Option Plan (2000 Plan) for which 80,045 shares remain reserved for issuance for options already granted under incentive and nonstatutory agreements. This plan expired in November 2010 and no new options will be granted under this plan. The Central Valley Community Bancorp 2005 Omnibus Incentive Plan (2005 Plan) provided for awards in the form of incentive stock options, non-statutory stock options, stock appreciation rights, and restricted stock. Currently under the 2005 Plan, there are 213,678 shares reserved for issuance for options and restricted stock awards already committed to be granted to employees and directors under incentive and nonstatutory agreements. The 2005 Plan expired May 16, 2015 and no additional grants will be made under this plan.

The Company bases the fair value of the options previously granted on the date of grant using a Black-Scholes-Merton option pricing model that uses assumptions based on expected option life, the level of estimated forfeitures, expected stock volatility and the risk-free interest rate. Stock volatility is based on the historical volatility of the Company's stock. The risk-free rate is based on the U.S. Treasury yield curve and the expected term of the options. The expected term of the options represents the period that the Company's options are expected to be outstanding.

For the years ended December 31, 2015, 2014, and 2013, the compensation cost recognized for share based compensation was $238,000, $173,000 and $98,000, respectively.

As of December 31, 2015, there was $86,000 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 1.72 years. See Notes 1 and 15 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, 2015 and 2014.

During the year ended December 31, 2015, 9,268 shares of restricted common stock were granted from the 2005 Plan. The restricted common stock had a fair market value of $10.79 per share on the date of grant. As of December 31, 2015, there was $554,000 of total unrecognized compensation cost related to nonvested restricted common stock. Restricted stock compensation expense is recognized on a straight-line basis over the vesting period. This cost is expected to be recognized over a weighted average remaining period of 3.58 years and will be adjusted for subsequent changes in estimated forfeitures.

Occupancy and equipment expense decreased $166,000 or 3.43% to $4,669,000 in 2015 compared to $4,835,000 in 2014 and $4,109,000 in 2013. The decrease in 2015 was the result of the closure of an ATM location in Visalia. The increase in 2014 was primarily due to increases in rent and depreciation expense for the premises acquired from VCB. The Company made no changes in depreciation expense methodology.

Regulatory assessments increased $297,000 or 38.98% to $1,059,000 in 2015 compared to $762,000 and $696,000 in 2014 and 2013, respectively. The assessment base for calculating the amount owed is average assets minus average tangible equity. The increase in regulatory assessments was a result of higher assessment rate which was a result of changes in credit quality ratios used in determining the assessment rate along with higher average assets.

Data processing expenses were $1,139,000 in 2015 compared to $1,820,000 in 2014 and $1,383,000 in 2013. The $681,000 or 37.42% decrease in 2015, was a result of higher expenses in 2014 which related to final conversion from VCB platforms and largely due to the renegotiation of data processing contracts which became effective January 1, 2015. The $437,000 or 31.60% increase in 2014 compared to 2013 is the result of increased processing charges related to the VCB acquisition and an increase of accounts and services provided to our customers and branches.

Amortization of core deposit intangibles was $320,000 for 2015, $337,000 for 2014, and $268,000 for 2013. During 2015, amortization expense related to Service 1st Bank core deposit intangible (CDI) was $183,000, and amortization expense related to VCB CDI was $137,000. During 2014, amortization expense related to Service 1st Bank core deposit intangible (CDI) was $200,000, and amortization expense related to VCB CDI was $137,000. During 2013, amortization expense related to Service 1st Bank core deposit intangible (CDI) was $200,000, and amortization expense related to VCB CDI was $68,000.

ATM/Debit card expenses decreased $76,000 to $548,000 for the year ended December 31, 2015 compared to $624,000 in 2014 and $527,000 in 2013. License and maintenance contracts increased $32,000 to $520,000 for the year ended December 31, 2015 compared to $488,000 and $472,000 in 2014 and 2013, respectively. Other non-interest expenses decreased $362,000 or 8.11% to $4,104,000 in 2015 compared to $4,466,000 in 2014 and $3,866,000 in 2013.

Table of Contents

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 2015	% Average Assets		Other Expense 2014	% Average Assets		Other Expense 2013	% Average Assets	
Stationery/supplies	$269	0.02	%	$266	0.02	%	$257	0.02	%
Amortization of software	240	0.02	%	224	0.02	%	243	0.02	%
Director fees and related expenses	306	0.03	%	262	0.02	%	233	0.02	%
Telephone	292	0.02	%	230	0.02	%	219	0.02	%
Postage	212	0.02	%	238	0.02	%	202	0.02	%
Armored courier fees	218	0.02	%	221	0.02	%	155	0.01	%
Risk management expense	163	0.01	%	207	0.02	%	155	0.01	%
Loss (gain) on sale or write-down of assets	6	—	%	201	0.02	%	(1)	—	%
Donations	185	0.02	%	179	0.02	%	160	0.01	%
Personnel other	173	0.01	%	154	0.01	%	122	0.01	%
Education/training	148	0.01	%	135	0.01	%	135	0.01	%
General insurance	150	0.01	%	141	0.01	%	126	0.01	%
Appraisal fees	66	0.01	%	130	0.01	%	89	0.01	%
Operating losses	56	—	%	53	—	%	67	0.01	%
Other	1,620	0.13	%	1,825	0.16	%	1,704	0.15	%
Total other non-interest expense	$4,104	0.34	%	$4,466	0.39	%	$3,866	0.34	%

Provision for Income Taxes

Our effective income tax rate was 19.1% for 2015 compared to (12.0)% for 2014 and 14.1% for 2013. The Company reported an income tax provision (benefit) of $2,582,000, $(570,000), and $1,347,000 for the years ended December 31, 2015, 2014, and 2013, respectively. Changes in the Company's effective tax rate other than changes in the level of income before taxes were due in part to changes in tax law which limited the use of various tax credits and incentive beginning in 2014 and the ratio of non-taxable income to total income before taxes.

Preferred Stock Dividends and Accretion

On August 18, 2011, the Company entered into a Securities Purchase Agreement (SPA) with the Small Business Lending Fund of the United States Department of the Treasury (the Treasury), under which the Company issued 7,000 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series C (Series C Preferred) to the Treasury for an aggregate purchase price of $7,000,000. Simultaneously, the Company agreed with Treasury under a Letter Agreement to redeem, for an aggregate price of $7,000,000, the 7,000 shares of the Company's Series A Fixed Rate Cumulative Preferred Stock (Series A Stock) originally issued pursuant to the Treasury's Capital Purchase Program (CPP) in 2009. The redemption of the Series A Stock resulted in an acceleration of the remaining discount booked at the time of the CPP transaction. In connection with the repurchase of the Series A Stock, the Company also repurchased the warrant (the Warrant) to purchase 79,037 shares of the Company's common stock that was originally issued to Treasury in connection with the CPP transaction for total consideration of $185,000.
On December 31, 2013, the Company redeemed all 7,000 outstanding shares of its Series C Preferred from the Treasury, in exercise of its optional redemption rights pursuant to the terms of the Series C Preferred under the Company's charter and the SPA. The Company paid the Treasury $7,087,500 in connection with the redemption, representing $1,000 per share of the Series C Preferred plus all accrued and unpaid dividends through the date of the redemption. The obligations of the Company under the SPA are terminated as a result of the redemption. No additional shares of Series C Preferred are outstanding.

We accrued preferred stock dividends to the Treasury and accretion of the issuance discount in the amount of $350,000 during the year ended December 31, 2013.

FINANCIAL CONDITION

Summary of Changes in Consolidated Balance Sheets

December 31, 2015 compared to December 31, 2014.

Total assets were $1,276,736,000 as of December 31, 2015, compared to $1,192,183,000 as of December 31, 2014, an increase of 7.09% or $84,553,000. Total gross loans were $598,111,000 as of December 31, 2015, compared to $572,588,000 as of December 31, 2014, an increase of $25,523,000 or 4.46%. The total investment portfolio (including Federal funds sold and interest-earning deposits in other banks) increased 11.53% or $60,033,000 to $580,544,000. Total deposits increased 7.42% or $77,115,000 to $1,116,267,000 as of December 31, 2015, compared to $1,039,152,000 as of December 31, 2014. Shareholders' equity increased $8,278,000 or 6.32% to $139,323,000 as of December 31, 2015, compared to $131,045,000 as of December 31, 2014. The increase in shareholders' equity was driven by the retention of earnings net of dividends paid, partially offset by a decrease in unrealized gains on available-for-sale investment securities recorded in accumulated other comprehensive income (AOCI). Accrued interest payable and other liabilities were $15,991,000 as of December 31, 2015, compared to $16,831,000 as of December 31, 2014, a decrease of $840,000.

Fair Value

The Company measures the fair values 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

Our investment portfolio consists primarily of U.S. Government sponsored entities and agencies collateralized by residential 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, 2015, investment securities with a fair value of $118,400,000, or 23.25% 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.
The level of our investment portfolio is generally considered higher than our peers due primarily to a comparatively low loan-to-deposit ratio. Our loan-to-deposit ratio at December 31, 2015 was 53.58% compared to 55.10% at December 31, 2014. The loan to deposit ratio of our peers was 75.73% at December 31, 2015. Peer group information from SNL Financial data includes bank holding companies in central California with assets from $600 million to $2.5 billion. The total investment portfolio, including Federal funds sold and interest-earning deposits in other banks, increased 11.53% or $60,033,000 to $580,544,000 at December 31, 2015, from $520,511,000 at December 31, 2014. The market value of the portfolio reflected an unrealized gain of $7,474,000 at December 31, 2015, compared to an unrealized gain of $8,896,000 at December 31, 2014.

Losses recognized in 2015, 2014, and 2013 were incurred in order to reposition the investment securities portfolio based on the current rate environment. The securities which were sold at a loss were acquired when the rate environment was not as volatile. The securities which were sold were primarily purchased several years ago to serve a purpose in the rate environment in which the securities were purchased. The Company is addressing risks in the security portfolio by selling these securities and using proceeds to purchase securities that fit with the Company’s current risk profile.

On January 20, 2016, management sold certain investment securities with a book value of $23.0 million in a routine restructuring of the investment portfolio. Through the proper operation of the Company’s internal control process related to investment securities, management discovered after the transaction settled that five of the 13 securities sold were previously designated as Held to Maturity (HTM). The book value of the HTM securities sold was $8.0 million. The gain realized on the sale of the HTM securities was $648,000. The Company will reclassify the remaining HTM securities as Available for Sale as of January 20, 2016.

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

Table of Contents

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, 2015, 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, 2015, and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at December 31, 2015 greater than 10% of the recorded book value on that date, or which had an unrealized loss of more than $10,000. Management also analyzed any securities that may have been downgraded by credit rating agencies.

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

At December 31, 2015, the Company had a total of 17 PLRMBS with a remaining principal balance of $2,356,000 and a net unrealized gain of approximately $1,234,000. Nine of these PLRMBS with a remaining principal balance of $2,094,000 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 PLRMBS were recorded during the year ended December 31, 2015.

See Note 4 to the audited Consolidated Financial Statements for carrying values and estimated fair values of our investment securities portfolio.

Loans

Total gross loans increased $25,523,000 or 4.46% to $598,111,000 as of December 31, 2015, compared to $572,588,000 as of December 31, 2014.

The following table sets forth information concerning the composition of our loan portfolio as of and for the years ended December 31, 2015, 2014, 2013, 2012, and 2011.

Loan Type (Dollars in thousands)	2015 Amount	2015 % of Total Loans	2014 Amount	2014 % of Total Loans	2013 Amount	2013 % of Total Loans	2012 Amount	2012 % of Total Loans	2011 Amount	2011 % of Total Loans
Commercial:										
Commercial and industrial	$102,197	17.1 %	$89,007	15.5 %	$87,082	17.0 %	$77,956	19.7 %	$78,089	18.3 %
Agricultural land and production	30,472	5.1 %	39,140	6.8 %	31,649	6.1 %	26,599	6.7 %	29,958	7.0 %
Total commercial	132,669	22.2 %	128,147	22.3 %	118,731	23.1 %	104,555	26.4 %	108,047	25.3 %
Real estate:										
Owner occupied	168,910	28.2 %	176,804	30.9 %	156,781	30.6 %	114,444	28.9 %	113,183	26.4 %
Real estate-construction and other land loans	38,685	6.5 %	38,923	6.8 %	42,329	8.3 %	33,199	8.4 %	33,047	7.7 %
Commercial real estate	117,244	19.6 %	106,788	18.7 %	86,117	16.8 %	53,797	13.6 %	62,523	14.6 %
Agricultural real estate	74,867	12.5 %	57,501	10.0 %	44,164	8.6 %	28,400	7.2 %	42,596	9.9 %
Other real estate	10,520	1.8 %	6,611	1.2 %	4,548	0.9 %	8,098	2.0 %	7,892	1.8 %
Total real estate	410,226	68.6 %	386,627	67.6 %	333,939	65.2 %	237,938	60.1 %	259,241	60.4 %
Consumer:										
	42,296	7.1 %	47,575	8.3 %	48,594	9.5 %	42,932	10.9 %	51,106	12.0 %

Equity loans and lines of credit										
Consumer and installment	12,503	2.1 %	10,093	1.8 %	11,252	2.2 %	10,346	2.6 %	9,765	2.3 %
Total consumer	54,799	9.2 %	57,668	10.1 %	59,846	11.7 %	53,278	13.5 %	60,871	14.3 %
Deferred loan fees, net	417		146		(159)		(453)		(764)	
Total gross loans	598,111	100.0 %	572,588	100.0 %	512,357	100.0 %	395,318	100.0 %	427,395	100.0 %
Allowance for credit losses	(9,610)		(8,308)		(9,208)		(10,133)		(11,396)	
Total loans	$588,501		$564,280		$503,149		$385,185		$415,999	

At December 31, 2015, loans acquired in the VCB acquisition had a balance of $62,395,000, of which $1,617,000 were commercial loans, $51,576,000 were real estate loans, and $9,202,000 were consumer loans. At December 31, 2014, loans acquired in the VCB acquisition had a balance of $77,882,000, of which $3,590,000 were commercial loans, $62,792,000 were real estate loans, and $11,500,000 were consumer loans.

At December 31, 2015, in management's judgment, a concentration of loans existed in commercial loans and real-estate-related loans, representing approximately 97.9% of total loans of which 22.2% were commercial and 75.7% were real-estate-related. This level of concentration is consistent with 98.2% at December 31, 2014. Although we believe the loans

Table of Contents

within this concentration have no more than the normal risk of collectability, a substantial further decline in the performance of the economy in general or a further 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 at December 31, 2015 and 2014.

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.

Nonperforming Assets

Nonperforming assets consist of loans past due 90 days or more that are still accruing interest, loans on nonaccrual status, and foreclosed property classified as Other Real Estate Owned (OREO). 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.

At December 31, 2015, total nonperforming assets totaled $2,413,000, or 0.19% of total assets, compared to $14,052,000, or 1.18% of total assets at December 31, 2014. Total nonperforming assets at December 31, 2015, included nonaccrual loans totaling $2,413,000, no OREO, and no repossessed assets. Nonperforming assets at December 31, 2014 consisted of $14,052,000 in nonaccrual loans, no OREO, and no repossessed assets. At December 31, 2015, we had four loans considered troubled debt restructurings (“TDRs”) totaling $1,337,000 which are included in nonaccrual loans compared to three TDRs totaling $1,826,000 at December 31, 2014. We have no outstanding commitments to lend additional funds to any of these borrowers.

A summary of nonaccrual, restructured, and past due loans at December 31, 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, 2015 and 2014. Management is not aware of any potential problem loans, which were current and accruing at December 31, 2015, 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.

Table of Contents

Composition of Nonaccrual, Past Due and Restructured Loans

(As of December 31, dollars in thousands)	2015	2014	2013	2012	2011
Nonaccrual Loans:					
Commercial and industrial	$—	$7,265	$335	$—	$267
Owner occupied	324	1,363	1,777	213	353
Agricultural real estate	—	360	—	—	—
Commercial real estate	567	1,468	158	—	2,434
Equity loans and line of credit	172	1,751	721	237	705
Consumer and installment	13	19	—	—	74
Restructured loans (non-accruing):					
Commercial and industrial	29	—	1,192	—	—
Owner occupied	23	—	384	1,362	1,019
Real estate construction and other land loans	—	547	1,450	6,288	6,823
Commercial real estate	—	—	—	—	1,110
Equity loans and line of credit	1,285	1,279	1,565	1,595	1,649
Consumer and Installment	—	—	4	—	—
Total nonaccrual	2,413	14,052	7,586	9,695	14,434
Accruing loans past due 90 days or more	—	—	—	—	—
Total nonperforming loans	$2,413	$14,052	$7,586	$9,695	$14,434
Nonperforming loans to total loans	0.40 %	2.45 %	1.48 %	2.45 %	3.38 %
Ratio of nonperforming loans to allowance for credit losses	25.11 %	169.14 %	82.38 %	95.68 %	126.66 %
Loans considered to be impaired	$6,699	$18,826	$13,357	$17,105	$23,644
Related allowance for credit losses on impaired loans	$164	$612	$1,007	$510	$4,368

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. As of December 31, 2015 and 2014, we had impaired loans totaling $6,699,000 and $18,826,000, respectively. 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 less selling costs value of the collateral. We perform quarterly internal reviews on substandard loans. 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 $340,000 for the year ended December 31, 2015 of which $104,000 was attributable to troubled debt restructurings. Foregone interest on nonaccrual loans totaled $716,000 and $661,000 for the years ended December 31, 2014 and 2013, respectively of which $139,000 and $279,000 was attributable to troubled debt restructurings, respectively.

Table of Contents

The following table provides a reconciliation of the change in non-accrual loans for the year ended December 31, 2015.

(Dollars in thousands)	Balances December 31, 2014	Additions to Nonaccrual Loans	Net Pay Downs	Transfer to Foreclosed Collateral - OREO	Returns to Accrual Status	Charge Offs	Balances December 31, 2015
Non-accrual loans:							
Commercial and industrial	$7,209	$190	$(6,620)	$—	$—	$(779)	$—
Real estate	2,831	720	(2,660)	—	—	—	891
Real estate construction and land development	—	53	(53)	—	—	—	—
Agricultural real estate	360	—	(360)	—	—	—	—
Equity loans and lines of credit	1,751	152	(1,364)	(227)	(111)	(29)	172
Consumer	19	3	(6)	—	—	(3)	13
Restructured loans (non-accruing):							
Commercial and industrial	56	—	(27)	—	—	—	29
Real estate	—	25	(2)	—	—	—	23
Real estate construction and land development	547	—	(547)	—	—	—	—
Equity loans and lines of credit	1,279	41	(35)	—	—	—	1,285
Total non-accrual	$14,052	$1,184	$(11,674)	$(227)	$(111)	$(811)	$2,413

The following table provides a summary of the annual change in the OREO balance:

(Dollars in thousands)	Years Ended December 31, 2015	2014
Balance, beginning of year	$—	$190
Additions	227	235
1st lien assumed upon foreclosure	121	—
Dispositions	(359)	(488)
Write-downs	—	—
Net gain on disposition	11	63
Balance, end of year	$—	$—

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, 2015 the Bank had no OREO properties. In 2015, the Bank foreclosed on one property collateralized by real estate. Proceeds from OREO sales totaled $359,000 during 2015. The Company realized $11,000 in net gains from the sale of all properties.
As of December 31, 2014 the Bank had no OREO properties. In 2014, the Bank foreclosed on one property collateralized by real estate. Proceeds from OREO sales totaled $488,000 during 2014. The Company realized $63,000 in net gains from the sale of all properties.

Allowance for Credit Losses

We have established a methodology for the determination of 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.

Table of Contents

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 Committee. They delegate the authority to the Senior Risk Manager and 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) ASC 450-20 which requires losses to be accrued for on loans when they are probable of occurring and can be reasonably estimated and (2) ASC 310-10 which requires that losses be 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, 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 sets forth information regarding our allowance for credit losses at the dates and for the periods indicated:

	Years Ended December 31,	
(Dollars in thousands)	2015	2014
Balance, beginning of year	$8,308	$9,208
Provision charged to operations	600	7,985
Losses charged to allowance	(961)	(9,834)
Recoveries	1,663	949
Balance, end of year	$9,610	$8,308
Allowance for credit losses to total loans	1.61%	1.45%

As of December 31, 2015, the allowance for credit losses (ALLL) stood at $9,610,000, compared to $8,308,000 at December 31, 2014, a net increase of $1,302,000. The increase in the ALLL was due to net recoveries and a provision for credit losses during the year ended December 31, 2015, the retention of which was necessitated by management's observations and assumptions about the existing credit quality of the loan portfolio. Net recoveries totaled $702,000 while the provision for credit losses was $600,000. The balance of classified loans and loans graded special mention, totaled $31,764,000 and $28,719,000 at December 31, 2015 and $33,758,000 and $8,663,000 at December 31, 2014.

The balance of undisbursed commitments to extend credit on construction and other loans and letters of credit was $217,166,000 as of December 31, 2015, compared to $214,131,000 as of December 31, 2014. At December 31, 2015 and 2014, the balance of a contingent allocation for probable loan loss experience on unfunded obligations was $150,000 and $165,000, 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

Table of Contents

all lending transactions and our management and Directors' Loan Committee have established reserve levels based on economic uncertainties and other risks that exist as of each reporting period.

The ALLL as a percentage of total loans was 1.61% at December 31, 2015, and 1.45% at December 31, 2014. Total loans include VCB loans that were recorded at fair value in connection with the acquisition of $62,395,000 at December 31, 2015 and $77,882,000 at December 31, 2014. Excluding these VCB loans from the calculation, the ALLL to total gross loans was 1.79% and 1.68% as of December 31, 2015 and 2014, respectively and general reserves associated with non-impaired loans to total non-impaired loans was 1.79% and 1.62%, respectively. The loan portfolio acquired in the VCB merger 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. While non-performing loans improved substantially during 2015, the liquidation of collateral associated with a single commercial and agricultural relationship that was charged down to its net realizable value during the year ended December 31, 2014, the migration of special mention loans from $8,663,000 to $28,719,000 and changes in qualitative factors during the year ended December 31, 2015 gave rise to the need for additional general loan loss reserves.

The Company's loan portfolio balances in 2015 increased through organic growth. The higher allowance for credit losses to total loans ratio is supported by the recent acceleration of growth rates of loans included in the ALLL as well as the high loss experienced in 2014. During the fourth quarter of 2014, the Company recorded a provision for credit losses of approximately $8.4 million in connection with the partial charge-off of a single commercial and agricultural relationship. The Company is actively working to collect all balances legally owed to the Company. The Company plans to continue to track and identify any expenses, net of recoveries, associated with the collection efforts of this commercial and agricultural relationship, and management of the Company continues to work to minimize any future losses related to this credit. For the year ended December 31, 2015, collection expenses related to this relationship totaled $436,000 as compared to $27,000 in 2014.

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, 2015.

Non-performing loans totaled $2,413,000 as of December 31, 2015, and $14,052,000 as of December 31, 2014. The allowance for credit losses as a percentage of nonperforming loans was 398.26% and 59.12% as of December 31, 2015 and December 31, 2014, 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, 2015 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, 2015 was $29,917,000 consisting of $6,340,000, $14,643,000 and $8,934,000 representing the excess of the cost of Visalia Community Bank, Service 1st Bancorp and Bank of Madera County, respectively, over the net of the amounts assigned to assets acquired and liabilities assumed in the transactions accounted for under the purchase method of accounting. The value of goodwill is ultimately derived from the 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 2015, so goodwill was not required to be retested.

The intangible assets at December 31, 2015 represent the estimated fair value of the core deposit relationships acquired in the 2008 acquisition of Service 1st Bank of $1,400,000 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 seven to

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Table of Contents

ten years from the date of acquisition. The carrying value of intangible assets at December 31, 2015 was $1,024,000, net of $1,741,000 in accumulated amortization expense. The carrying value at December 31, 2014 was $1,344,000, net of $1,421,000 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, 2015 and determined no impairment was necessary. In addition, management determined that no events had occurred between the annual evaluation date and December 31, 2015 which would necessitate further analysis. Amortization expense recognized was $320,000 for 2015, $337,000 for 2014 and $268,000 2013.

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
2016	$ 137
2017	137
2018	137
2019	137
2020	137
Thereafter	339
Total	$ 1,024

Deposits and Borrowings

The Bank's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to applicable legal limits. All of a depositor's accounts at an insured depository institution, including all non-interest bearing transactions accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount of $250,000 for each deposit insurance ownership category.
Total deposits increased $77,115,000 or 7.42% to $1,116,267,000 as of December 31, 2015, compared to $1,039,152,000 as of December 31, 2014. Interest-bearing deposits increased $24,744,000 or 3.73% to $687,494,000 as of December 31, 2015, compared to $662,750,000 as of December 31, 2014. Non-interest bearing deposits increased $52,371,000 or 13.91% to $428,773,000 as of December 31, 2015, compared to $376,402,000 as of December 31, 2014. Average non-interest bearing deposits to average total deposits was 36.40% for the year ended December 31, 2015 compared to 34.65% for the same period in 2014. Our total market share of deposits in Fresno, Madera, San Joaquin, and Tulare counties was 3.77% in 2015 compared to 3.81% in 2014 based on FDIC deposit market share information published as of June 2015.

The composition of the deposits and average interest rates paid at December 31, 2015 and December 31, 2014 is summarized in the table below.

(Dollars in thousands)	December 31, 2015	% of Total Deposits		Effective Rate		December 31, 2014	% of Total Deposits		Effective Rate	
NOW accounts	$ 227,167	20.4	%	0.10	%	$ 209,781	20.2	%	0.11	%
MMA accounts	239,241	21.4	%	0.06	%	228,268	22.0	%	0.08	%
Time deposits	139,703	12.5	%	0.37	%	153,320	14.7	%	0.40	%
Savings deposits	81,383	7.3	%	0.04	%	71,381	6.9	%	0.05	%
Total interest-bearing	687,494	61.6	%	0.14	%	662,750	63.8	%	0.16	%
Non-interest bearing	428,773	38.4	%			376,402	36.2	%		

Total deposits	$ 1,116,267	100.0	%	$ 1,039,152	100.0	%

There were no short-term or long-term FHLB borrowings as of December 31, 2015 and December 31, 2014. 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 Company succeeded to all of the rights and obligations of 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, 2015, 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 after five years, and require quarterly distributions by the Trust to the holder of the trust preferred securities at a variable interest rate which will adjust quarterly to equal the three month LIBOR plus 1.60%. The Trust used the proceeds from the sale of the trust preferred securities to purchase approximately $5,155,000 in aggregate principal amount of Service 1st's junior subordinated notes (the Notes). The Notes bear interest at the same variable interest rate during the same quarterly periods as the trust preferred securities. The Notes are redeemable by the Company on any January 7, April 7, July 7, or October 7 on or after October 7, 2012 or at any time within 90 days following the occurrence of certain events, such as: (i) a change in the regulatory capital treatment of the Notes (ii) in the event the Trust is deemed an investment company or (iii) upon the occurrence of certain adverse tax events. In each such case, the Company may redeem the Notes for their aggregate principal amount, plus any accrued but unpaid interest.

The Notes may be declared immediately due and payable at the election of the trustee or holders of 25% of the aggregate principal amount of outstanding Notes in the event that the Company defaults in the payment of any interest following the nonpayment of any such interest for 20 or more consecutive quarterly periods. Holders of the trust preferred securities are entitled to a cumulative cash distribution on the liquidation amount of $1,000 per security. For each January 7, April 7, July 7 or October 7 of each year, the rate will be adjusted to equal the three month LIBOR plus 1.60%. As of December 31, 2015, the rate was 1.92%. Interest expense recognized by the Company for the years ended December 31, 2015, 2014, and 2013 was $99,000, $96,000 and $98,000, respectively.

Capital Resources

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

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 $139,323,000 as of December 31, 2015, compared to $131,045,000 as of December 31, 2014. The increase in shareholders' equity is the result of increase in retained earnings from net income of $10,964,000, exercise of stock options, including the related tax benefit of $66,000, and the effect of share based compensation expense of $238,000, offset by common stock cash dividends of $1,979,000 and a decrease in accumulated other comprehensive income (AOCI) of $915,000.

During 2015, the Bank declared and paid cash dividends to the Company in the amount of $2,260,000 in connection with the cash dividends to the Company's shareholders approved by the Company's Board of Directors. The Bank may not pay any dividend that would cause it to be deemed not "well capitalized" under applicable banking laws and regulations. The Company declared and paid a total of $1,979,000 or $0.18 per common share cash dividend to shareholders of record during the year ended December 31, 2015.

During 2014, the Bank declared and paid cash dividends to the Company in the amount of $2,350,000 in connection with the cash dividends to the Company's shareholders approved by the Company's Board of Directors. The Bank may not pay any dividend that would cause it to be deemed not "well capitalized" under applicable banking laws and regulations. The Company declared and paid a total of $2,190,000 or $0.20 per common share cash dividend to shareholders of record during the year ended December 31, 2014.

During 2013, the Bank declared and paid cash dividends to the Company of $18,000,000, in connection with the VCB acquisition, the Series C Preferred redemption, and cash dividends to the Company's shareholders approved by the Company's Board of Directors. The Company declared and paid a total of $2,048,000 or $0.20 per common share cash dividend to shareholders of record during the year ended December 31, 2013.

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 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 including acquisition opportunities.

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

Table of Contents

credit and recourse arrangements, which are reported as off-balance-sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off-balance-sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain U.S. government securities, to 100% for assets with relatively higher credit risk, such as business loans.

A banking organization's risk-based capital ratios are obtained by dividing its qualifying capital by its total risk-adjusted assets and off-balance-sheet items. The regulators measure risk-adjusted assets and off-balance-sheet items against both total qualifying capital (the sum of Tier 1 capital and limited amounts of Tier 2 capital) and Tier 1 capital. Tier 1 capital consists of common stock, retained earnings, noncumulative perpetual preferred stock and minority interests in certain subsidiaries, less most other intangible assets. Tier 2 capital may consist of a limited amount of the allowance for possible loan and lease losses and certain other instruments with some characteristics of equity. The inclusion of elements of Tier 2 capital is subject to certain other requirements and limitations of the federal banking agencies.

In December 2010, the internal Basel Committee on Bank Supervision ("Basel Committee") released its final framework for strengthening international capital and liquidity regulation, now officially identified as "Basel III," which, when fully phased-in, would require bank holding companies and their bank subsidiaries to maintain substantially more capital than currently required, with a greater emphasis on common equity. The Basel III capital framework, among other things:

- introduces as a new capital measure, Common Equity Tier 1 ("CET1"), more commonly known in the United States as "Tier 1 Common," and defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and expands the scope of the adjustments as compared to existing regulations;
- when fully phased in, requires banks to maintain: (i) a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7%); (ii) an additional "SIFI buffer" for those large institutions deemed to be systemically important, ranging from 1.0% to 2.5%, and up to 3.5% under certain conditions; (iii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation); (iv) a minimum ratio of Total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and (v) as a newly adopted international standard, a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (as the average for each quarter of the month-end ratios for the quarter); and
- an additional "countercyclical capital buffer," generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, that would be a CET1 add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented.

In July 2013, the U.S. banking agencies approved the U.S. version of Basel III. The federal bank regulatory agencies adopted version of Basel III revises the risk-based and leverage capital requirements and the method for calculating risk-weighted assets to make them consistent with Basel III and to meet the requirements of the Dodd-Frank Act. Although many of the rules contained in these final regulations are applicable only to large, internationally active banks, some of them apply on a phased in basis to all banking organizations, including the Company and the Bank. Among other things, the rules establish a new minimum common equity Tier 1 ratio (4.5% of risk-weighted assets), a higher minimum Tier 1 risk-based capital requirement (6.0% of risk-weighted assets) and a minimum non-risk-based leverage ratio (4.00% eliminating a 3.00% exception for higher rated banks). The new additional capital conservation buffer of 2.5% of risk weighted assets over each of the required capital ratios will be phased in from 2016 to 2019 and must be met to avoid limitations on the ability of the Company and the Bank to pay dividends, repurchase shares or pay discretionary bonuses. The additional "countercyclical capital buffer" is also required for larger and more complex institutions. The new rules assign higher risk weighting to exposures that are more than 90 days past due or are on

nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property. The rules also change the permitted composition of Tier 1 capital to exclude trust preferred securities, mortgage servicing rights and certain deferred tax assets and include unrealized gains and losses on available for sale debt and equity securities (with a one-time opt out option for Standardized Banks (banks with less than $250 billion of total consolidated assets and less than $10 billion of foreign exposures) which the Company and the Bank intend to exercise). The rules, including alternative requirements for smaller community financial institutions like the Company and the Bank, would be phased in through 2019. The implementation of the Basel III framework commenced on January 1, 2015.

A bank that does not achieve and maintain the required capital levels may be issued a capital directive by the FDIC to ensure the maintenance of required capital levels. As discussed above, the Company and the Bank are required to maintain certain levels of capital.

Table of Contents

The following table presents the Company's and the Bank's Regulatory capital ratios as of December 31, 2015 and December 31, 2014.

	December 31, 2015			December 31, 2014		
(Dollars in thousands)	Amount	Ratio		Amount	Ratio	
Tier 1 Leverage Ratio						
Central Valley Community Bancorp and Subsidiary	$105,825	8.65	%	$95,936	8.36	%
Minimum regulatory requirement	$48,950	4.00	%	$45,894	4.00	%
Central Valley Community Bank	$104,878	8.58	%	$95,298	8.31	%
Minimum requirement for “Well-Capitalized” institution	$61,148	5.00	%	$57,341	5.00	%
Minimum regulatory requirement	$48,918	4.00	%	$45,873	4.00	%
Common Equity Tier 1 Ratio						
Central Valley Community Bancorp and Subsidiary	$103,152	13.44	%	N/A	N/A	
Minimum regulatory requirement	$34,650	4.50	%	N/A	N/A	
Central Valley Community Bank	$104,878	13.67	%	N/A	N/A	
Minimum requirement for “Well-Capitalized” institution	$50,017	6.50	%	N/A	N/A	
Minimum regulatory requirement	$34,627	4.50	%	N/A	N/A	
Tier 1 Risk-Based Capital Ratio						
Central Valley Community Bancorp and Subsidiary	$105,825	13.79	%	$95,936	13.67	%
Minimum regulatory requirement	$46,200	6.00	%	$28,075	4.00	%
Central Valley Community Bank	$104,878	13.67	%	$95,298	13.59	%
Minimum requirement for “Well-Capitalized” institution	$61,560	8.00	%	$42,080	6.00	%
Minimum regulatory requirement	$46,170	6.00	%	$28,053	4.00	%
Total Risk-Based Capital Ratio						
Central Valley Community Bancorp and Subsidiary	$115,466	15.04	%	$104,447	14.88	%
Minimum regulatory requirement	$61,601	8.00	%	$56,150	8.00	%
Central Valley Community Bank	$114,513	14.93	%	$103,809	14.80	%
Minimum requirement for “Well-Capitalized” institution	$76,949					