

CENTRAL VALLEY COMMUNITY BANCORP

Form 10-K

March 21, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

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 No

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 No

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 No

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 No

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.

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):

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of June 30, 2013, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$66,029,000 based on the price at which the stock was last sold on June 30, 2013.

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 21, 2014

[Common Stock, No par value per share]

10,925,085 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document

Parts into Which Incorporated

Proxy Statement for the Annual Meeting of Shareholders to be held May 21, 2014 (Proxy Statement)

Part III

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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, 2013 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, 2013, 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, 2013, we had consolidated total assets of approximately \$1,145,635,000. See Items 7 and 8, Management's Discussion and Analysis or Plan of Operation 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 share of the Series C Preferred plus all accrued and unpaid dividends through the date of the redemption. The obligations of

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the Company under the SPA are terminated as a result of the redemption. No additional shares of Series C Preferred are outstanding.

On December 23, 2009, the Company entered into Stock Purchase Agreements (Agreements) with a limited number of accredited investors (collectively, the Purchasers) to sell to the Purchasers a total of 1,264,952 shares of common stock, (Common Stock) at \$5.25 per share and 1,359 shares of non-voting Series B Convertible Adjustable Rate Non-Cumulative Perpetual Preferred Stock (Series B Preferred Stock) at \$1,000 per share, for an aggregate gross purchase price of \$8,000,000 (the Offering) offset by issuance costs totaling \$242,000.

In May 2010, the shareholders of the Company approved an amendment to the Company's governing instruments to create a series of non-voting common stock. In June 2010, the Company exercised its option to require the Purchasers to exchange the 1,359 shares of Series B Preferred Stock for 258,862 shares of non-voting common stock. In August, 2011, the Company agreed to exchange the 258,862 shares of the Company's non-voting common stock to 258,862 shares of the Company's voting common stock. The issuance of voting common stock was conducted in a privately negotiated transaction exempt from registration pursuant to Sections 3(a)(9) and 4(2) of the Securities Act of 1933, as amended. No shares of Series B Preferred Stock or non-voting common stock remain outstanding.

On August 15, 2012, the Board of Directors of the Company approved the adoption of a program to effect repurchases of the Company's common stock. Under the program, the Company was to repurchase up to five percent of the Company's outstanding shares of common stock, or approximately 479,850 shares based on the shares outstanding as of August 15, 2012, for the period beginning on August 15, 2012, and ending February 15, 2013. During 2012, the Company repurchased and retired a total of 58,100 shares at an average price of \$8.41 for a total cost of \$488,000. The stock repurchase program was suspended after the Company entered into the Merger Agreement with Visalia Community Bank on December 19, 2012. The Company had no stock repurchase plans in place during 2013 or 2011. As of March 1, 2014, we had a total of 290 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 and Madera counties were 4.65% in 2013 compared to 4.81% in 2012 based on FDIC deposit market share information published as of June 30, 2013.

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 will 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 2014.

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.

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The Bank established an interest in Central Valley Community Insurance Services, LLC at the end of 2006. The purpose of this entity is to market health, commercial property and casualty insurance products and services primarily to business customers.

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, 2013, we had total loans of \$512,357,000. Total commercial and industrial loans outstanding were \$87,082,000, total agricultural land and production loans outstanding were \$31,649,000, total real estate construction and other land loans outstanding were \$42,329,000; total other real estate loans outstanding were \$291,610,000, total equity loans and lines of credit were \$48,594,000 and total consumer installment loans outstanding were \$11,252,000. We accept real estate, listed securities, savings and time deposits, automobiles, inventory, 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, 2013 approximately 74.7% 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 23.1% 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. In addition, 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:

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Branch	Monday — Thursday 9:00 a.m. to 4:00 p.m.	Friday 9:00 a.m. to 6:00 p.m.	Saturday
Clovis Main	Drive Up 8:00 a.m. to 5:30 p.m. 9:00 a.m. to 4:00 p.m.	Drive Up 8:00 a.m. to 6:00 p.m. 9:00 a.m. to 5:00 p.m.	None
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 5:00 p.m.	9:00 a.m. to 6:00 p.m. 9:00 a.m. to 6:00 p.m.	10:00 a.m. to 2:00 p.m. 9:00 a.m. to 2:00 p.m.
Herndon & Fowler	Drive Up 8:30 a.m. to 5:30 p.m. 9:00 a.m. to 5:00 p.m.	Drive Up 8:30 a.m. to 6:00 p.m. 9:00 a.m. to 6:00 p.m.	Drive Up 9:00 a.m. to 2:00 p.m. 10:00 a.m. to 2:00 p.m.
River Park	Drive Up 9:00 a.m. to 5:30 p.m. 9:00 a.m. to 5:00 p.m.	Drive Up 9:00 a.m. to 5:30 p.m. 9:00 a.m. to 6:00 p.m.	Drive Up 10:00 a.m. to 2:00 p.m.
Sunnyside	Drive Up 8:30 a.m. to 5:00 p.m. 9:00 a.m. to 5:00 p.m.	Drive Up 8:30 a.m. to 6:00 p.m. 9:00 a.m. to 6:00 p.m.	None
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 5:00 p.m.	9:00 a.m. to 6:00 p.m. 9:00 a.m. to 6:00 p.m.	None
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 5:00 p.m.	9:00 a.m. to 6:00 p.m. 9:00 a.m. to 6:00 p.m.	None
Exeter	Drive Up 8:30 a.m. to 5:30 p.m. 9:00 a.m. to 5:00 p.m.	Drive Up 8:30 a.m. to 6:00 p.m. 9:00 a.m. to 6:00 p.m.	None 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

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	9:00 a.m. to 5:00 p.m.	9:00 a.m. to 6:00 p.m.	
Mission Oaks	Drive Up 8:30 a.m. to 5:30 p.m.	Drive Up 8:30 a.m. to 6:00 p.m.	None
Mary's Vineyard Shopping Center	Walk-up and Drive-up ATMs only	Walk-up and Drive-up ATMs only	Walk-up and Drive-up ATMs only
Financial Drive	8:00 a.m. to 5:00 p.m.	8:00 a.m. to 5:00 p.m.	None

Automated teller machines operate at 21 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

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(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.

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 12 full-service branch locations serving the Bank's primary service areas, as of June 30, 2013 there were 158 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 2013 FDIC Summary of Deposits report indicated the Company had 4.46% of the total deposits held by all depositories in Fresno County and 6.76% in Madera County. In San Joaquin County, in addition to our three full service branch locations, as of June 30, 2013 there were 111 operating banking and credit union offices. The FDIC Summary of Deposits as of June 2013 report indicated the Company had 1.69% of total deposits held by all depositories in San Joaquin County. In Merced County, in addition to our one branch, as of June 30, 2013 there were 31 operating banking and credit union offices in our primary service area. In Sacramento County, in addition to our one branch, as of June 30, 2013 there were 232 operating banking and credit union offices in our primary service area. In Stanislaus County, in addition to our one branch, there were 94 operating banking and credit union offices in our primary service area. In Tulare County, in addition to our four branches there were 61 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 accounts. As of December 31, 2013, the Bank's legal lending limits to individual customers were \$14,346,000 for unsecured loans and \$23,910,000 for unsecured and secured loans combined. 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

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Table A sets forth our average consolidated balance sheets for the years ended December 31, 2013, 2012, and 2011 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 2013 and 2012 resulting from changes in volume and changes in rates.

Investment Portfolio

The book value (amortized cost) of investment securities at December 31, 2013, 2012, and 2011 and the book value, maturities and weighted average yield of investment securities at December 31, 2013 are set forth in Table C.

Loan Portfolio

The composition of the loan portfolio at December 31, 2013, 2012, 2011, 2010, and 2009, is summarized in Table D. Maturities and sensitivity to changes in interest rates in the loan portfolio at December 31, 2013 are summarized in Table E. Table F shows the composition of nonaccrual, past due and restructured loans at December 31, 2013, 2012, 2011, 2010, and 2009. 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, 2013, 2012, 2011, 2010, and 2009.

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, 2013, 2012, and 2011. Table I sets forth the maturity of time certificates of deposit of \$100,000 or more at December 31, 2013.

Return on Equity and Assets

Table J sets forth certain financial ratios for the years ended December 31, 2013, 2012, and 2011.

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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, 2013, 2012, and 2011. The average balances reflect daily averages except nonaccrual loans, which were computed using quarterly averages.

(Dollars in thousands)	2013			2012			2011		
	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	\$46,672	\$164	0.35 %	\$36,836	\$108	0.29 %	\$73,016	\$187	0.26 %
Securities:									
Taxable securities	235,487	2,375	1.01 %	218,325	3,289	1.51 %	150,559	4,548	3.02 %
Non-taxable securities (1)	163,494	8,755	5.35 %	113,039	6,830	6.04 %	75,665	5,248	6.94 %
Total investment securities	398,981	11,130	2.79 %	331,364	10,119	3.05 %	226,224	9,796	4.33 %
Federal funds sold	206	1	0.25 %	618	2	0.30 %	695	2	0.29 %
Total securities and interest-earning deposits	445,859	11,295	2.53 %	368,818	10,229	2.77 %	299,935	9,985	3.33 %
Loans (2)(3)	445,300	26,519	5.96 %	394,575	23,913	6.06 %	412,969	26,098	6.32 %
Federal Home Loan Bank stock	4,171	177	4.24 %	3,544	36	1.02 %	2,958	9	0.30 %
Total interest-earning assets (1)	895,330	\$37,991	4.24 %	766,937	\$34,178	4.46 %	715,862	\$36,092	5.04 %
Allowance for credit losses	(9,713)			(10,365)			(11,018)		
Nonaccrual loans	9,183			10,465			15,322		
Other real estate owned	50			919			217		
Cash and due from banks	21,296			19,525			17,977		
Bank premises and equipment	7,816			6,217			5,788		
Other non-earning assets	62,962			59,380			56,030		
Total average assets	\$986,924			\$853,078			\$800,178		

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(Dollars in thousands)	2013			2012			2011		
	Average Balance	Interest Income/Expense	Average Interest Rate	Average Balance	Interest Income/Expense	Average Interest Rate	Average Balance	Interest Income/Expense	Average Interest Rate
LIABILITIES AND SHAREHOLDERS' EQUITY:									
Interest-bearing liabilities									
Interest-bearing deposits:									
Savings and NOW accounts	\$215,668	\$291	0.13 %	\$177,205	\$302	0.17 %	\$154,765	\$368	0.24 %
Money market accounts (MMA)	193,833	229	0.12 %	178,734	392	0.22 %	174,049	692	0.40 %
Time certificates of deposit, under \$100,000	48,729	219	0.45 %	59,838	466	0.78 %	70,111	688	0.98 %
Time certificates of deposit, \$100,000 and over	106,307	531	0.50 %	86,295	470	0.54 %	96,620	914	0.95 %
Total interest-bearing deposits	564,537	1,270	0.22 %	502,072	1,630	0.32 %	495,545	2,662	0.54 %
Other borrowed funds	5,645	116	2.05 %	9,156	253	2.76 %	10,265	280	2.73 %
Total interest-bearing liabilities	570,182	\$1,386	0.24 %	511,228	\$1,883	0.37 %	505,810	\$2,942	0.58 %
Non-interest bearing demand deposits	283,956			217,529			182,244		
Other liabilities	13,040			9,760			8,738		
Shareholders' equity	119,746			114,561			103,386		
Total average liabilities and shareholders' equity	\$986,924			\$853,078			\$800,178		
Interest income and rate earned on average earning assets (1)		\$37,991	4.24 %		\$34,178	4.46 %		\$36,092	5.04 %
Interest expense and interest cost related to average interest-bearing liabilities		1,386	0.24 %		1,883	0.37 %		2,942	0.58 %
Net interest income and net interest margin (4)		\$36,605	4.09 %		\$32,295	4.21 %		\$33,150	4.63 %

(1) Calculated on a fully tax equivalent basis, which includes Federal tax benefits relating to income earned on municipal bonds totaling \$2,977, \$2,322 and \$1,784 in 2013, 2012 and 2011, respectively.

(2) Loan interest income includes loan fees of \$320 in 2013, \$646 in 2012, and \$399 in 2011.

(3) Average loans do not include nonaccrual loans.

(4) Net interest margin is computed by dividing net interest income by total average interest-earning assets.

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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.

(In thousands)	Years Ended December 31, 2013 Compared to 2012			2012 Compared to 2011		
	Volume	Rate	Net	Volume	Rate	Net
Increase (decrease) due to changes in:						
Interest income:						
Interest-earning deposits in other banks	\$32	\$24	\$56	\$(111)	\$32	\$(79)
Investment securities:						
Taxable	285	(1,199)	(914)	11,056	(12,315)	(1,259)
Non-taxable (1)	2,583	(658)	1,925	2,141	(559)	1,582
Total investment securities	2,868	(1,857)	1,011	13,197	(12,874)	323
Loans	3,012	(406)	2,606	(1,389)	(796)	(2,185)
FHLB Stock	7	134	141	2	25	27
Total earning assets (1)	5,918	(2,105)	3,813	11,699	(13,613)	(1,914)
Interest expense:						
Deposits:						
Savings, NOW and MMA	132	(306)	(174)	97	(463)	(366)
Certificates of deposit under \$100,000	(75)	(172)	(247)	(92)	(130)	(222)
Certificates of deposit \$100,000 and over	95	(34)	61	(89)	(355)	(444)
Total interest-bearing deposits	152	(512)	(360)	(84)	(948)	(1,032)
Other borrowed funds	(132)	(5)	(137)	(31)	4	(27)
Total interest bearing liabilities	20	(517)	(497)	(115)	(944)	(1,059)
Net interest income (1)	\$5,898	\$(1,588)	\$4,310	\$11,814	\$(12,669)	\$(855)

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

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Table C

INVESTMENT PORTFOLIO

The amortized cost of investment securities at December 31, 2013, 2012, and 2011 is set forth in the following table. At December 31, 2013, we held no investment securities from any issuer which totaled over 10% of our shareholders' equity.

Available-for-Sale (In thousands)	Amortized Cost at December 31,		
	2013	2012	2011
U.S. Government agencies	\$18,172	\$9,443	149
Obligations of states and political subdivisions	162,018	151,312	101,030
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	254,978	206,465	204,222
Private label residential mortgage backed securities	4,344	6,258	8,408
Corporate debt securities	—	—	—
Other equity securities	7,596	7,596	7,596
Total Available-for-Sale Securities	\$447,108	\$381,074	\$321,405

The amortized cost, maturities and weighted average yield of investment securities at December 31, 2013 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
	Amount	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	
Available-for-Sale Securities									
Debt securities(2)									