BAY COMMUNITY BANCORP

Community BANK OF THE BAY

Different. On Purpose.

2020 ANNUAL REPORT

Member FDIC

EQUAL HOUSING LENDER

CERTIFIED CDFI

Proud to be the first CDFI certified bank in California

VALUES ARE NOT WORDS. THEY ARE WHO WE ARE.

RELATIONSHIP · COMMITMENT · SUSTAINABILITY
EMPOWERMENT · TRUST · RESPECT

CBB SVP TEAM

John Norawong SVP, DIRECTOR OF BANKING

Wil Hobbs SVP, COMMUNITY IMPACT DIRECTOR

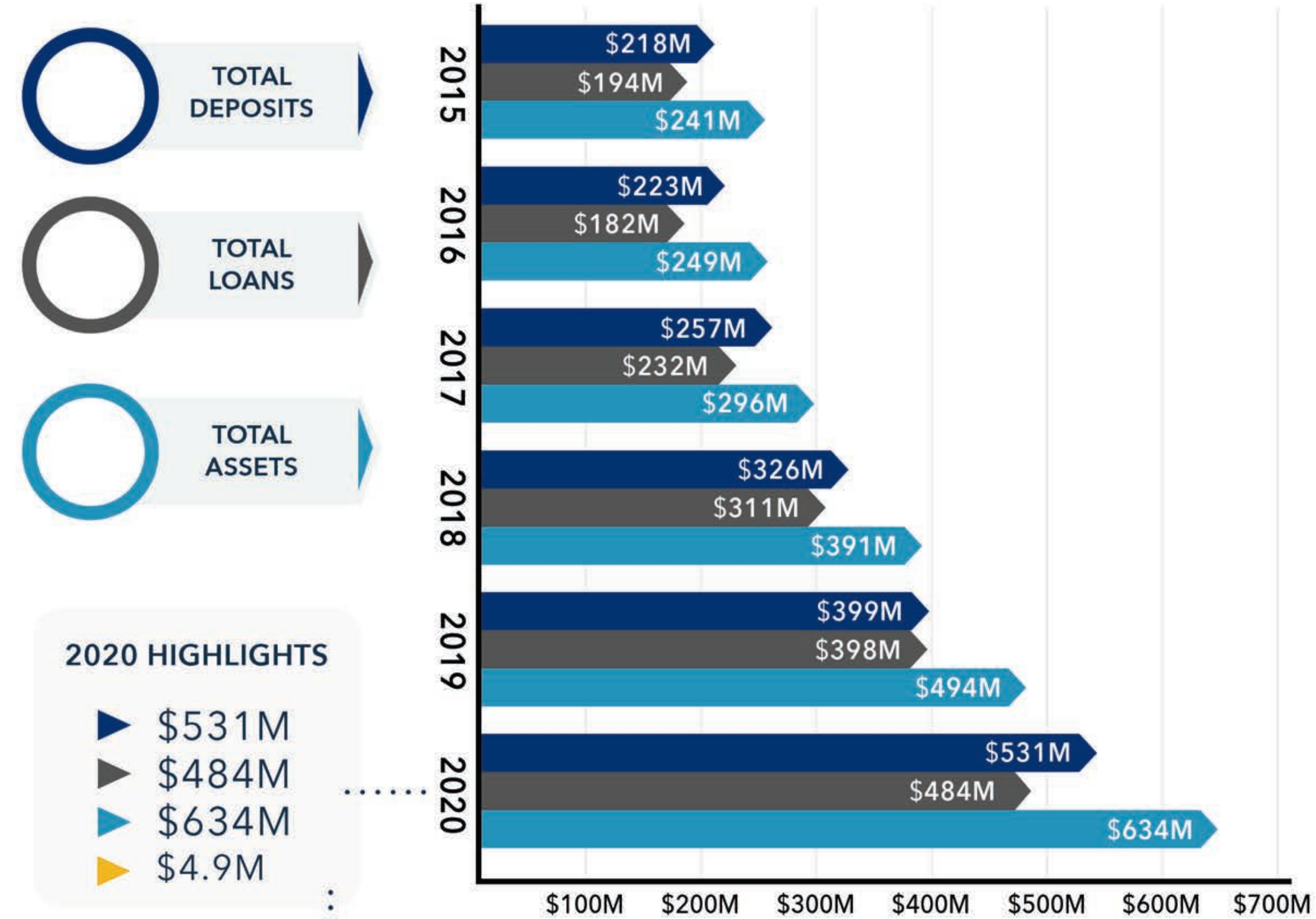
Tom Rodriguez SVP, CONSTRUCTION LOAN OFFICER

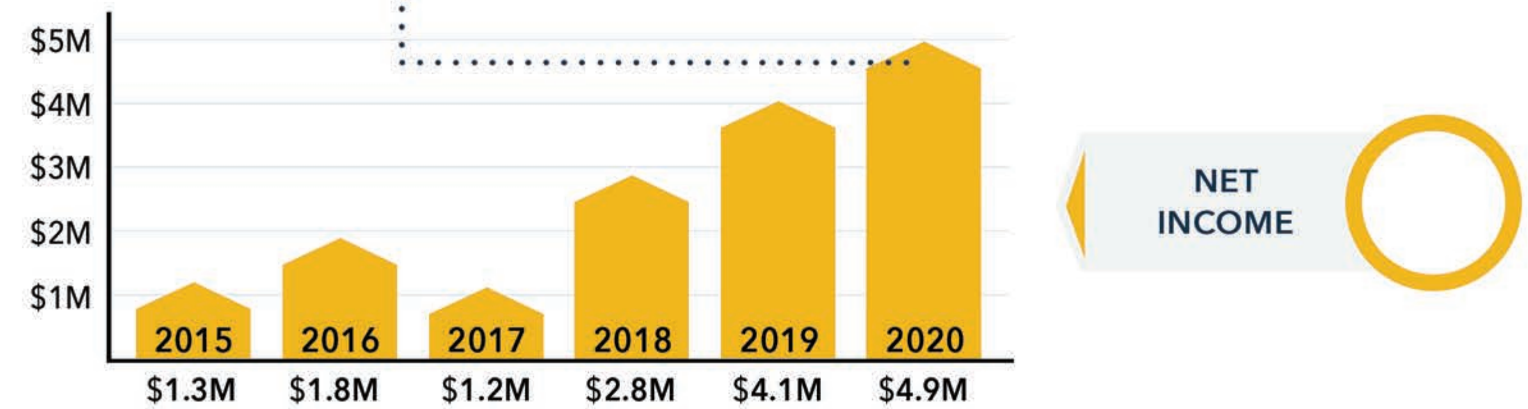
David Meyer SVP/TEAM LEADER

Cary Schroeder SVP, CREDIT ADMINISTRATOR

Ted Del Mundo SVP/LOAN SERVICING MANAGER

CBB 5 YEAR FINANCIAL OVERVIEW





5 YEAR GROWTH 2015 - 2020

TOTAL DEPOSITS	TOTAL LOANS	TOTAL ASSETS	TOTAL INCOME
144% ▲	149% ▲	163% ▲	276% ▲

CBB'S 25TH ANNIVERSARY

PROUDLY DIFFERENT, ON PURPOSE

Community Bank of the Bay's 25th anniversary commemorates a quarter century of great relationship banking, business building and civic participation. If that was our entire legacy we would have much to be proud of, but there's more to the story.

Inspired by a vision of socially responsible banking, we were founded as California's first FDIC insured bank to be certified as a Community Development Financial Institution by the US Treasury.

With a sense of history—and pride-of-place as one of the Bay Area's best known community banks—we recognize 25 years of growth and accomplishment. We thank our founders, our shareholders, the current board and leadership team, our employees, and our clients for making this journey possible. Together they make the Community Bank of the Bay promise of caring and professional community banking for all possible.

1996

FOUNDING AND CDFI CERTIFICATION

A local movement for more socially responsible lending spurs a group of community and business leaders, including current board member Frank Tsai, to form Community Bank of the Bay in Oakland. CBB becomes the first Community Financial Development Institution (CDFI) in California.

INITIAL CAPITAL RAISE OF $7 MILLION

An initial capital raise of $7 million is financed by local nonprofits (including Catholic Healthcare West, the Levi Foundation) and the City of Oakland.

2004

CBB CAPITAL RAISE OF $5.4 MILLION

CBB raises $5.4 million at $3.50 per share.

2006

BAY AREA GREEN FUND FOUNDED

The first environmentally-focused fund of its kind to be offered by a community bank, the Bay Area Green Fund collects $20 million in deposits in its first year and a half and makes approximately $10 million in loans to businesses committed to sustainable practices.

2009

CBB RECOMMITS TO GROWTH

Under the leadership of new CEO William Keller, the bank establishes a long-term strategic plan.

2010

CBB CAPITAL RAISE OF $7.7 MILLION AND REACHES $100 MILLION IN ASSETS

CBB raises $7.7 million at $3.50 per share. With a fresh injection of capital raised from individuals and institutional investors.

CBB opens a second location in Danville.

2014

Western Independent Bankers

The Western Independent Bankers association names CBB Bank of the Year.

CBB opens a third location in San Mateo.

2015

CBB REACHES NEW MILESTONE $250 MILLION IN ASSETS

From 2010 to 2015, CBB achieves 150% growth.

2017

CBB CAPITAL RAISE OF $12 MILLION

Investors provide a fresh surge of capital at $5.25 per share.

2018

CBB CAPITAL RAISE OF $15.6 MILLION AT $7.50 PER SHARE AND ACCELERATES GROWTH

A capital raise of $15.6 million positions the bank for high growth. With an expanded lending limit, improvements in products and services, a brand update, increased visibility and outreach, CBB positions itself as a locally-focused bank, that's truly different, on purpose.

2020

CBB REACHES NEW MILESTONE $600 MILLION IN ASSETS

Between 2018 and 2020, CBB experiences year-over-year growth of approximately 30%. Reorganization into bank holding company, Bay Community Bancorp, is completed in December. Company's stock ticker symbol changes from CBYAA to CBOBA.

CBB is Committed to the Individual Success of our Clients and the Long-Term Sustainability of our Communities.

Community Bank of the Bay

Different. On Purpose.

BAY COMMUNITY BANCORP

2021 Shareholder Letter

Dear Bay Community Bancorp Shareholder:

2020 was a year of big events that dramatically accelerated existing trends, and launched others overnight. We are proud of the way our Bank responded by employing remote working technologies that increased the reach and quality of our services and kept our employees and clients safe, by delivering much needed support in the form of PPP loans to every single qualifying client as well as many others, and importantly, by avoiding loan portfolio deterioration from the hardest hit sectors of the economy.

We discussed our specific responses to 2020 events in earlier earnings releases and will quickly recap some of the results here before outlining the opportunities that we believe lie ahead.

Our recent growth phase began in 2017 when we introduced our CBB 2020 Plan that committed the Bank to doubling in size to $500 million by 2020. After ending 2019 at $493 million we grew another $140 million, or 28% in 2020 to finish the year with Total Assets of $634 million. 2020 also produced a record operating profit of $4.9 million as the downward pressure on interest margins was partially offset by PPP loan fee income.

In the all-important area of asset quality, our outlook steadily improved throughout the year from uncertain to confident. We undertook multiple detailed reviews of our loan portfolio and were consistently impressed with the commitment and business acumen of our borrowing clients. Regardless of industry, including those that were hardest hit by the pandemic and shutdowns, the vast majority of our clients have shown great resiliency.

In addition to our operating activities, we took an important strategic step in late 2020 when we formed our bank holding company, Bay Community Bancorp. As you know each share of Community Bank of the Bay (“CBYAA”) was exchanged for a share of Bay Community Bancorp (“CBOBA”). Shareholder ownership essentially remained unchanged, but the corporate restructure did require a separate board of directors and five members of the Bank’s board were approved by the shareholders to also be directors of Bay Community Bancorp. All directors of Community Bank of the Bay remained in place and continue to lead the Bank as they have, but they will no longer need to stand for annual shareholder election. Instead, shareholders will only vote on the five Holding Company directors.

Forming a holding company provided us with potentially important capital flexibility and allows us to better manage our capital position for both safety and shareholder return. It also provides us with another legal entity that can participate in programs with the Community Development Fund of the US Treasury. To date we have limited our formal participation with the Fund to the Bank Enterprise Award program, and while we have been very successful, having received over $8 million in total awards, the Fund offers a number of other program opportunities that we may now be able to access through the Holding Company.

180 Grand Avenue, Suite 1550 Oakland, CA 94612
P :(510) 433-5400 F :(510) 763-1413
WWW.BANKCBB.COM . **Stock Symbol** CBOBA

With a solid foundation in place, we enter 2021 with a high level of confidence and see tremendous opportunity in our future. There is clearly a sense of renewed optimism in the economy as the vaccine roll out hints at a coming return to normal and unleashing of pent up demand. We intend to lean into this optimism by focusing on four key principles.

Purpose – As a mission-driven organization Purpose has always been at the center of our organizational culture, but in this case Purpose means that we will be focused and determined to accomplishing specific goals of our choosing. As we grow, we must focus our resources on specific markets and products that we determine to be the most beneficial.

Our CDFI opportunity – We are keenly aware of changes in both social attitudes and national leadership. As California's first FDIC insured certified Community Development Financial Institution we are very well positioned to benefit from both. There is a growing requirement that a business partner should also be a good community partner. We have already seen how this attitude shift provides us with a tremendous market opportunity. In the last year we have seen increasing numbers of opportunities where the driving motivation of the prospect is their search for a financial partner that "shares their values".

At the national level, the acknowledgment that more investment needs to be made in economically disadvantaged communities is driving increased funding to the CDFI banks that bring market-based solutions to these communities. The December 2020 CARES Act alone includes $3 billion for Rapid Response Grants and $9 billion in Emergency Capital Investment that can leverage the shareholder capital of CDFI banks. In developing its PPP Loan program, the SBA created multiple set asides specifically for CDFI's and some other smaller fincial institutions that resulted in community banks delivering an outsized share of these loans. As result many small and medium sized businesses have realized that they are better served by such institutions and are moving away from the big banks.

Capital optimization – With confidence in our core stability and future earnings potential, we can more actively manage our capital planning, and we are committed to utilizing a more efficient capital structure as one tool to maximize shareholder returns. Possible actions may include leveraging alternative forms of capital, such as subordinated debt or preferred stock, and capital distributions in the form of dividends or a stock buyback.

Market conditions are now especially favorable for issuing debt as current interest rates and the tax deductibility of the interest combine to make the total cost of this form of capital extremely low. Alternatively, the preferred stock that is available to CDFI's such as ourselves from the US Treasury may be even more cost effective, as the investment has no dividend requirement for two years followed by a maximum dividend of only 2%. As we write this letter, we are evaluating both of these attractive options.

Opportunistic – Even as we gain confidence in our plan and future, we will remain receptive to any opportunity that can reasonably be expected to better the Bank and the investment of its shareholders. Opportunistic staffing, market / branch expansion and strategic growth options may all play a role. In spite of the relative success of remote work during the pandemic, there are still a number of market opportunities within the Bay Area where branch expansion may make sense.

If the disruption in the real estate market provides us an opportunity to enter one of these sub market we will move quickly. Strategic growth through acquisition or consolidation should also be considered in order to recognize the benefits of increased scale, to ultimately better serve the needs of our shareholders, clients and communities.

We look forward to communicating our progress with you throughout 2021, and have scheduled our annual shareholder meeting for May 26, 2021. While our ability to gather together remains in flux we believe a virtual meeting remains the most practical option for this year's shareholder event. Hopefully, next year we can again convene in person.

Thank you again for your investment in Bay Community Bancorp. All of us at the Bank and on the board appreciate your continued support.

Sincerely,

William S. Keller
President & CEO

William E. Purcell
Chairman of the Board

Report of Independent Auditors
and Consolidated Financial Statements

**Bay Community Bancorp
and Subsidiary**

December 31, 2020 and 2019

Table of Contents

MOSSADAMS

Report of Independent Auditors

The Board of Directors and Shareholders
Bay Community Bancorp

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Bay Community Bancorp and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Francisco, California
March 31, 2021

Consolidated Financial Statements

Bay Community Bancorp and Subsidiary
Consolidated Balance Sheets
December 31, 2020 and 2019

ASSETS

	2020	2019
Cash and due from banks	$ 84,139,268	$ 53,673,456
Federal funds sold	2,491,556	276,714
Total cash and cash equivalents	86,630,824	53,950,170
Interest-bearing deposits in banks	11,845,497	12,057,702
Available-for-sale investment securities	24,777,599	15,728,106
Loans, less allowance for loan losses of $5,697,787 in 2020 and $4,105,843 in 2019	484,092,200	398,288,627
Premises and equipment, net	1,771,875	1,433,642
Bank-owned life insurance	7,337,224	4,371,927
Subordinated debt issued by banks	9,000,000	-
Interest receivable and other assets	8,578,678	7,974,418
Total assets	$ 634,033,897	$ 493,804,592

LIABILITIES AND SHAREHOLDERS' EQUITY

	2020	2019
Deposits		
Non-interest bearing	$ 206,031,544	$ 133,743,537
Interest bearing	325,220,218	265,503,592
Total deposits	531,251,762	399,247,129
Interest payable and other liabilities	3,535,048	3,990,624
Other borrowings	37,500,000	34,500,000
Total liabilities	572,286,810	437,737,753
Commitments and contingencies (Note 13)		
Shareholders' equity		
Preferred stock, no par value; 10,000,000 shares authorized; no shares issued and outstanding in 2020 and 2019	-	-
Class A common stock, voting, no par value; 20,000,000 shares authorized; 8,729,986 and 8,657,594 shares issued and outstanding in 2020 and 2019, respectively	49,755,931	49,254,914
Class B common stock, non-voting, no par value; 10,000,000 shares authorized; 56,844 shares issued and outstanding in 2020 and 2019	1,421,100	1,421,100
Retained earnings	10,176,200	5,288,721
Accumulated other comprehensive gain, net of taxes	393,856	102,104
Total shareholders' equity	61,747,087	56,066,839
Total liabilities and shareholders' equity	$ 634,033,897	$ 493,804,592

See accompanying notes and report of independent auditors.

Bay Community Bancorp and Subsidiary
Consolidated Statements of Income
Years Ended December 31, 2020 and 2019

	2020	2019
INTEREST INCOME		
Interest and fees on loans	$ 22,458,595	$ 20,302,305
Interest on investment securities	342,365	407,548
Interest on federal funds sold	2,062	576
Interest on deposits in banks	322,536	1,069,865
Total interest income	23,125,558	21,780,294
INTEREST EXPENSE		
Interest expense on deposits	2,544,594	3,342,150
Interest on borrowings	701,158	605,053
Total interest expense	3,245,752	3,947,203
Net interest income	19,879,806	17,833,091
PROVISION FOR LOAN LOSSES	1,600,000	600,000
Net interest income after provision for loan losses	18,279,806	17,233,091
NON-INTEREST INCOME		
Service charges	79,331	203,181
Government grant	202,898	245,547
Gain on sale of loans, net	317,806	-
Other income	763,044	620,950
Total non-interest income	1,363,079	1,069,678
NON-INTEREST EXPENSE		
Salaries and employee benefits	7,261,254	6,940,649
Stock option expense	357,036	449,357
Occupancy and equipment	1,345,324	1,343,620
Other expenses	3,629,928	3,617,016
Total non-interest expense	12,593,542	12,350,642
Net operating income before provision for income taxes	7,049,343	5,952,127
INCOME TAX EXPENSE	2,161,864	1,879,511
NET INCOME	$ 4,887,479	$ 4,072,616
NET INCOME PER SHARE -- BASIC	$ 0.56	$ 0.48
NET INCOME PER SHARE -- DILUTED	$ 0.55	$ 0.46

See accompanying notes and report of independent auditors.

Bay Community Bancorp and Subsidiary
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2020 and 2019

	2020	2019
NET INCOME	$ 4,887,479	$ 4,072,616
CHANGE IN UNREALIZED GAINS AND LOSSES ON SECURITIES AVAILABLE FOR SALE	413,803	354,546
INCOME TAX BENEFIT	(122,051)	(104,591)
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX	291,752	249,955
COMPREHENSIVE INCOME	$ 5,179,231	$ 4,322,571

Bay Community Bancorp and Subsidiary
Consolidated Statement of Changes in Shareholders' Equity
Years Ended December 31, 2020 and 2019

	Preferred Stock	Class A Common Stock Shares	Class A Common Stock Amount	Class B Common Stock Shares	Class B Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income / (Loss)	Total Shareholders' Equity
BALANCES, January 1, 2019	-	8,130,922	45,186,295	56,844	1,421,100	1,216,105	(147,851)	47,675,649
Issue of shares, net of offering costs	-	444,256	3,308,245	-	-	-	-	3,308,245
Stock option exercised	-	82,416	311,017	-	-	-	-	311,017
Stock option expense	-	-	449,357	-	-	-	-	449,357
Net income	-	-	-	-	-	4,072,616	-	4,072,616
Other comprehensive income, net	-	-	-	-	-	-	249,955	249,955
BALANCES, December 31, 2019	-	8,657,594	49,254,914	56,844	1,421,100	5,288,721	102,104	56,066,839
Stock option exercised	-	72,392	143,981	-	-	-	-	143,981
Stock option expense	-	-	357,036	-	-	-	-	357,036
Net income	-	-	-	-	-	4,887,479	-	4,887,479
Other comprehensive income, net	-	-	-	-	-	-	291,752	291,752
BALANCES, December 31, 2020	$ -	8,729,986	$ 49,755,931	56,844	$ 1,421,100	$ 10,176,200	$ 393,856	$ 61,747,087

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,887,479	$ 4,072,616
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	1,600,000	600,000
Change in deferred loan origination fees, net	972,265	307,075
Depreciation and amortization	324,627	189,532
Net amortization of premiums and discounts on investments available-for-sale	141,312	93,295
Gain on sale of loans, net	317,806	-
Stock option expense	357,036	449,357
Increase in cash surrender value of bank owned life insurance	(120,005)	(116,675)
Increase in interest receivable and other assets	(562,394)	(2,609,894)
Increase in interest payable and other liabilities	(455,576)	2,143,417
Net cash provided by operating activities	7,462,550	5,128,723
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sold, called, and matured available-for-sale investment securities	-	3,750,000
Proceeds from principal repayments from available-for-sale investment securities	6,364,530	3,715,047
Purchases of available-for-sale investment securities	(15,141,532)	(2,027,178)
Purchases of bank subordinated debt	(9,000,000)	-
Purchases of bank-owned life insurance	(2,845,292)	-
Purchase of FHLB stock	(206,800)	(484,800)
Decrease (Increase) in interest-bearing deposits in banks	212,205	15,374,832
Proceeds from sale of loans	12,164,062	-
Net increase in originated loans	(100,857,706)	(86,545,041)
Purchases of premises and equipment	(268,517)	(1,229,123)
Abandonment of leasehold improvements	(351,460)	-
Net cash used in investing activities	(109,930,510)	(67,446,263)

	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand, interest bearing, and savings deposits	97,666,256	53,680,415
Net increase in time deposits	34,338,377	19,213,491
Proceeds from other borrowings	3,000,000	19,500,000
Issue of common stock	-	3,331,920
Stock offering cost	-	(23,675)
Proceeds from exercise of stock options	143,981	311,017
Net cash provided by financing activities	135,148,614	96,013,168
NET INCREASE IN CASH AND CASH EQUIVALENTS	32,680,654	33,695,628
CASH AND CASH EQUIVALENTS, beginning of year	53,950,170	20,254,542
CASH AND CASH EQUIVALENTS, end of year	$ 86,630,824	$ 53,950,170
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest expense	$ 2,548,004	$ 3,403,084
Income taxes	$ 2,080,000	$ 2,560,000
Non-cash investing and financing activities:		
Change in unrealized gain on available-for-sale securities	$ (413,803)	$ (354,546)
Recognition of right of use assets and lease liabilities	$ -	$ 2,701,253

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

Bay Community Bancorp (the Company) was incorporated in the State of California and began operations on December 7, 2020. The Company is the parent corporation and sole shareholder of its Subsidiary, Community Bank of the Bay (the Bank). The Bank is a California state chartered bank that commenced banking operations on July 22, 1996. The Bank provides a range of banking services to individuals and businesses in the greater San Francisco Bay area, especially businesses employing residents of low and moderate income neighborhoods. The Bank's primary source of revenue is generated from providing loans to customers who are predominately small and middle market businesses and individuals residing in the surrounding areas.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements is as follows:

Consolidation

The consolidated financial statements include the accounts of Bay Community Bancorp and its wholly owned subsidiary, Community Bank of the Bay. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The allowance for loan losses is the most significant accounting estimate reflected in the Company's financial statements. The allowance for loan losses includes charges to reduce the recorded balances of loans receivable to their estimated net realizable value, as appropriate. The allowance is based on estimates, and ultimate losses may vary from current estimates. These estimates for losses are based on individual assets and their related cash flow forecasts, sales values, independent appraisals, the volatility of certain real estate markets, and concern for disposing of real estate in distressed markets. Although management of the Company believes the estimates underlying the calculation of specific allowances are reasonable, there can be no assurances that the Company could ultimately realize these values. In addition to providing valuation allowances on specific assets where a decline in value of the collateral has been identified, the Company establishes general valuation allowances for losses based on the overall portfolio composition, general market conditions, concentrations, and prior loss experience.

Bay Community Bancorp and Subsidiary
Notes to Consolidated Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other significant management judgments and accounting estimates reflected in the Company's financial statements include:

- Decisions regarding the timing and placement of loans on non-accrual;
- Determination, recognition, and measurement of impaired loans;
- Determination and evaluation of deferred tax assets and liabilities;
- Determination of the fair value of stock option awards; and
- Determination of the fair value of financial instruments.

Concentrations of Credit Risk

Assets that subject the Company to concentrations of credit risk consist of loans, bank subordinated debt, and deposits in banks. Most of the Company's customers are located within Alameda and Contra Costa counties and the surrounding areas. The Company's primary lending products are discussed in Note 5 to the consolidated financial statements. The Company did not have any significant concentrations in its business with any one customer or industry. The Company obtains what it believes to be sufficient collateral to secure potential losses on loans. The extent and value of collateral varies and are based upon the details underlying each loan agreement.

As of December 31, 2020 and 2019, the Company had cash deposits at other financial institutions in excess of FDIC insured limits. However, as the Company places these deposits with major financial institutions and monitors the financial condition of these institutions, management believes the risk of loss to be minimal.

As of December 31, 2020, the Company had purchased subordinated debt issued by various bank holding companies. The subordinated debt is unsecured, but the Company monitors the financial condition of the issuers and management believes the risk of loss to be minimal.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers cash, due from banks, federal funds sold, and securities purchased under agreements to resell to be cash equivalents. All have original maturities of three months or less.

Interest-Bearing Deposits in Banks

Interest-bearing deposits in banks includes money market accounts and time deposits with original maturities greater than ninety days. These deposits are carried at cost, which approximates fair value.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Available-for-Sale Investment Securities

Available-for-sale securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income within shareholders' equity. Management determines the appropriate classification of its investment securities at the time of purchase and may only change the classification in certain limited circumstances. At December 31, 2020 and 2019, all of the Company's investments were classified as available-for-sale.

Gains and losses on the sale of investment securities are computed using the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums.

Investments with fair values that are less than amortized cost are considered impaired. Impairment may result from either a decline in the financial condition of the issuing entity or, in the case of fixed interest rate investments, from rising interest rates. At each consolidated financial statement date, management assesses each investment to determine if impaired investments are temporarily impaired or if the impairment is other than temporary. This assessment includes a determination of whether the Company intends to sell the security, or if it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit losses.

For debt securities that are considered other than temporarily impaired and that the Company does not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, the amount of impairment is separated into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is calculated as the difference between the security's amortized cost basis and the present value of its expected future cash flows. The remaining difference between the security's fair value and the present value of the future expected cash flows is deemed to be due to factors that are not credit related and is recognized in other comprehensive income (loss).

Investment in Federal Home Loan Company Stock

In order to borrow from the Federal Home Loan Company (FHLB), the Bank is required to maintain an investment in FHLB capital stock. The investment of $1,922,400 and $1,715,600 at December 31, 2020 and 2019, respectively, is carried at cost, redeemable at par, at the discretion of the FHLB, and included in interest receivable and other assets on the consolidated balance sheets. FHLB stock is periodically evaluated for impairment based on ultimate recovery of par value.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bank Subordinated Debt

The Company has purchased unsecured subordinated debt issued by various bank holding companies. The subordinated debt is carried at cost on the Company's balance sheet as an other asset; income is accrued on a monthly basis and recognized in non-interest income. Covenants in the purchase agreements generally restrict the Company's ability to sell or assign its interest without the consent of the issuer. Management periodically assesses each subordinated debt issue to determine if it is impaired due to a decline in the financial condition of the issuing entity. For issues that are determined to be impaired, the Company will recognize a loss in earnings. An impairment loss is calculated as the difference between the issue's cost basis and the present value of its expected future cash flows.

Loans and Loan Fees

Loans are reported at their principal outstanding balance net of charge-offs. Loan origination fees and certain direct loan origination costs are deferred and the net amounts are amortized to interest income by a method that approximates a level yield over the contractual life of the underlying loans.

Income Recognition on Loans

Interest on loans, other than discounted installment loans, is credited to income based on the principal amount outstanding on a daily basis. Interest on discounted installment loans is recognized by a method which approximates the effective interest method. Interest accruals are discontinued on certain loans when collection of principal or interest is considered doubtful, or when a loan becomes contractually past due by 90 days or more with respect to interest or principal. When a loan is placed on non-accrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to operations. The adequacy of the allowance for loan losses is periodically evaluated by the Company in order to maintain the allowance at a level that, in the opinion of management, is adequate to absorb losses inherent in existing loans. Management's evaluation of the adequacy of the allowance is based on a consideration of the Company's historical loss experience, known and inherent risks in the loan portfolio, including adverse circumstances that may affect the ability of the borrower to repay interest and/or principal, the estimated value of any underlying collateral, and an analysis of the levels and trends of delinquencies and charge-offs. Actual results could differ from those estimates.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When a loan or portion of a loan is determined to be uncollectible, the portion deemed uncollectible is charged against the allowance and subsequent recoveries, if any, are credited to the allowance. The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired. Impaired loans, as defined, are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral, if the loan is collateral dependent. The general component relates to non-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired if, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due, according to the contractual terms of the loan agreement.

Troubled Debt Restructuring

In situations where, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring. The Company measures any loss on the troubled debt restructuring in accordance with the guidance concerning impaired loans set forth above. Additionally, loans modified in troubled debt restructurings are generally placed on non-accrual status at the time of restructuring. These loans are returned to accrual status after the borrower demonstrates performance with the modified terms for a sustained period of time (generally six months) and has the capacity to continue to perform in accordance with the modified terms of the restructured debt.

Certain payment deferrals may be granted under the Coronavirus Aid, Relief, and Economic Security Act of 2020 ("CARES Act") and related interagency guidance in response to financial difficulties caused by the COVID-19 pandemic. Such deferrals are not considered concessions that would lead to classification as a troubled debt restructuring. Any loan modified per the CARES Act is separately monitored, and any request for continuation of relief beyond the initial modification will be evaluated to determine if the loan should be reclassified as a troubled debt restructuring at that time.

Loans Held for Sale

The Company has originated government guarantied loans to customers under the Small Business Administration (SBA) program. The SBA provides guaranties of 75% to 90% of each loan. For some of these loans, the Company sells the guarantied portion of the loan to a third party and retains the unguarantied portion in its own portfolio. Loans held for sale include government loans and are reported at the lower of cost or fair value. Fair value is based on what secondary markets are currently offering for portfolios with similar characteristics.

Gains or losses on the sale of loans that are held for sale are recognized at the time of the sale, subject to the expiration of any warranty or recourse provisions, and determined by the difference between net sale proceeds and the net book value of the loans less the estimated fair value of any retained mortgage servicing rights and estimated discount recognized against the retained portion of the loan.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Servicing Assets

Periodically, the Company sells loans and retains the servicing rights. The gain or loss on sale of loans depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. To obtain fair values, quoted market prices are used, if available. However, quotes are generally not available for retained interests, so the Company generally estimates fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions – credit losses, prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved.

The Company measures servicing assets initially at fair value and amortizes the servicing rights in proportion to, and over the period of, estimated net servicing revenues. Management assesses servicing rights for impairment as of each financial reporting date. Fair value adjustments that encompass market-driven valuation changes and the runoff in value that occurs from the passage of time are each separately reported. Total servicing assets included in other assets were $267,265 and $310,148 at December 31, 2020 and 2019, respectively. The Company evaluated the servicing asset for impairment at December 31, 2020 and 2019 and determined that no valuation allowance was needed.

The Company services loans that have been participated with other financial institutions totaling $17,302,730 and $26,455,879 as of December 31, 2020 and 2019, respectively. Control over these loans was surrendered without recourse and, therefore, the sold balances are not included on the Company's consolidated balance sheets.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company, (2) the transferee obtains the rights (free of conditions that prevent it from taking advantage of that right, beyond a more than trivial benefit to the transferor) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The Company sells certain portions of government guarantied loans in the secondary market. These sales are recorded by the Company when control is surrendered and any warranty period or recourse provision expires. There were no warranty or recourse provisions outstanding at December 31, 2020 for loans previously sold.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line basis. The estimated lives used in determining depreciation are:

Leasehold improvements	5 years
Furniture, fixtures, and equipment	3 – 7 years

Leasehold improvements are amortized over the lesser of the useful life of the asset or the term of the lease. The straight-line method of depreciation is followed for all assets for financial reporting purposes, but accelerated methods are used for tax purposes. Deferred income taxes have been provided for the resulting temporary differences.

Leases

The Company enters into leases in the normal course of business, primarily related to office space and Company branches. The Company's leases have remaining terms ranging from three to six years, some of which include renewal options to extend the lease for up to five years. The Company's leases do not include residual value guarantees or covenants. The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. In addition, the Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Company has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Company's consolidated balance sheet.

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors for similar assets and credit quality.

Bank-Owned Life Insurance

The Bank has purchased insurance on the lives of Bank executives. The policies accumulate asset values to meet future liabilities including payment of employee benefits such as split dollar life insurance agreements, which provide an insurance benefit to the family of the individual on whom the policy is held.

The cash surrender value of policies is recorded as an asset on the consolidated balance sheets. Increases in the cash surrender value are recorded as other non-interest income in the consolidated statements of income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Company uses the asset and liability method to account for income taxes. Under such method, deferred tax assets and liabilities are recognized for the future tax consequences of differences between financial statement carrying amounts of existing assets and liabilities and their respective tax basis (temporary differences). Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the year in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes in the year of enactment.

A valuation allowance is established to the extent that it is more likely than not that the benefits associated with the deferred tax assets will not be fully realized.

The Company had no unrecognized tax benefits at December 31, 2020 and 2019.

The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2020 and 2019, the Company recognized no interest and penalties.

With few exceptions, the Company is no longer subject to examinations by U.S. federal taxing authorities for years ended before December 31, 2017, and by state authorities for years ended before December 31, 2016.

Comprehensive Income

Comprehensive income includes net income and other comprehensive income (loss). The Company's primary source of comprehensive income (loss) is unrealized gains and losses on securities available for sale. Reclassification adjustments result from gains or losses on securities that are realized and included in net income of the current period that also had been included in other comprehensive income as unrealized holding gains or losses in the period in which they arose. Total comprehensive income and the components of accumulated other comprehensive income (loss) are presented in the consolidated statements of comprehensive income.

Stock-Based Compensation

The Company recognizes compensation expense for awards of stock options to employees and directors based on the grant-date fair value of those awards. The fair value of each option granted is estimated on the date of grant using the Black-Scholes options-pricing model. The assumptions used in this model include an estimate of expected volatility, which is based on the historical volatility of the price of similar Company stocks, and an estimate of the expected option term, which is based on consideration of the vesting period and contractual term of the option. In addition, the Company estimates the number of options expected to be forfeited based on historical forfeiture rates. The risk-free interest rates are equal to the U.S. Treasury yield at the time of the grant and commensurate with the expected term of the grant. Expense is recognized over the vesting period of the options. The Company's stock compensation plan and related assumptions used in determining the fair value of awards are discussed in Note 19.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

The Company expenses advertising costs as they are incurred. Advertising expense was $223,575 and $182,694 for the years ended December 31, 2020 and 2019, respectively.

Net Income per Share

Basic net income per share amounts are computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock which share in the earnings of the Company. The treasury stock method is applied to determine the dilutive effect of stock options when computing diluted earnings per share. However, dilutive earnings per share amounts are not presented when a net loss occurs because the conversion of potential common stock is anti-dilutive.

Revenue Recognition

Service charges on deposit accounts

The Company earns fees from its deposit customers for account maintenance, transaction-based activity, and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposit accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Debit and ATM interchange fee income, net

Debit and ATM interchange income represent fees earned when a debit card issued by the Company is used. The Company earns interchange fees from debit cardholder transactions through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied, and the fees are earned when the cost of the transaction is charged to the cardholders' debit card. Certain expenses directly associated with the credit and debit card are recorded on a net basis with the interchange income.

Merchant fee income

Merchant fee income represents fees earned by the Company for card payment services provided to its merchant customers. The Company has a contract with a third party to provide card payment services to merchants that contract for those services. The third-party provider passes the payments made by the merchants through to the Company. The Company, in turn, pays the third-party provider for the services it provides to the merchants.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Company groups assets and liabilities at fair value in a three-level valuation hierarchy for disclosure of fair value measurement. The valuation hierarchy is based on the transparency of inputs to the valuation of an asset or liability as of the measurement date.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. Some fair value measurements, such as available-for-sale securities, are performed on a recurring basis, while others such as other real estate owned and impaired loans are performed on a non-recurring basis.

Recent Accounting Pronouncements and Adoption of New Accounting Standards

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU will require the earlier recognition of credit losses on loans and other financial instruments based on an expected loss model, replacing the incurred loss model that is currently in use. Under the new guidance, an entity will measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The expected loss model will apply to loans and leases, unfunded lending commitments, held-to-maturity debt securities and other debt instruments measured at amortized cost. The impairment model for available-for-sale debt securities will require the recognition of credit losses through a valuation allowance when fair value is less than amortized cost, regardless of whether the impairment is considered to be other-than-temporary. The FASB has deferred the effective date of this ASU to fiscal years beginning on or after December 15, 2022, including interim periods within those fiscal years for public business entities. The Company is currently evaluating the impact of this ASU on the consolidated financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In March, 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848)*. The amendments in this AUS are elective and provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform. The amendments in this ASU provide optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in this ASU may be elected as of March 12, 2020 through December 31, 2022. An entity may choose to elect the amendments in this update at an interim period subsequent to March 12, 2020 with adoption methods varying based on transaction type. We have not elected to apply these amendments; however, we will assess the applicability of the ASU to us and continue to monitor guidance for reference rate reform from FASB and its impact on our financial condition and results of operations.

Reclassification and Presentation

Certain balances in the 2019 presentation have been reclassified to conform to the 2020 presentation. This reclassification had no impact on net earnings, total assets, total liabilities, or shareholders' equity.

NOTE 3 – CASH AND DUE FROM BANKS

Cash and due from Banks includes balances with the Federal Reserve Bank and other correspondent banks. The Federal Reserve Bank generally requires the Company to maintain a certain minimum balance at all times. The reserve requirements are based on a percentage of the Company's deposit liabilities. The reserve requirement was temporarily suspended by the Federal Reserve in March, 2020 in response to the COVID-19 pandemic. At December 31, 2019, the Company's cash balances were sufficient to comply with the then-current reserve requirement and, therefore, no additional reserve balances were required to be held with the Federal Reserve Bank.

NOTE 4 – AVAILABLE-FOR-SALE INVESTMENT SECURITIES

The amortized cost and estimated fair value of available-for-sale securities as of December 31, 2020 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ 9,291,735	$ 312,397	$ -	$ 9,604,132
CMOs	9,692,252	179,538	(7,722)	9,864,068
Municipals - Taxable	3,253,117	31,289	(2,406)	3,282,000
Municipals - Exempt	1,981,836	45,563	-	2,027,399
	$ 24,218,940	$ 568,787	$ (10,128)	$ 24,777,599

The amortized cost and estimated fair value of available-for-sale securities as of December 31, 2019 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ 9,409,292	$ 139,355	$ (10,037)	$ 9,538,610
CMOs	6,173,958	19,349	(3,811)	6,189,496
	$ 15,583,250	$ 158,704	$ (13,848)	$ 15,728,106

The Company had no proceeds from the sales of investment securities during the years ended December 31, 2020 and 2019. There were no gross realized gains or losses during 2020 and 2019.

Available-for-sale investment securities with unrealized losses at December 31, 2020 and 2019 are summarized and classified according to the duration of the loss period as follows:

	2020					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	$ -	$ -	$ -	$ -	$ -	$ -
CMOs	3,951,003	(7,722)	-	-	3,951,003	(7,722)
Municipals - Taxable	724,968	(2,406)	-	-	724,968	(2,406)
Municipals - Exempt	-	-	-	-	-	-
	$ 4,675,971	$ (10,128)	$ -	$ -	$ 4,675,971	$ (10,128)

NOTE 4 – AVAILABLE-FOR-SALE INVESTMENT SECURITIES (CONTINUED)

	2019					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	$ 3,242,368	$ (10,037)	$ -	$ -	$ 3,242,368	$ (10,037)
CMOs	519,613	(870)	182,452	(2,941)	702,065	(3,811)
	$ 3,761,981	$ (10,907)	$ 182,452	$ (2,941)	$ 3,944,433	$ (13,848)

Certain investment securities shown above currently have fair values less than amortized cost and, therefore, contain unrealized losses. The Company does not have the intent to sell the investments that are temporarily impaired, and it is more likely than not that the Company will not be required to sell those investments before recovery of the amortized cost basis. The Company has evaluated these securities and has determined that the decline in value is no other than temporary and is related to the change in market interest rates since purchase. The decline in value is not related to any company or industry specific event. These temporary unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

There were five and fourteen investment securities with unrealized losses at December 31, 2020 and 2019, respectively. The Company anticipates full recovery of amortized cost with respect to these securities at maturity or sooner in the event of a more favorable market interest rate environment.

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2020 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2020	
	Amortized Cost	Estimated Fair Value
Due after one year through five years	$ 464,232	$ 475,911
Due after five years through ten years	5,140,363	5,365,082
Due after ten years	18,614,345	18,936,606
	$ 24,218,940	$ 24,777,599

NOTE 5 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Outstanding loans, by class, are summarized as follows:

	December 31,	
	2020	2019
Commercial	$ 180,438,554	$ 126,928,332
Commercial real estate		
Non-owner occupied	146,236,454	138,696,742
Owner occupied	82,797,797	75,930,614
Construction and land	60,712,631	45,164,478
Consumer and other	21,426,464	16,523,344
	491,611,900	403,243,510
Deferred loan fees and costs, net	(1,821,913)	(849,040)
Allowance for loan losses	(5,697,787)	(4,105,843)
	$ 484,092,200	$ 398,288,627

The Paycheck Protection Program ("PPP") was enacted by the Small Business Administration ("SBA") in 2020 under the authorization provided by the CARES Act. PPP loans are fully-guarantied by the SBA, and, if certain conditions are met, are repaid by SBA loan forgiveness. At December 31, 2020, the Bank had $66,035,059 of PPP loans outstanding. PPP loans are classified as Commercial loans in the above table and in all subsequent tables.

Salaries and employee benefits totaling $1,475,282 and $765,151 have been deferred as loan origination costs for the years ended December 31, 2020 and 2019, respectively.

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, and concentrations of credit, loan delinquencies, and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Underwriting standards are designed to promote relationship banking rather than transactional banking. Once it is determined that the borrower's management possesses sound ethics and solid business acumen, the Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower.

The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

NOTE 5 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography, and risk grade criteria. As a general rule, the Company avoids financing single-purpose projects unless other underwriting factors are present to help mitigate risk. The Company also utilizes third-party experts to provide insight and guidance about economic conditions and trends affecting market areas it serves. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans.

With respect to loans to developers and builders that are secured by non-owner occupied properties that the Company may originate from time to time, the Company generally requires the borrower to have had an existing relationship with the Company and have a proven record of success. Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates, and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the completed project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project.

Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property, or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions, and the availability of long-term financing.

Consumer loans primarily consist of home equity lines of credit and loans and other personal loans. The Company originates consumer loans utilizing credit history information, debt-to-income ratio, and loan-to-value ratio analysis. The Company also evaluates the consumer's liquid assets and their ability to supplement cash flow for debt payment. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed.

This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Underwriting standards for home equity loans include, but are not limited to, a maximum loan-to-value percentage of 80%, collection remedies, the number of such loans a borrower can have at one time, and documentation requirements. Personal loans are nearly evenly split between mobile home loans along with a small number of direct auto loans and installment loans. Personal unsecured loans are offered to consumers with additional underwriting procedures in place, including net worth and borrower's verified liquid assets analysis. In general, personal loans usually have a higher degree of risk than other types of loans.

NOTE 5 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The Company utilizes an independent third party loan review consultant to review and validate the credit risk program on a periodic basis. Results of these reviews are presented to management and the Company's Board of Directors. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

The following tables summarize the credit quality indicators related to the Company's loans, by class, as of December 31, 2020 and 2019:

December 31, 2020	Pass	Special Mention	Substandard	Doubtful	Totals
Commercial	$ 178,499,652	$ 314,232	$ 1,624,670	$ -	$ 180,438,554
Commercial real estate					
Non-owner occupied	142,898,748	3,337,706	-	-	146,236,454
Owner occupied	74,957,912	7,839,885	-	-	82,797,797
Construction and land	60,712,631	-	-	-	60,712,631
Consumer and other	21,426,464	-	-	-	21,426,464
Total	$ 478,495,407	$ 11,491,823	$ 1,624,670	$ -	$ 491,611,900

December 31, 2019	Pass	Special Mention	Substandard	Doubtful	Totals
Commercial	$ 125,883,780	$ 454,839	$ 589,713	$ -	$ 126,928,332
Commercial real estate					
Non-owner occupied	135,337,163	3,359,579		-	138,696,742
Owner occupied	74,100,232	1,830,382		-	75,930,614
Construction and land	43,714,478		1,450,000	-	45,164,478
Consumer and other	16,523,344	-	-	-	16,523,344
Total	$ 395,558,997	$ 5,644,800	$ 2,039,713	$ -	$ 403,243,510

As a part of the on-going monitoring of the credit quality of the Company's loan portfolio, management monitors certain credit quality indicators including trends related to risk grade classifications, concentrations, net charge-offs, non-performing loans, and general economic conditions.

NOTE 5 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The Company uses a risk grading system to assign a risk grade to each of its loans. Loans are graded on a scale of 1 to 9, with grades 1 to 5 being termed pass loans and grades 6, 7, 8, and 9 being termed special mention, substandard, doubtful, and loss, respectively. A description of the general characteristics of the nine grades is as follows:

Pass (grades 1-5) **–** These loans generally conform to the Company's underwriting criteria and evidence an acceptable level of credit risk.

Special Mention (grade 6) **–** These loans have weaknesses that require management's close attention. These weaknesses expose the Company to a sufficient degree of risk to warrant classification. If left uncorrected, these weaknesses will result in deterioration of the loan's repayment prospects or the borrower's credit position at a future date. Loans in this category are currently protected, but are potentially weak. The loans may (particularly in the short term) constitute a greater than average credit risk, but do not presently expose the Company to a sufficient degree of risk to warrant adverse classification. This is a temporary classification pending identification of improvement or deterioration in the criticized asset.

Substandard (grade 7) **–** Substandard loans are inadequately protected by the current net worth and financial capacity of the borrower or the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual loans classified substandard.
Doubtful (grade 8) **–** Loans classified doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The probability of loss is extremely high but because of certain important and reasonably specific pending factors which may work to strengthen (or weaken) the loan, its classification as an estimated loss is deferred until a more exact status may be determined. Pending factors that may necessitate a doubtful classification include bankruptcy or liquidation procedures, capital injection, or perfecting liens on additional collateral refinancing plans. The Company considers doubtful to be a temporary classification and will only classify an asset, or portion of an asset, as such when information is not available to conclude as to classification or more clearly define the potential for loss.

Loss (grade 9) **–** Assets classified loss are considered uncollectible and of such little value that their continuance as assets is not warranted. This classification does not mean that an asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off a basically worthless asset even though partial recovery may be affected in the future. Losses are taken in the period in which they are identified as uncollectible.

Bay Community Bancorp and Subsidiary
Notes to Consolidated Financial Statements

NOTE 5 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Age Analysis of Past Due Loans

The age analysis of past due loans by class as of December 31, 2020 consisted of the following:

	30-59 Days Past Due	60-89 days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 days and Accruing
Commercial	$ -	$ -	$ 428,170	$ 428,170	$180,010,384	$ 180,438,554	$ -
Commercial real estate							
Non-owner occupied	-	-	-	-	146,236,454	146,236,454	-
Owner occupied	-	-	-	-	82,797,797	82,797,797	-
Construction and land	-	-	-	-	60,712,631	60,712,631	-
Consumer and other	-	-	-	-	21,426,464	21,426,464	-
Total	$ -	$ -	$ 428,170	$ 428,170	$491,183,730	$ 491,611,900	$ -

The age analysis of past due loans by class as of December 31, 2019 consisted of the following:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial	$ -	$ -	$ 93,006	$ 93,006	$126,835,326	$ 126,928,332	$ -
Commercial real estate							
Non-owner occupied	-	-	-	-	138,696,742	138,696,742	-
Owner occupied	-	-	-	-	75,930,614	75,930,614	-
Construction and land	-	-	-	-	45,164,478	45,164,478	-
Consumer and other	-	-	-	-	16,523,344	16,523,344	-
Total	$ -	$ -	$ 93,006	$ 93,006	$403,150,504	$ 403,243,510	$ -

NOTE 5 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Information related to impaired loans by class as of December 31, 2020 and for the year then ended consisted of the following:

	Commercial	Commercial Real Estate Non-Owner Occupied	Commercial Real Estate Owner Occupied	Construction and Land	Consumer and other	Total
Recorded investment in impaired loans:						
With no specific allowance recorded	$ 159,866	$ -	$ -	$ -	$ 555,736	$ 715,602
With a specific allowance recorded	268,304	-	-	-	-	268,304
Total recorded investment in impaired loans	$ 428,170	$ -	$ -	$ -	$ 555,736	$ 983,906
Unpaid principal balance of impaired loans:						
With no specific allowance recorded	$ 263,745	$ -	$ -	$ -	$ 555,736	$ 819,481
With a specific allowance recorded	268,304	-	-	-	-	268,304
Total unpaid principal balance of impaired loans	$ 532,049	$ -	$ -	$ -	$ 555,736	$ 1,087,785
Specific allowance	$ 268,304	$ -	$ -	$ -	$ -	$ 268,304
Average recorded investment in impaired loans during the year	$ 169,203	$ -	$ -	$ -	$ 561,167	$ 730,370
Interest income recognized in impaired loans during the year	$ 103,879	$ -	$ -	$ -	$ 22,477	$ 126,356

Information related to impaired loans by class as of December 31, 2019 and for the year then ended consisted of the following:

	Commercial	Commercial Real Estate Non-Owner Occupied	Commercial Real Estate Owner Occupied	Construction and Land	Consumer and other	Total
Recorded investment in impaired loans:						
With no specific allowance recorded	$ 92,938	$ -	$ -	$ -	$ 565,879	$ 658,817
With a specific allowance recorded	68	-	-	-	-	68
Total recorded investment in impaired loans	$ 93,006	$ -	$ -	$ -	$ 565,879	$ 658,885
Unpaid principal balance of impaired loans:						
With no specific allowance recorded	$ 240,868	$ -	$ -	$ -	$ 565,879	$ 806,747
With a specific allowance recorded	194	-	-	-	-	194
Total unpaid principal balance of impaired loans	$ 241,062	$ -	$ -	$ -	$ 565,879	$ 806,941
Specific allowance	$ 68	$ -	$ -	$ -	$ -	$ 68
Average recorded investment in impaired loans during the year	$ 275,112	$ -	$ -	$ -	$ 631,619	$ 906,731
Interest income recognized in impaired loans during the year	$ 148,055	$ -	$ -	$ -	$ 65,470	$ 213,525

NOTE 5 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Non-accrual loans at December 31, 2020 and 2019 consisted only of Commercial loans, with carrying values of $428,170 and $93,006, respectively.

Changes in the allowance for loan losses, by class, for the year ended December 31, 2020 were as follows:

	Commercial	Commercial Real Estate	Construction and Land	Consumer and other	Unallocated	Total
Allowance for credit losses						
Beginning balance	$ 874,280	$ 2,143,306	$ 365,765	$ 82,150	$ 640,342	$ 4,105,843
Charge-offs	(18,068)	-	-	-	-	(18,068)
Recoveries	10,012	-	-	-	-	10,012
Provision (benefit)	690,014	656,800	473,817	(40,146)	(180,485)	1,600,000
Ending balance	$ 1,556,238	$ 2,800,106	$ 839,582	$ 42,004	$ 459,857	$ 5,697,787
Period-end amount allocated to:						
Loans individually evaluated for impairment	$ 268,304	$ -	$ -	$ -	$ -	$ 268,304
Loans collectively evaluated for impairment	1,287,934	2,800,106	839,582	42,004	459,857	5,429,483
Ending balance	$ 1,556,238	$ 2,800,106	$ 839,582	$ 42,004	$ 459,857	$ 5,697,787
Loans						
Individually evaluated for impairment	$ 428,170	$ -	$ -	$ 555,736	$ -	$ 983,906
Collectively evaluated for impairment	180,010,384	229,034,251	60,712,631	20,870,728	-	490,627,994
Ending balance	$ 180,438,554	$ 229,034,251	$ 60,712,631	$ 21,426,464	$ -	$ 491,611,900

NOTE 5 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Changes in the allowance for loan losses, by class, for the year ended December 31, 2019 were as follows:

	Commercial	Commercial Real Estate	Construction and Land	Consumer and other	Unallocated	Total
Allowance for credit losses						
Beginning balance	$ 634,295	$ 1,908,841	$ 276,769	$ 94,485	$ 485,473	$ 3,399,863
Charge-offs	(1,082)	-	-	-	-	(1,082)
Recoveries	107,062	-	-	-	-	107,062
Provision (benefit)	134,005	234,465	88,996	(12,335)	154,869	600,000
Ending balance	$ 874,280	$ 2,143,306	$ 365,765	$ 82,150	$ 640,342	$ 4,105,843
Period-end amount allocated to:						
Loans individually evaluated for impairment	$ 68	$ -	$ -	$ -	$ -	$ 68
Loans collectively evaluated for impairment	874,212	2,143,306	365,765	82,150	640,342	4,105,775
Ending balance	$ 874,280	$ 2,143,306	$ 365,765	$ 82,150	$ 640,342	$ 4,105,843
Loans						
Individually evaluated for impairment	$ 93,006	$ -	$ -	$ 565,879	$ -	$ 658,885
Collectively evaluated for impairment	126,835,326	214,627,356	45,164,478	15,957,465	-	402,584,625
Ending balance	$ 126,928,332	$ 214,627,356	$ 45,164,478	$ 16,523,344	$ -	$ 403,243,510

NOTE 5 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following table summarizes loans to customers whose loan terms were modified in troubled debt restructurings during the years ended December 31, 2020 and 2019:

	December 31, 2020		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial	1	$ 130,524	$ 130,524
	1	$ 130,524	$ 130,524

	December 31, 2019		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial	2	$ 136,931	$ 136,931
	2	$ 136,931	$ 136,931

The above loans were modified and considered troubled debt restructurings because specific interest rate concessions or payment term concessions were granted to the borrowers. The Company had no obligations to lend additional funds on the restructured loans as of December 31, 2020 and 2019.

Interest recognized for cash payments received on non-accrual loans was not significant for the years ended December 31, 2020 and 2019. At December 31, 2020 and 2019, there were no loans over 90 days past due that were still accruing interest.

There were no troubled debt restructurings in 2020 and 2019 that subsequently defaulted within twelve months.

All loans modified due to COVID-19 under the CARES Act are separately monitored, and any request for continuation of relief beyond the initial modification will be reassessed at that time to determine if a further modification should be granted and if a downgrade in risk rating is appropriate.

NOTE 6 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31, 2020	December 31, 2019
Leasehold improvements	$ 872,697	$ 430,531
Furniture, fixtures, and equipment	1,790,022	1,963,671
	2,662,719	2,394,202
Less accumulated depreciation and amortization	(890,844)	(960,560)
	$ 1,771,875	$ 1,433,642

Depreciation and amortization included in occupancy and equipment expense totaled $281,744 and $137,813 for the years ended December 31, 2020 and 2019, respectively.

NOTE 7 – LEASES

The Company leases certain facilities where it conducts its operations on a month-to-month basis. The Company has entered into term leases for its Danville, San Mateo, and Oakland locations. The Company is responsible for common area maintenance, taxes, and insurance to the extent these exceed the base year amounts. The leases expire between February 2023 and November 2026.

Right-of-use assets and lease liabilities are $2,083,670 and $2,099,124, respectively, as of December 31, 2020 and $2,701,253 and $2,701,253, respectively, as of December 31, 2019. The leases are considered operating leases and are included in other assets and other liabilities, respectively. The Company had no finance leases or short-term leases as of December 31, 2020 and 2019.

The right-of-use asset represents our right to use an underlying asset during the lease term. Operating lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and operating lease liabilities are recognized based on the present value of the remaining lease payments using a discount rate that represents our incremental borrowing rate at the date of implementation of the new accounting standard.

Our operating leases have one 5-year extension option at the then fair market value. As these extension options are not reasonably certain of exercise, they are not included in the lease term.

The minimum rental payments shown below are given for the existing lease obligations and are not a forecast of future rental expense. The Company recognized rent expense of $589,515 and $781,724 for the years ended December 31, 2020 and 2019, respectively. Rent expense is included in occupancy and equipment expense on the consolidated statements of income.

NOTE 7 – LEASES (CONTINUED)

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

	Payments
2021	$ 627,154
2022	644,836
2023	564,032
2024	265,363
2025	122,606
Thereafter	114,446
Total undiscounted lease payments	2,338,437
Less: imputed interest	(239,313)
Net lease liabilities	$ 2,099,124

Additional information regarding our operating leases is summarized below for the year ended December 31, 2020:

Cash paid for amounts included in the measurement of lease liabilities for operating leases	$ 600,727
Right-of-use assets obtained in exchange for lease liabilities	$ 2,083,670
Weighted average remaining lease term in months	43
Weighted average discount rate	2.58%

NOTE 8 – BANK SUBORDINATED DEBT

In 2020, the Company purchased a total of $9,000,000 of subordinated debt issued by four bank holding companies through private placements. The issues all have a ten-year maturity, and the issuer has the option to redeem the debt after five years, in whole or in part, on any interest payment date without premium or penalty. The interest rate is fixed during the initial five-year period, and floats in the following five-year period. The average weighted yield of the four issues during the fixed-rate period is 5.61%. The yield during the floating-rate period is indexed to the 90-day average Secured Overnight Funding Rate ("SOFR") as provided by the Federal Reserve Bank of New York, or a comparable benchmark rate if the SOFR is not available. Interest is payable in arrears on a quarterly or semi-annual basis, depending on the issue.

NOTE 8 – BANK SUBORDINATED DEBT (CONTINUED)

Certain details on the bank subordinated debt are shown in the table below:

	Book Value	Rate (%)	Maturity
Issuer #1	$ 3,000,000	6.000	2030
Issuer #2	2,000,000	5.500	2030
Issuer #3	2,000,000	5.750	2030
Issuer #4	2,000,000	5.000	2030
	$ 9,000,000	5.611	

NOTE 9 – DEPOSITS

Customer deposits consisted of the following:

	December 31, 2020	December 31, 2019
Demand	$ 206,031,544	$ 133,743,537
NOW accounts	29,607,411	22,359,302
Money market	170,386,643	157,524,835
Savings	10,166,295	4,897,963
Time, under $250,000	29,960,690	27,504,507
Time, $250,000 or more	85,099,179	53,216,985
	$ 531,251,762	$ 399,247,129

Aggregate annual maturities of time deposits are as follows:

Years Ending December 31,	
2021	$ 93,812,919
2022	8,858,295
2023	10,059,670
2024	998,356
2025	1,330,629
	$ 115,059,869

NOTE 9 – DEPOSITS (CONTINUED)

Interest expense related to interest-bearing deposits consisted of the following:

	Years Ended December 31, 2020	Years Ended December 31, 2019
NOW accounts	$ 19,849	$ 20,486
Money market	1,036,310	1,802,703
Savings	20,691	6,771
Time	1,467,744	1,512,190
	$ 2,544,594	$ 3,342,150

NOTE 10 – FHLB ADVANCES AND LINES OF CREDIT

FHLB Advances

During 2006, the Company entered into an arrangement with the FHLB under which it may borrow, on either a short-term or long-term basis, up to 25% of its assets provided that adequate collateral has been pledged. No investment securities were pledged at December 31, 2020 or 2019, respectively. Loans with an unpaid principal balance of $125,670,399 and $166,793,901 were pledged at December 31, 2020 and 2019, respectively. Collateralized borrowing capacity at the FHLB was $97,341,135 and $92,734,905 as of December 31, 2020 and 2019, respectively.

The Company utilized $45,000,000 and $16,500,000 of its collateralized borrowing capacity for Letters of Credit at December 31, 2020 and 2019, respectively, and had $37,500,000 and $34,500,000 long term outstanding borrowings from the FHLB as of December 31, 2020 and 2019, respectively. Net remaining borrowing capacity at the FHLB was $14,841,135 and $41,734,905 as of December 31, 2020 and 2019, respectively.

Annual maturities and interest rates of FHLB advances are as follows:

Years Ending December 31,	Rate (%)	Current Par ($)
2021	1.3149	$ 14,000,000
2022	2.6680	4,000,000
2023	2.0400	9,500,000
2024	2.0700	10,000,000
		$ 37,500,000

Lines of Credit

The Company has three unsecured available lines of credit totaling $16,500,000 with three of its correspondent banks. There were no borrowings outstanding under these arrangements at December 31, 2020 and 2019, respectively.

NOTE 10 – FHLB ADVANCES AND LINES OF CREDIT (CONTINUED)

Payroll Protection Program Liquidity Facility

During 2020, the Company was approved to participate in the Paycheck Protection Program Liquidity Facility ("PPPLF") by the Federal Reserve. Participants in the PPPLF may pledge PPP loans to the Federal Reserve and request term advances for liquidity purposes. Advances made under the PPPLF carry an interest rate of 0.35% and mature concurrently with the maturity or forgiveness of the underlying PPP loan. At December 31, 2020, the Company had $66,035,059 of PPP loans eligible to be pledged to the PPPLF. At December 31, 2020, the Company had pledged no loans to the PPPLF and had no advances outstanding.

NOTE 11 – INCOME TAXES

Income tax expense for the years ended December 31, 2020 and 2019, consists of the following:

	2020	2019
Current		
Federal	$ 1,272,299	$ 1,396,354
State	888,817	797,633
	2,161,116	2,193,987
Deferred		
Federal	96,880	(205,956)
State	(96,132)	(108,520)
	748	(314,476)
Income tax expense	$ 2,161,864	$ 1,879,511

Reconciliation of the provision for income tax expense based on the federal statutory income tax rate to actual income tax expense is provided as follows:

	2020		2019	
	Amount	Percent	Amount	Percent
Tax at statutory rate	$ 1,480,362	21%	$ 1,249,946	21%
State income tax	607,039	9%	528,794	9%
Change in federal tax rate	-	0%	6,750	0%
Bank owned life insurance	(25,201)	0%	(24,502)	-1%
Equity compensation	42,910	1%	49,004	1%
Other	56,754	1%	69,519	1%
	$ 2,161,864	31%	$ 1,879,511	31%

NOTE 11 – INCOME TAXES (CONTINUED)

Deferred tax assets (liabilities) are comprised of the following:

	2020	2019
Deferred tax assets		
Net operating loss carryforwards	$ 41,528	$ 56,551
Allowance for loan losses	1,591,427	1,096,285
Right-to-use lease liability	620,577	798,588
Nonaccrual loan interest	30,710	108,182
Non-qualified stock options	264,248	296,445
State income tax	188,552	150,446
Other	176,272	82,065
Total deferred tax assets	2,913,314	2,588,562
Deferred tax liabilities		
Depreciation on premises and equipment	(346,370)	(28,917)
Unrealized gains on available-for-sale investment securities	(165,160)	(42,825)
Deferred loan costs	(451,863)	(261,235)
Right-to-use lease asset	(616,008)	(798,588)
Other	(14,499)	(14,499)
	(1,593,900)	(1,146,064)
Net deferred income tax asset	$ 1,319,414	$ 1,442,498

The Company files a consolidated tax return in the U.S. federal tax jurisdiction and a combined report in the state of California tax jurisdiction.

The tax benefit of net operating losses ("NOL"), temporary differences, and credit carryforwards are recorded as an asset to the extent that management assesses that realization is "more likely than not." Realization of the future tax benefits is dependent on the Company's ability to generate sufficient taxable income within the carryforward period. During the years ended December 31, 2020 and 2019, the valuation allowance remained at $0.

The Company has usable net operating loss carryforwards of approximately $197,750 for federal tax purposes that begin to expire in 2021. The Tax Reform Act of 1986 and the California Conformity Act of 1987 imposes substantial restrictions on the utilization of net operating loss carryforwards when an "ownership change," as defined in the Internal Revenue Code, has occurred. Some of the Company's federal and state net operating losses have each been limited to usage of approximately $71,500 annually due to ownership changes.

NOTE 11 – INCOME TAXES (CONTINUED)

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits NOL carryforwards and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOL incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously-paid income taxes. The Company has evaluated the impact of the CARES Act and determined that none of the changes would result in a material income tax benefit to the Company.

On December 27, 2020, the Consolidated Appropriations Act of 2021 was signed into law and extends several provisions of the CARES Act. As of December 31, 2020, the Company has determined that neither this Act, nor changes to income tax laws or regulations in other jurisdictions, have a significant impact on our effective tax rate.

NOTE 12 – RELATED PARTY TRANSACTIONS

The Company, in the normal course of business, makes loans to and received deposits from its directors, officers, principal shareholders, and their associates. In management's opinion, these transactions are on substantially the same terms as comparable transactions with other customers of the Company.

The Company's related party loans are summarized below:

	December 31,	
	2020	2019
Aggregate amount outstanding, beginning of year	$ 4,174,458	$ 2,200,000
New loans, advances, or additions during year	2,075,000	3,886,861
Repayments during year	(3,403,197)	(1,912,403)
Aggregate amount outstanding, end of year	$ 2,846,261	$ 4,174,458
Unused loan commitments	$ 2,700,060	$ 1,400,000

Related party deposits amounted to $12,964,446 and $13,309,688 as of December 31, 2020 and 2019, respectively.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Financial Instruments with Off-Balance-Sheet Risk

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

The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and standby letters of credit as it does for loans included on the balance sheets.

At December 31, 2020 and 2019, the Company had commitments to extend credit of approximately $119,524,456 and $81,107,097, respectively. There were $400,000 and $628,300 in standby letters of credit issued at December 31, 2020 and 2019, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis.

The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, and deeds of trust on residential real estate and income-producing commercial properties.

Standby Letters of Credit

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance or financial obligation of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

Contingencies

The Company is subject to legal proceedings and claims that 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 financial position or results of operations of the Company.

NOTE 14 – NON-INTEREST INCOME AND REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company's revenue from contracts with customers within the scope of ASC 606 is recognized in non-interest income. Revenues that fall within the scope of ASC 606 include service charges and fee income and revenue from various sources included in other income. Certain non-interest income streams such as BEA awards and fees associated with SBA servicing rights are not within the scope of the new guidance.

The Company earns fees from its deposit customers for account maintenance, transaction-based activity, and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied, and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposit accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs, and the fees are recognized at the time each specific service is provided to the customer. Premiums on the sale of loans are recognized when the loan is sold, and performance obligation is complete. Other income includes income from various sources and is recognized when the performance obligation is complete.

Non-interest income consisted of the following for the years ended December 31:

	2020	2019
Gain on sale of loans	$ 317,806	$ -
Income from bank subordinated debt	224,372	-
BEA awards	202,898	245,547
Change in cash surrender value of BOLI	120,005	116,676
FHLB Dividend	99,121	101,218
Loan document and packaging fees	94,675	112,582
Service charges and fee income	79,331	203,181
SBA servicing income	72,441	91,485
Other	152,430	198,989
Total non-interest income	$ 1,363,079	$ 1,069,678

NOTE 15 – GOVERNMENT GRANT

The Company was awarded $202,898 and $245,547, respectively, in 2020 and 2019, by the United States Treasury Department in recognition of its community development activities under the Company Enterprise Award Program (the BEA). Management believes that the Company has complied, in all material aspects, with all of the covenants and requirements under the BEA agreement and that it is not, and has not been, in default with any of the terms, requirements, or minimum levels of qualified activities of such agreement.

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NOTE 16 – OTHER EXPENSES

Other expenses consisted of the following for the years ended December 31:

	2020	2019
Data processing	$ 1,280,862	$ 1,050,187
Professional fees	636,025	845,423
Loan related expenses	306,723	401,551
Regulatory assessments	241,359	154,315
Advertising	223,575	182,694
Title company deposit expenses	89,997	182,704
Insurance	85,476	81,560
Donations	46,715	69,850
Sundry losses	4,895	19,861
Other operating expenses	714,301	628,871
Total other expenses	$ 3,629,928	$ 3,617,016

NOTE 17 – EMPLOYEE BENEFIT PLANS

Defined Contribution Plan

The Company adopted a 401(k) defined contribution plan effective January 1, 1997. All employees of the Company may participate in the plan upon completion of certain eligibility requirements. The Company matches employee's contributions on a discretionary basis. The Company made contributions of $238,946 and $193,223 for the years ended December 31, 2020 and 2019, respectively.

NOTE 18 – OTHER POST-RETIREMENT BENEFIT PLANS

During 2019, the Bank established a non-qualified deferred compensation plan for directors and certain officers of the Bank. Participants in the non-qualified deferred compensation plan may elect to defer a portion of their compensation to future periods. Participants in the non-qualified plan are fully vested in contributions made and any earnings generated as a result of their contributions. At December 31, 2020 and 2019, the participants in the non-qualified plan have deferred $40,164 and $0, respectively.

During 2020, the Bank awarded an executive officer a salary continuation plan. Under the plan, the participant will be provided with a fixed annual retirement benefit for 10 years after retirement. The Bank is also responsible for certain pre-retirement death benefits under the plan. The participant vests in the benefit over a ten year period, with no vesting occurring until the completion of the fifth year of the plan. As of December 31, 2020 and 2019, a salary continuation liability of $97,420 and $0, respectively, had been accrued by the Bank. Expense recognized under these plans totaled $97,420 and $0 for the years ended December 31, 2020 and 2019, respectively.

NOTE 18 – OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

In conjunction with the salary continuation plan, the Bank has purchased various life insurance policies of which the Bank is the owner and beneficiary. The policies are designed to offset the Bank's obligations associated with the salary continuation plan. However, the cash surrender values of the various life insurance policies represent assets of the Bank and the Bank's obligations may be satisfied using the general assets of the Bank.

NOTE 19 – SHAREHOLDERS' EQUITY

Stock Issuance

In June 2019, the Company completed a private placement to accredited investors of 444,256 shares of Series A common stock resulting in proceeds to the Company, net of offering costs, of $3,308,245. No stock issuance occurred in 2020.

Dividend Restrictions

Upon declaration by the Board of Directors, all shareholders of record will be entitled to receive dividends. The California Financial Code provides that, unless the Company receives prior approval from the California Commissioner of Financial Institutions, the total amount of dividend payments a California state-chartered Company can make in any calendar year cannot exceed the lesser of: (1) the Company's retained earnings or (2) the Company's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. There were no dividends paid in 2020 or 2019.

Earnings per Share

Earnings per share (EPS) is calculated based on the weighted average common shares outstanding during the period. Basic EPS excludes dilution and is calculated by dividing net income available to common shareholders by the weighted average common shares outstanding. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

	Year Ended December 31, 2020		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS:			
Net income available to common shareholders	$ 4,887,479	8,743,954	$ 0.56
Effect of dilutive securities:			
Stock options		221,288	
Diluted EPS:			
Net income available to common shareholders plus assumed conversions	$ 4,887,479	8,965,242	$ 0.55

NOTE 19 – SHAREHOLDERS' EQUITY (CONTINUED)

	Year Ended December 31, 2019		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS:			
Net income available to common shareholders	$ 4,072,616	8,541,227	$ 0.48
Effect of dilutive securities:			
Stock options		343,486	
Diluted EPS:			
Net income available to common shareholders plus assumed conversions	$ 4,072,616	8,884,713	$ 0.46

Stock Option Plan

The Company's 2001 Stock Option Plan expired during 2011. The Company has option grants still outstanding under that Plan. During 2012, the Board of Directors and shareholders approved the adoption of the Community Bank of the Bay 2012 Stock Option Plan. The plan includes both non-statutory stock options, which may be granted to directors, employees, and consultants, and incentive stock options, which may be granted to employees. The price of non-statutory and incentive stock options may not be less than 100%, respectively, of the fair market value of the common stock on the date of the grant.

However, if an individual at the time of the grant owns stock representing more than 10% of the voting rights of all classes of the stock, then the price of the stock options may not be less than 110% of the fair market value of the common stock on the date of the grant. The term of stock options is determined by the Board of Directors, but may not exceed ten years from the date of the grant unless, in the case of an incentive stock option, an individual at the time of grant owns stock representing more than 10% of the voting rights of all classes of the stock, then the maximum term is five years. Shares of the Company's common stock reserved under this plan amounted to 1,093,627 and 1,236,572 as of December 31, 2020 and 2019, respectively.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes options-pricing model. There were no option grants in 2020. The following weighted-average assumptions were used for grants in 2019: no expected dividends; expected volatility between 52.75% and 54.87%; risk-free interest rates between 2.04% and 2.36%; and expected options term of ten years.

NOTE 19 – SHAREHOLDERS' EQUITY (CONTINUED)

The following table summarizes information about stock options outstanding at December 31, 2020:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	1,141,742	$ 4.83
Granted	-	$ -
Exercised	(76,179)	$ 3.60
Forfeited / canceled / expired	(77,300)	$ 3.93
Outstanding at end of period	988,263	$ 5.00

The following table summarizes information about stock options outstanding at December 31, 2019:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	1,195,039	$ 4.55
Granted	60,000	$ 7.50
Exercised	(82,416)	$ 3.77
Forfeited / canceled / expired	(30,881)	$ 6.61
Outstanding at end of period	1,141,742	$ 4.83

The Company recognized $357,036 and $449,357 in stock option expense for the years ended December 31, 2020 and 2019, respectively. There is approximately $582,379 and $861,978 in unrecognized compensation cost remaining as of December 31, 2020 and 2019, respectively, which is expected to be recognized over a weighted-average period of 2.42 years and 3.26 years, respectively.

The Company had 463,529 and 537,918 incentive stock options and 524,734 and 603,824 non-statutory stock options outstanding as of December 31, 2020 and 2019, respectively.

Bay Community Bancorp and Subsidiary
Notes to Consolidated Financial Statements

NOTE 19 – SHAREHOLDERS' EQUITY (CONTINUED)

A summary of options outstanding follows:

	Year Ended December 31, 2020	2019
Weighted-average fair value of options granted during the year	$ -	$ 4.91
Intrinsic value of options exercised	$ 195,723	$ 260,471
Options exercisable at year end	786,619	836,248
Weighted-average exercise price	$ 4.51	$ 4.13
Intrinsic value	$ 1,254,785	$ 2,579,792
Weighted-average remaining contractual life	4.11 Years	4.08 Years
Options outstanding at year end	988,263	1,141,742
Weighted-average exercise price	$ 5.00	$ 4.83
Intrinsic value	$ 1,275,085	$ 2,766,793
Weighted-average remaining contractual life	4.81 Years	5.22 Years

NOTE 20 – REGULATORY MATTERS

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for Prompt Corrective Action (PCA), the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of Common Equity Tier 1, Total, and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Each of these components is defined in the regulations. Management believes that the Company and the Bank met all capital adequacy requirements to which it is subject as of December 31, 2020 and 2019.

Effective January 1, 2020, the federal banking agencies jointly issued a final rule on the Community Bank Leverage Ratio ("CBLR"), which provides for an optional, simplified measure of capital adequacy for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Economic Growth Act"). Qualifying community banking organizations are defined as having less than $10 billion in total consolidated assets and that meet the following risk-based qualifying criteria: a CBLR of greater than nine (9) percent; off-balance sheet exposure of twenty-five (25) percent or less of total consolidated assets; and not an advanced-approaches institution. Such a community banking organization would not be subject to other risk-based and leverage capital requirements (including the Basel III and Basel IV requirements), and would be considered to have met the "well-capitalized" ratio requirements. The CBLR is determined by dividing a financial institution's tangible equity capital by its average total consolidated assets. The rule further describes what is included in tangible equity capital and average total consolidated assets. Qualifying banks may opt into and out of the CBLR framework at any time. While the Company is a qualifying community banking organization, it has not opted into the CBLR framework at this time.

To be categorized as well-capitalized, banks must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. The Company's and the Bank's actual capital amounts and ratios are presented in the table below:

NOTE 20 – REGULATORY MATTERS (CONTINUED)

	Actual		For Capital Adequacy Purposes		To be well Capitalized under PCA	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2020:						
Company						
Tier 1 capital (to risk-weighted assets)	$ 61,101,000	13.14%	$ 27,899,580	≥ 6.0%	N / A	N / A
Common equity Tier 1 (to risk-weighted assets)	$ 61,101,000	13.14%	$ 20,924,685	≥ 4.5%	N / A	N / A
Total risk-based capital (to risk-weighted assets)	$ 66,913,000	14.39%	$ 37,199,440	≥ 8.0%	N / A	N / A
Tier 1 capital (to average assets)	$ 61,101,000	9.31%	$ 26,258,240	≥ 4.0%	N / A	N / A
December 31, 2020:						
Bank						
Tier 1 capital (to risk-weighted assets)	$ 61,121,000	13.14%	$ 27,899,580	≥ 6.0%	$ 37,199,440	≥ 8.0%
Common equity Tier 1 (to risk-weighted assets)	$ 61,121,000	13.14%	$ 20,924,685	≥ 4.5%	$ 30,224,545	≥ 6.5%
Total risk-based capital (to risk-weighted assets)	$ 66,933,000	14.39%	$ 37,199,440	≥ 8.0%	$ 46,499,300	≥ 10.0%
Tier 1 capital (to average assets)	$ 61,121,000	9.31%	$ 26,258,240	≥ 4.0%	$ 32,822,800	≥ 5.0%
December 31, 2019:						
Bank						
Tier 1 capital (to risk-weighted assets)	$ 55,655,000	13.62%	$ 24,510,600	≥ 6.0%	$ 32,680,800	≥ 8.0%
Common equity Tier 1 (to risk-weighted assets)	$ 55,655,000	13.62%	$ 18,382,950	≥ 4.5%	$ 26,553,150	≥ 6.5%
Total risk-based capital (to risk-weighted assets)	$ 59,842,000	14.65%	$ 32,680,800	≥ 8.0%	$ 40,851,000	≥ 10.0%
Tier 1 capital (to average assets)	$ 55,655,000	11.57%	$ 19,255,160	≥ 4.0%	$ 24,068,950	≥ 5.0%

NOTE 21 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values of financial instruments are management's estimates of the values at which instruments could be exchanged in a transaction between willing parties. These estimates are subjective and may vary significantly from amounts that would be realized in actual transactions. Further, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on the fair value estimates and have not been considered in any of these estimates.

The estimated fair values of the Company's financial instruments as of December 31 are approximately as follows:

		2020		2019	
	Fair Value Hierarchy	Carrying Amounts	Estimated Fair Values	Carrying Amounts	Estimated Fair Values
Financial assets:					
Cash and cash equivalents	Level 1	$ 86,630,824	$ 86,630,824	$ 53,950,170	$ 53,950,170
Interest bearing deposits in banks	Level 2	11,845,497	11,966,176	12,057,702	12,080,830
Securities available-for-sale	Level 2	24,777,599	24,777,599	15,728,106	15,728,106
FHLB stock	Level 2	1,922,400	1,922,400	1,715,600	1,715,600
Loans, net	Level 3	484,092,200	484,140,472	398,288,627	401,435,243
Bank subordinated debt	Level 3	9,000,000	9,000,000	-	-
Interest receivable	Level 2	2,395,095	2,395,095	1,271,431	1,271,431
Financial liabilities:					
Non-maturity deposits	Level 2	416,191,893	417,100,000	318,525,637	321,159,000
Time deposits	Level 2	115,059,869	115,695,000	80,721,492	80,957,000
Secured borrowings	Level 2	37,500,000	38,458,000	34,500,000	34,861,000
Interest payable	Level 2	136,798	136,798	140,208	140,208
Off-balance-sheet liabilities:					
Undisbursed loan commitments	Level 3	1,195,245	811,071	871,445	591,346

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019. These tables indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

NOTE 21 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Description of Assets	December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities:				
Mortgage-backed securities	$ 9,604,132	$ -	$ 9,604,132	$ -
CMOs	9,864,068	-	9,864,068	-
Municipals - Taxable	3,282,000	-	3,282,000	-
Municipals - Exempt	2,027,399	-	2,027,399	-
Total	$ 24,777,599	$ -	$ 24,777,599	$ -

Description of Assets	December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities:				
Mortgage-backed securities	$ 9,538,610	$ -	$ 9,538,610	$ -
CMOs	6,189,496	-	6,189,496	-
Total	$ 15,728,106	$ -	$ 15,728,106	$ -

Transfers between levels in the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally corresponds to the Company's quarterly valuation process.

Fair value measurements for impaired loans are based on either collateral values supported by appraisals or observed market prices. Any loss recognized on impaired loans is not recorded directly as an adjustment to current earnings but rather as an adjustment component in determining the overall adequacy of the allowance for loan losses. Such adjustments to the estimated fair value of impaired loans may result in increases or decreases to the provision for loan losses recorded in current earnings. The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Cash and Cash Equivalents

For short-term instruments, including cash and due from banks, the carrying amount is a reasonable estimate of fair value.

NOTE 21 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Interest-Bearing Deposits in Banks

Represents time deposits held at other financial institutions. The fair values are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities.

Securities

Fair values for investment securities are based on quoted market prices when available or through the use of alternative approaches, such as a matrix or model pricing, when market quotes are not readily accessible or available.

FHLB Stock and Other Investments

For FHLB stock and other investments, the carrying amount is a reasonable estimate of fair value.

Loans

For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for fixed rate loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying amount of interest receivable approximates its fair value. The Company's allowance for loan and lease losses is a reasonable estimate of the valuation allowance needed to adjust computed fair values for the quality of certain loans in the portfolio.

Interest Receivable and Payable

For interest receivable and payable, the carrying amount is estimated to be the fair value.

Impaired Loans

The Company utilizes current appraisals and applies discount factors estimated and modeled for consistency by management to arrive at the estimate of fair value for all collateral dependent loans.

Deposit Liabilities

The fair values disclosed for non-maturity deposits (e.g., interest and non-interest checking, statement savings, and money market accounts) are, by definition, equal to the amount payable at the reporting date (i.e., their carrying amounts). The fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. The carrying amount of interest payable approximates its fair value.

NOTE 21 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

FHLB Borrowings

The fair value of the borrowings is calculated based on the discounted value of the contractual cash flows using current rates at which such borrowings can currently be obtained.

Commitments to Extend Credit

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and other information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument.

NOTE 22 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS

The following are the condensed financial statements of Bay Community Bancorp and should be read in conjunction with the consolidated financial statements.

BAY COMMUNITY BANCORP – (PARENT ONLY)
BALANCE SHEETS

ASSETS

	DECEMBER 31, 2020
ASSETS:	
Cash and cash equivalents	$ -
Investment in bank subsidiary	61,782,216
Interest receivable and other assets	20,149
Total assets	$ 61,802,365

LIABILITIES AND SHAREHOLDER'S EQUITY

LIABILITIES:	
Accounts Payable	$ 5,278
Accrued Expenses	50,000
Total liabilities	55,278
SHAREHOLDER'S EQUITY	61,747,087
Total liabilities and shareholder's equity	$ 61,802,365

NOTE 22 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS (CONTINUED)

BAY COMMUNITY BANCORP – (PARENT ONLY)
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	YEAR ENDED DECEMBER 3 2020
INCOME:	
Interest income	$ -
Other income	-
Total income	-
EXPENSE:	
General and administrative	85,029
Loss before income taxes and equity in undistributed income of subsidiary	(85,029)
Income tax benefit	20,149
Equity in net earnings of subsidiary	4,952,359
NET INCOME	$ 4,887,479
OTHER COMPREHENSIVE INCOME, NET OF TAX:	
Other comprehensive earnings	-
TOTAL COMPREHENSIVE INCOME	$ 4,887,479

NOTE 22 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS (CONTINUED)

BAY COMMUNITY BANCORP – (PARENT ONLY)
STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31 2020
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 4,887,479
Equity in income of subsidiary	(4,952,359)
Stock option expense	29,750
Net change in other assets and liabilities	35,130
Net cash (used in) provided by operating activities	-
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment in bank subsidiary	(56,829,857)
Net cash provided by (used in) investing activities	(56,829,857)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from exchange of stock	56,829,857
Net cash (used in) provided by financing activities	56,829,857
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	-
CASH AND CASH EQUIVALENTS, beginning of year	-
CASH AND CASH EQUIVALENTS, end of year	$ -

NOTE 23 – SUBSEQUENT EVENTS

The Company has evaluated the effects of subsequent events that have occurred after the period ending December 31, 2020 and through March 31, 2021, which is the date the consolidated financial statements were available to be issued.

"We had been at one of the BIG banks for years. No faces, nothing personal... no service. Switched to CBB and could not be more confident in having an ally in Banking and Financial Services."

- Marty Breen
Forward Motion Sports

"As a small growing business we struggled with the big banks. Wil Hobbs and the CBB team not only took care of our banking needs, but also helped guide us as we've grown. We wouldn't be where we are today without their support."

- Dennis King
SchoolFoodies

"What I like about CBB is the personal touch. I love being able to pick up the phone or send a quick email to get things done quick. With other banks I'm interfacing with a robot or somebody in a far off land, trying to explain my situation and being made to feel like a criminal instead of a valued customer."

- Ron Elgvidge
IRBS Corporation

"Many Banks advertise being a relationship bank, and friend of the "small and medium-sized businesses" (SMB). However, Community Bank of the Bay is the "real deal". CBB delivers results, by truly learning its customers' businesses, while understanding there is no "cookie-cutter" loan or solution for every business. Small Bank with big resources and solutions."

- Charles Hill
LSH Investments/Top-of-the-Hill

Community Bank of the Bay
Different. On Purpose.

"Community Bank of the Bay is hands down the best business banking partner I have ever worked with."

- Charles Hoage
ServiceMaster Recovery Management

"The Bank understands our business model and they are supportive of our growth providing the necessary facilities in meeting our goals. The top management are competent, responsive and give us the personal service."

- Ted Jacob
Ted Jacob Engineering Group

"Community Bank of the Bay is true to its name. Unlike the majors, it understands the needs of the community and then goes out of its way to fulfill them."

- David Bowie
Bowie & Schaffer, Attorneys at Law

"I had always worked with several large national banks previously both with my business and personal accounts, and since shifting over to CBB several years ago I have been very surprised at how much easier, and more convenient and personal, banking can be."

- John Nady
Nady Systems Inc

BANKING FOR A BETTER FUTURE

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