United Security Bancshares

Your Community Bank of Choice

Notice of Annual Meeting | 2022 Proxy Statement | 2021 Annual Report

UNITED SECURITY BANCSHARES

Corporate Profile

Headquartered in Fresno, California, United Security Bancshares was formed in 2001 as a bank holding company to provide commercial banking services through its wholly owned subsidiary, United Security Bank. Founded in 1987, United Security Bank is a state-chartered community bank, which operates twelve full-service branches, construction, and commercial and consumer lending operations, in Fresno, Madera, Kern, and Santa Clara counties. United Security is a customer-oriented financial institution engaged in providing a wide range of competitively priced commercial banking services primarily to the business community and individuals located in the central and southern San Joaquin Valley, as well as the Campbell area in Santa Clara County.

At United Security Bancshares, we are committed to improving shareholder value and delivering the highest quality products and services while being responsive to the changing needs of our customers and business markets. Our primary business strategy is to increase market share in the local communities we serve, as well as to expand into new markets when sound business opportunities present themselves.

United Security Bancshares' common stock is traded on NASDAQ under the symbol "UBFO". For more information, please visit us at www.unitedsecuritybank.com.

Mission

To provide a truly superior customer service experience by:

- supporting and enhancing the communities we serve
- providing relevant products and services to the Company's customers
- attracting, developing, and retaining superior team members

United Security Bank

2126 Inyo Street
Fresno, California 93721

April 7, 2022

To Our Shareholders:

You are cordially invited to attend the Annual Meeting of Shareholders of United Security Bancshares. It will be held at **6:00 p.m. Pacific Time on Wednesday, May 18, 2022, at United Security Bancshares, 2126 Inyo Street, Fresno, California and via a virtual meeting** as stated in the formal notice accompanying this letter. We hope you will plan to attend.

At the Annual Meeting, the shareholders will be asked to (i) elect eleven directors; (ii) ratify the selection of the independent auditor; (iii) approve a non-binding advisory vote on the compensation of our named executive officers; (iii) select a frequency for the non-binding advisory vote on the compensation of our named executive officers; and (iv) conduct other business that may properly come before the Annual Meeting.

In order to ensure your shares are voted at the Annual Meeting, you can vote through the internet, by telephone or by mail. Instructions regarding internet and telephone voting are included on the Proxy Card. If you elect to vote by mail, please sign, date and return the Proxy Card in the accompanying postage-paid envelope. The Proxy Statement explains more about voting in the section titled "Information About the Annual Meeting and Voting."

We look forward to seeing you at the Annual Meeting.

Sincerely,

Dennis Woods
Chairman of the Board, President
and Chief Executive Officer

UNITED SECURITY BANCSHARES

NOTICE OF 2022 ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD WEDNESDAY, MAY 18, 2022 - 6:00 p.m.

TO THE SHAREHOLDERS OF UNITED SECURITY BANCSHARES:

The 2022 Annual Meeting of Shareholders (the "Meeting") of United Security Bancshares (the "Company") will be held at the Company's corporate office at 2126 Inyo Street, Fresno, California 93721, and via a virtual meeting through the Internet at 6:00 p.m., Pacific Daylight Time (PDT), on Wednesday, May 18, 2022. To access the virtual meeting, visit register.proxypush.com/UBFO and register using the control/identification number located in the upper right hand corner on the reverse side of the proxy card. After registering, an email confirmation with a unique link to the virtual meeting will be sent to the email address provided during registration. To support the health and well-being of our shareholders, this year's Meeting will include a virtual meeting format in addition to the in person meeting. We have designed our virtual format to enhance, rather than constrain, shareholder access, participation and communication.

You will be able to participate in the Meeting online and submit your questions during the meeting by visiting the unique link provided in the email confirmation received after registering at register.proxypush.com/UBFO (the "Webcast"). You will also need to provide an unrevoked consent to use the Internet as a means of electronic transmission in order to virtually attend and participate in the Meeting (the "Shareholder Consent"). To provide the Shareholder Consent, you will need to go to the unique link provided in the confirmation e-mail after registering and read the Shareholder Consent language.. If you are a beneficial owner of shares registered in the name of a broker, bank or other nominee, you will also need to provide the registered name on your account and the name of your broker, bank or other nominee as part of the registration process. On the day of the Meeting, May 18, 2022, shareholders may begin to log in to the Meeting at 5:45 p.m. PDT. The Meeting will begin promptly at 6:00 p.m. PDT.

At the Meeting, you will be asked to consider and vote on the following matters:

(1) Electing the following eleven (11) persons to the Board of Directors to serve until the 2023 Annual Meeting of Shareholders and until their successors are elected and have qualified:

Stanley J. Cavalla	Nabeel Mahmood	Dora Westerlund
Tom Ellithorpe	Kenneth D. Newby	Dennis R. Woods
Heather Hammack	Susan Quigley	Michael T. Woolf, D.D.S.
Benjamin Mackovak	Brian Tkacz	

(2) Ratifying the selection of Moss Adams LLP to serve as the independent registered public accounting firm for the Company for 2022.

(3) A non-binding advisory vote to approve the executive compensation of our named executive officers.

(4) A non-binding advisory vote to recommend the frequency for the non-binding advisory vote on compensation of our named executive officers.

(5) Transacting such other business as may properly come before the Meeting and any adjournments or postponements thereof.

If you were a shareholder of record on March 21, 2022, you may participate in and vote at the Meeting.

Article III, Section 3.3 of our Bylaws provides for the nomination of directors in the following manner:

> ***Section 3.3. Nominations of Directors****. Nominations for election of members of the board may be made by the board or by any holder of any outstanding class of capital stock of the corporation entitled to vote for the election of directors. Notice of intention to make any nominations (other than for persons named in the notice of the meeting called for the election of directors) shall be made in writing and shall be delivered or mailed to the president of the corporation by the later of: (i) the close of business twenty-one (21) days prior to any meeting of shareholders called for the election of directors; or (ii) ten (10) days after the date of mailing of*

notice of the meeting to shareholders. Such notification shall contain the following information to the extent known to the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the number of shares of capital stock of the corporation owned by each proposed nominee; (d) the name and residence address of the notifying shareholder; (e) the number of shares of capital stock of the corporation owned by the notifying shareholder; (f) the number of shares of capital stock of any bank, bank holding company, savings and loan association or other depository institution owned beneficially by the nominee or by the notifying shareholder and the identities and locations of any such institutions; and (g) whether the proposed nominee has ever been convicted of or pleaded nolo contendere to any criminal offense involving dishonesty or breach of trust, filed a petition in bankruptcy or been adjudged bankrupt. The notification shall be signed by the nominating shareholder and by each nominee, and shall be accompanied by a written consent to be named as a nominee for election as a director from each proposed nominee. Nominations not made in accordance with these procedures shall be disregarded by the chairperson of the meeting, and upon his or her instructions, the inspectors of election shall disregard all votes cast for each such nominee. The foregoing requirements do not apply to the nomination of a person to replace a proposed nominee who has become unable to serve as a director between the last day for giving notice in accordance with this paragraph and the date of election of directors if the procedure called for in this paragraph was followed with respect to the nomination of the proposed nominee.

We urge you to sign and return the enclosed proxy as promptly as possible whether or not you plan to attend the Meeting in person or via virtual webcast. If you do attend the Meeting, you may withdraw your proxy. The proxy may be revoked at any time prior to its exercise.

Live questions may be submitted online during the Meeting, at one or more designated times. We reserve the right to edit or reject all questions we deem profane or otherwise inappropriate.

Dated: April 7, 2022

By Order of the Board of Directors

Susan Quigley

Susan Quigley, Secretary

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 18, 2022

The proxy materials are being distributed to our shareholders on or about April 7, 2022, and include our Annual Report to Shareholders on Form 10-K (the "Annual Report"), Notice of Annual Meeting, this proxy statement, and proxy or voting instruction card. If you wish to receive additional copies of the proxy materials, please call (888) 683-6030 (toll free), or write to us at United Security Bancshares, 2126 Inyo Street, Fresno, California 93721, Attn: Ms. Bhavneet Gill or by email at bgill@unitedsecuritybank.com. This Proxy Statement and Annual Report are also available on the Company's website at http://investors.unitedsecuritybank.com/sec-filings.

United Security Bancshares

2126 Inyo Street
Fresno, California 93721
Phone: (888) 683-6030

Proxy Statement
2022 Annual Meeting of Shareholders
To be Held Wednesday, May 18, 2022
6:00 p.m.

Introduction

This Proxy Statement is furnished in connection with the solicitation of proxies for use at the 2022 Annual Meeting of Shareholders (the "Meeting") of United Security Bancshares (the "Company") to be held at the Company's corporate office at 2126 Inyo Street, Fresno, California 93721, and via a virtual webcast, on Wednesday, May 18, 2022, at 6:00 p.m. (PDT), and at any and all postponements or adjournments thereof. This year's Meeting will include a virtual meeting format in addition to the in person meeting. You will be able to participate in the Meeting online and submit your questions during the meeting by visiting the unique link provided in the email confirmation received after registering at register.proxypush.com/UBFO (the "Webcast").

It is anticipated that this Proxy Statement and the accompanying Notice of Annual Meeting and form of proxy card will be mailed on or about April 7, 2022, to shareholders eligible to receive notice of, and to vote at, the Meeting.

The matters to be considered and voted upon at the Meeting will be:

(1) Election of Directors. Electing the following eleven (11) persons to the Board of Directors to serve until the 2023 Annual Meeting of Shareholders and until their successors are elected and have qualified:

Stanley J. Cavalla	Nabeel Mahmood	Dora Westerlund
Tom Ellithorpe	Kenneth D. Newby	Dennis R. Woods
Heather Hammack	Susan Quigley	Michael T. Woolf, D.D.S.
Benjamin Mackovak	Brian Tkacz	

(2) Ratification of Selection of Accountants. Ratification of the selection of Moss Adams LLP to serve as the independent registered public accounting firm for the Company for 2022.

(3) "Say on Pay" Proposal. Approval of a non-binding advisory vote on executive compensation of our named executive officers.

(4) Frequency of "Say on Pay" Voting. Approval of a non-binding advisory vote to recommend the frequency for the non-binding advisory vote on compensation of our named executive officers.

(5) Other Business. Such other business as may properly come before the Meeting and any adjournments or postponements thereof.

If you were a shareholder of record at the close of business on March 21, 2022, you may vote at the Meeting.

Other than the matters set forth on the attached 2022 Notice of Annual Meeting of Shareholders, as of the date of this Proxy Statement, the Board of Directors knows of no additional matters that will be presented for consideration at the Meeting. Execution of a proxy, however, confers to each of Dennis Woods, Bhavneet Gill, and Robert Oberg, as the designated proxy holders, discretionary authority to vote the shares in accordance with the recommendations of the Board on such other business, if any, which may properly come before the Meeting and at any adjournments or postponements thereof, including whether or not to adjourn the Meeting.

INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

Why did you send me this Proxy Statement?

We sent you this Proxy Statement and the enclosed proxy card because our Board of Directors is soliciting your proxy to vote at the Meeting. This Proxy Statement summarizes the information you need to know to cast an informed vote at the Meeting. However, you do not need to attend the Meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card. You may also vote electronically by telephone or the Internet by following the instructions on the proxy card.

Along with this Proxy Statement, we have sent you the Company's 2021 Annual Report to Shareholders, which includes our Annual Report on Form 10-K. The 2021 Annual Report to Shareholders is also available on our website at http://investors.unitedsecuritybank.com/FinancialDocs. United Security Bancshares is referred to in this Proxy Statement as the "Company." The Company's wholly-owned bank subsidiary, United Security Bank, is referred to in this Proxy Statement as the "Bank."

How will our Annual Meeting be held?

This year's Meeting will be in person at our corporate office at 2126 Inyo Street, Fresno, California 93721, and by a virtual meeting format, which will be conducted online via the live Webcast. You are entitled to participate in the Meeting if you owned shares of our common stock as of the close of business on March 21, 2022.

You will be able to participate in the Meeting online and submit your questions during the meeting by visiting the unique link provided in the email confirmation received after registering at register.proxypush.com/UBFO. If you own shares as a "Registered Holder," rather than through a broker, you will need the 11-digit control/identification number included on your proxy card to register for the Meeting. If you are a beneficial owner of shares registered in the name of a broker, bank or other nominee, you will also need to provide the registered name on your account and the name of your broker, bank or other nominee as part of the registration process.

In order to attend and participate in the Meeting online through the Webcast, you will also have to provide your express Shareholder Consent to the use of the Webcast as a means of electronic transmission for communications at the Meeting. To provide the Shareholder Consent, you will need to go to the unique link provided in the confirmation e-mail after registering and read the Shareholder Consent language.

The Meeting Webcast will begin promptly at 6:00 p.m. PDT on May 18, 2022. Online access will begin at 5:45 p.m. PDT, and we encourage you to access the Meeting prior to the start time. Live questions may be submitted online during the Meeting, at one or more designated times. We reserve the right to edit or reject all questions we deem profane or otherwise inappropriate.

Even if you plan to participate in the Meeting online, we recommend that you also vote by proxy as described in the proxy statement on page 3 as described further in "*How do I vote by proxy?*" so that your vote will be counted if you later decide not to participate in the Annual Meeting.

Who is entitled to vote?

We will begin sending this Proxy Statement, the attached 2022 Notice of Annual Meeting and the enclosed proxy card on or about April 7, 2022 to all shareholders entitled to vote. Shareholders who were the record owners of the Company's no par value common stock (the "Common Stock") at the close of business on March 21, 2022 are entitled to vote. On this record date, there were 17,034,317 shares of the Company's Common Stock issued and outstanding and entitled to vote. Our Common Stock is our only class of outstanding capital stock.

What is the difference between a shareholder of record and a "street name" holder?

If your shares are registered directly in your name, you are considered the shareholder of record with respect to those shares.

If your shares are held in a stock brokerage account or by a trust company, trust or other nominee, then the broker, trust company, or other nominee is considered to be the shareholder of record with respect to those shares. However, you are still considered the beneficial owner of those shares and your shares are said to be held in "street name." Street name holders generally cannot vote their shares directly and must instead instruct the broker, trust company, or other nominee how to vote their shares using the voting instruction form provided by it. If you hold your shares in street name and do not provide voting instructions, your broker, trust company, or other nominee has discretionary authority to vote your shares on the ratification of the selection of Moss Adams LLP as our independent auditor for the fiscal year ending December 31, 2021, even in the absence of your specific voting instruction. Those shares will also be counted as present at the Meeting for purposes of determining a quorum. However, in the absence of your specific instructions as to how to vote, your broker, trust company, or other nominee does not have discretionary authority to vote on the election of directors or any other proposals that may properly come before the Meeting.

What constitutes a quorum?

A quorum of shareholders is necessary to hold a valid meeting. The presence at the Meeting in person or by proxy of the holders of a majority of the outstanding shares of Common Stock entitled to vote shall constitute a quorum for the transaction of business. Proxies marked as abstaining (including proxies containing broker non-votes) on any matter to be acted upon by shareholders will be treated as present at the Meeting for purposes of determining a quorum but will not be counted as votes cast on such matters. If there is no quorum, a majority of the shares represented at the Meeting may adjourn the Meeting to another date.

How many votes do I have?

Holders of Common Stock are entitled to one vote, in person or by proxy, for each share of Common Stock held in his or her name on the books of the Company as of the record date for the Meeting on any matter submitted to the vote of the shareholders, except that in connection with the election of directors, the shares are entitled to be voted cumulatively. Cumulative voting entitles a shareholder to give one nominee as many votes as is equal to the number of directors to be elected multiplied by the number of shares owned by such shareholder, or to distribute his or her votes on the same principle between two or more nominees as he or she deems appropriate. The eleven (11) nominees receiving the highest number of votes will be elected.

Pursuant to California law, no shareholder may cumulate votes for a nominee unless the name of the nominee has been placed in nomination prior to the voting and the shareholder has given notice at the Meeting prior to the voting of the shareholder's intention to cumulate. If any shareholder gives notice, all shareholders may cumulate their votes.

The proxy holders designated in the enclosed proxy card do not, at this time, intend to cumulate votes pursuant to the proxies solicited in this Proxy Statement unless another shareholder gives notice to cumulate, in which case, the proxy holders may cumulate votes in accordance with the recommendations of the Board of Directors. Therefore, discretionary authority to cumulate votes in such event is solicited in this Proxy Statement.

How do I vote by proxy?

Whether or not you plan to attend the Meeting, we urge you to complete, sign and date the enclosed proxy card and to return it promptly in the envelope provided. Returning the proxy card will not affect your right to participate in the Meeting and vote. You may also vote over the Internet or by telephone. Instructions for all voting can be found on the back of the proxy card included with this Proxy Statement.

If you properly fill in your proxy card and send it to us in time to vote, or vote by Internet or telephone, your "proxy holders" (the individuals named on your proxy card) will vote your shares as you have directed. If you sign the proxy card but do not make specific choices, your proxy holders will vote your shares as recommended by the Board of Directors as follows:

- "FOR" the election of all eleven (11) nominees for director;
- "FOR" ratification of the selection of Moss Adams LLP as the Company's independent registered public accounting firm for 2022;
- "FOR" approval of the compensation paid to the Company's named executive officers; and
- Recommending a frequency of "3 YEARS" for the shareholder non-binding advisory vote on compensation of the Company's named executive officers.

For the election of directors (Proposal 1), a shareholder may withhold authority for the proxy holders to vote for any one or more of the nominees by marking the enclosed proxy card in the manner instructed on the proxy card. Unless authority to vote for the nominees is so withheld, the proxy holders will vote the proxies received by them for the election of the nominees listed on the proxy card as directors of the Company. Your proxy holders do not have an obligation to vote for nominees not identified on the preprinted proxy card (that is, write-in nominees). Should any shareholder attempt to "write in" a vote for a nominee not identified on the preprinted card (and described in these proxy materials), your proxy holders will NOT vote the shares represented by your proxy card for any such write-in nominee, but will instead vote the shares for any and all other indicated nominees. If any of the nominees should be unable or decline to serve, which is not now anticipated, your proxy holders will have discretionary authority to vote for a substitute who shall be designated by the present Board of Directors to fill the vacancy. In the event that additional persons are nominated for election as directors, your proxy holders intend to vote all of the proxies in such a manner, in accordance with the cumulative voting, as will assure the election of as many of the nominees identified on the proxy card as possible. In such event, the specific nominees to be voted for will be determined by the proxy holders, in their sole discretion.

If any other matter is presented (including but not limited to a motion for adjournment or postponement of the Meeting), your proxy holders will vote in accordance with the recommendation of the Board of Directors, or, if no recommendation is given, in accordance with his or her best judgment. At the time this Proxy Statement went to press, we knew of no matters which needed to be acted on at the Meeting, other than those discussed in this Proxy Statement.

What vote is required to approve each proposal, and what is the effect of withholding authority to vote, broker non-votes and abstentions?

The eleven (11) nominees for director who receive the most votes will be elected. Broker non-votes and abstentions will not be counted, except for quorum purposes, and will have no effect on the election of directors. If you indicate "WITHHELD" for a particular nominee on your proxy card, your vote will not count either for or against the nominee. Approval for Proposal 2 (ratification of the appointment of Moss Adams LLP) requires the affirmative vote of: (i) a majority of the votes represented in person or by proxy and voting at the Meeting; and (ii) a majority of the shares required to constitute a quorum.

If you hold your shares of Common Stock in "street name" (that is, through a broker or other nominee) you must vote your shares through your broker. You should receive a form from your broker asking how you want to vote your shares. Follow the instructions on that form to give voting instructions to your broker. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on routine, but not on non-routine, matters. If you fail to instruct your broker or nominee as to how to vote your shares of Common Stock, your broker or nominee may, in their discretion, vote your shares "FOR" ratification of the appointment of Moss Adams LLP as our independent registered public accounting firm for the year ending December 31, 2021, which is considered a routine matter. HOWEVER, YOUR BROKER MAY NOT VOTE YOUR SHARES "FOR" the election of the nominees for director without your specific direction or "FOR" Proposal 3 (the "Say on Pay" proposal), or, on Proposal 4, to recommend a frequency for the shareholder non-binding advisory vote on compensation. A "broker non-vote" occurs when your broker does not vote on a particular proposal because the broker does not receive instructions from the beneficial owner and does not have discretionary voting authority. It is VERY IMPORTANT that you return the instructions to your broker or nominee. Therefore, if you wish to be represented you must vote by completing the information which is sent to you by your broker or nominee.

Assuming a quorum has been established at the Meeting, California law requires the affirmative vote of a majority of the shares represented and voting at the Meeting to adopt a proposal (other than the election of directors), unless the vote of a greater number is required by law or by our Articles of Incorporation. Abstentions and broker non-votes are not treated as shares voting on any proposal. Therefore, abstentions and broker non-votes will have the same effect as votes cast AGAINST the proposal to ratify our independent registered public accounting firm. That is, abstentions and broker non-votes will reduce the number of affirmative votes and therefore reduce the total percentage of votes the proposal might otherwise have received.

How do I vote in person?

If you plan to attend the Meeting and vote in person, we will give you a ballot form when you arrive. However, we strongly recommend that you return the proxy card rather than vote in person as this will expedite the vote counting process at the Meeting. **Please note that if your shares are held in the name of your broker, company, or other nominee, you must bring a *Power of Attorney* from your nominee in order to vote at the Meeting. If your shares are held in street name, you will not be able to vote at the Meeting without the Power of Attorney form.**

May I vote telephonically or electronically over the Internet?

Shareholders whose shares are registered in their own names may vote either by mail, by telephone or over the Internet. Special instructions to be followed by any registered shareholder interested in voting via the Internet or telephone are set forth on the reverse of your proxy card. The Internet and telephone voting procedures are designed to authenticate the shareholder's identity and to allow shareholders to vote their shares and confirm that their voting instructions have been properly recorded.

May I change my vote after I return my proxy?

A form of proxy for use at the Meeting is enclosed. If it is executed and returned it may nevertheless be revoked at any time before it is exercised by: (i) filing with the Secretary of the Company, Susan Quigley, an instrument revoking it or a duly executed proxy bearing a later date; (ii) appearing and voting in person at the Meeting; or (iii) if you have voted your shares by Internet or telephone, recording a different vote, or by signing and returning a proxy card dated as of a date that is later than your last Internet or telephone vote. Subject to such revocation, shares represented by a properly executed proxy received in time for the Meeting will be voted by the proxy holders thereof in accordance with the instructions on the proxy. **If no instruction is specified with respect to a matter to be acted upon, the shares represented by the proxy will be voted in favor of the election of all eleven (11) nominees to the Board of Directors and "FOR" Proposals 2 and 3, and in favor of "3 YEARS" for Proposal 4. If any other business is properly presented at the Meeting, the proxy will be voted in accordance with the recommendations of the Company's Board of Directors.**

How may I obtain a separate set of proxy materials or Annual Report to Shareholders?

If you share an address with another shareholder, you may receive only one Annual Report to Shareholders and one set of proxy materials unless you have provided contrary instructions. If you wish to receive a separate Annual Report to Shareholders or a separate set of proxy materials now or in the future, please request the additional copies by calling (888) 683-6030 (toll free); by writing to us at United Security Bancshares, 2126 Inyo Street, Fresno, California 93721, Attn: Ms. Bhavneet Gill, or by email at bgill@unitedsecuritybank.com. We undertake to provide any additional copies requested promptly.

What should I do if I receive more than one set of proxy materials?

Similarly, if you share an address with another shareholder and have received multiple copies of our Annual Report to Shareholders or proxy materials, you may contact us in the same manner or write us at the address set forth above in the previous question to request delivery of a single copy of these materials.

Why may I receive multiple voting instruction forms and/or proxy cards?

If you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a shareholder of record and your shares are registered in more than one name, you will receive more than one proxy card. In each case, please complete, sign, date and return each proxy card and voting instruction form that you receive.

Who is making the solicitation?

This solicitation of proxies is being made by the Board of Directors of the Company. The expense of preparing, assembling, printing and mailing this Proxy Statement and the materials used in the solicitation of proxies for the Meeting will be borne by the Company. The Company does not anticipate this to be a material amount. It is contemplated that proxies will be solicited principally through the use of the mail, but officers, directors and employees of the Company may solicit proxies personally or by telephone, without receiving special compensation for such activities. Although there is no formal agreement to do so, the Company may reimburse companies, brokerage houses and other custodians, nominees and fiduciaries for their reasonable expenses in forwarding these proxy materials to shareholders whose stock in the Company is held of record by such entities.

IMPORTANT NOTICE REGARDING THE INTERNET AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 18, 2022

The Proxy Statement and the Annual Report on Form 10-K are available on the Internet
http://investors.unitedsecuritybank.com/sec-filings

VOTING SECURITIES

There were issued and outstanding 17,034,317 shares of the Company’s Common Stock on March 21, 2022, which has been fixed as the record date for the purpose of determining shareholders entitled to notice of, and to vote at, the Meeting. Each holder of Common Stock will be entitled to one vote, in person or by proxy, for each share of Common Stock held of record on the books of the Company as of the record date for the Meeting on any matter submitted to the vote of the shareholders, except, that in connection with the election of directors, the shares may be voted cumulatively if a shareholder present at the Meeting has given notice at the Meeting, prior to the voting, of his or her intention to vote cumulatively. If any shareholder has given such notice, then all shareholders entitled to vote for the election of directors may cumulate their votes. Cumulative voting means that a shareholder has the right to vote the number of shares he or she owns as of the record date, multiplied by the number of directors to be elected. This total number of votes may be cast for one nominee or it may be distributed on the same principle among as many nominees as the shareholder sees fit. If cumulative voting is declared at the Meeting, votes represented by proxies delivered pursuant to this Proxy Statement may be cumulated in the discretion of the proxy holders, in accordance with the recommendations of the Company’s Board of Directors.

A majority of the outstanding shares of Common Stock, represented in person or by proxy, is required for a quorum. Nominees receiving the most votes, up to the number of directors to be elected, are elected as directors for the ensuing year. The affirmative vote of at least a majority of the shares of Common Stock represented in person or by proxy and voting at the Meeting is required to approve Proposal 2 (ratification of the selection of Moss Adams LLP as the Company’s independent registered public accounting firm for 2022), to approve Proposal 3 (the "Say on Pay" proposal), and, on Proposal 4, to recommend a frequency for the shareholder non-binding advisory vote on compensation.

If you hold Common Stock in “street name” and you fail to instruct your broker or nominee as to how to vote such Common Stock, your broker or nominee may, in its discretion, vote such Common Stock “FOR” ratification of the selection of Moss Adams LLP as the independent registered public accounting firm and auditors of the Company for 2022, but CANNOT vote "FOR" the election of directors, or "FOR" Proposal 3, or on Proposal 4 to recommend a frequency unless you instruct them as to your vote. IT IS EXTREMELY IMPORTANT THAT YOU VOTE BY RETURNING YOUR PROXY CARD BY MAIL, OR VOTE BY USING THE INTERNET OR TELEPHONE.

Participating in the Meeting by Electronic Transmission Via the Webcast

To provide our shareholders with the ability to safely attend and participate in the Meeting, in addition to holding our Meeting in person at our corporate office, we are providing an online format for our shareholders to attend and participate virtually through the live Webcast.

Only shareholders of record as of March 21, 2022, who have provided an unrevoked Shareholder Consent to use the online Webcast will be permitted to attend and participate in the Meeting virtually. To provide the Shareholder Consent the shareholder should go to the unique link provided in the email confirmation received after registering at register.proxypush.com/UBFO after reading the Consent language on the Registration page. The Shareholder Consent applies only to the shareholder’s attendance and participation in the Meeting by the Webcast.

A record of the meeting that is capable of retention, retrieval, review, and that may be rendered in clearly legible tangible form will be made. ALL SHAREHOLDERS WHO PARTICIPATE IN THE MEETING VIA THE INTERNET SHALL HAVE THE RIGHT TO A RECORD OF THE MEETING PROVIDED OR MADE AVAILABLE ON PAPER OR IN NON-ELECTRONIC, IF A REQUEST, IN WRITING, BY THE SHAREHOLDER IS DELIVERED TO US AT UNITED SECURITY BANCSHARES, 2126 INYO STREET, FRESNO, CALIFORNIA 93721, ATTN: MS. BHAVNEET GILL OR BY EMAIL AT BGILL@UNITEDSECURITYBANK.COM.

SHAREHOLDINGS OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Management knows of no person who owns, beneficially or of record, either individually or together with associates, five percent (5%) or more of the outstanding shares of the Company’s Common Stock, except as set forth in the table below. The following table sets forth, as of March 1, 2022, the number and percentage of shares of the Company’s outstanding Common Stock beneficially owned, directly or indirectly, by each the Company’s directors and nominees, Named Executive Officers (as defined below), principal shareholders, and by the directors and executive officers of the Company as a group. As used herein, the terms “Executive Officers” and "Named Executive Officers" refer to the Company’s President and Chief Executive Officer, the Senior Vice President and Chief Operating Officer, the Senior Vice President and Chief Financial Officer, the Senior Vice President and Chief Credit Officer and the Senior Vice President and Chief Risk Officer. See "Compensation of Executive Officers and Directors of the Company - Executive Officers" herein. The shares "beneficially owned" are determined under Rule 13d-3 of the Securities Exchange Act of 1934, as amended, and do not necessarily indicate ownership for any other purpose. In general, beneficial ownership includes shares over which a person has sole or shared voting or investment power and shares which such person has the right to acquire within 60 days of March 1, 2022. Unless otherwise indicated, the persons listed below have sole voting and investment powers of the shares beneficially owned. Management is not aware of any change in control of the Company since January 1, 2022 and is not aware of any arrangements that may, at a subsequent date, result in a change of control of the Company.

Except as indicated, the address for each of the persons listed below is c/o United Security Bancshares, 2126 Inyo Street, Fresno, California 93721.

Beneficial Owner	Amount and Nature of Beneficial Ownership		Percent of Class (1)
Directors and Named Executive Officers:			
Stanley J. Cavalla	659,716	(2)	3.9 %
Director and Nominee			
Tom Ellithorpe	147,667	(3)	0.9 %
Director and Nominee			
Dave Eytcheson	216,133	(4)	1.3 %
Senior Vice President and Chief Operating Officer			
Bhavneet Gill	44,095	(5)	0.3 %
Senior Vice President and Chief Financial Officer			
Heather Hammack	717		*
Director and Nominee			
Benjamin Mackovak	935,072	(6)	5.5 %
Director and Nominee			
Nabeel Mahmood	13,616	(7)	*
Director and Nominee			
Kenneth D. Newby, CPA	24,878	(8)	0.2 %
Director and Nominee			
Robert Oberg	22,658		0.1 %
Senior Vice President and Chief Risk Officer			
Susan Quigley	14,931	(9)	*
Director and Nominee			
Brian Tkacz	13,845	(10)	*
Director and Nominee			
Dora Westerlund	941		*
Director and Nominee			
Dennis R. Woods	1,109,141	(11)	6.5 %
Chairman, Nominee, President and Chief Executive Officer			
Michael T. Woolf, D.D.S.	241,775	(12)	1.4 %
Director and Nominee			
William Yarbenet	55,195	(13)	0.3 %
Senior Vice President and Chief Credit Officer			
All Directors and Executive Officers as a Group			
(15 in total)	3,500,380	(14)	20.4 %
5% Stockholders:			
Bridgewealth Advisory Group, LLC	935,171	(15)	5.5 %

* Represents beneficial ownership of less than one tenth of one percent.

(1) Includes shares subject to stock options that are exercisable within 60 days of March 1, 2022. These are treated as issued and outstanding for the purpose of computing the percentage of each director, Named Executive Officer and for All Directors and Executive Officers as a Group, but not for the purpose of computing the percentage of class owned by any other person.

(2) Mr. Cavalla has shared voting and investment powers as to 481,160 of these shares held in his wife's IRA or in a trust with Mr. Cavalla as a co-trustee. Mr. Cavalla disclaims ownership of 270 shares which are held in his wife's IRA.

(3) Mr. Ellithorpe has shared voting and investment powers as to 2,616 shares.

(4) Mr. Eytcheson has shared voting and investment powers in all shares owned.

(5) Ms. Gill has 5,579 shares subject to stock options that are exercisable and subject to vesting within 60 days of March 1, 2022.

(6) 932,491 shares are owned directly by Strategic Value Investors LP. Mr. Mackovak, solely by virtue of his position as a managing member of Strategic Value Bank Partners LLC, which serves as the general partner of Strategic Value Investors LP, may be deemed to beneficially own the shares owned directly by Strategic Value Investors LP. Mr. Mackovak expressly disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein. Mr. Mackovak has 12,000 shares subject to stock options that are exercisable within 60 days of March 1, 2022.
(7) Mr. Mahmood has 12,000 shares subject to stock options that are exercisable within 60 days of March 1, 2022.
(8) Mr. Newby has shared voting and investment powers as to 152 shares held jointly with his wife.
(9) Ms. Quigley has shared voting and investment powers as to 2,931 shares held in a trust with Ms. Quigley as a co-trustee. Ms. Quigley has 12,000 shares subject to stock options that are exercisable within 60 days of March 1, 2022.
(10) Mr. Tkacz has 12,000 shares subject to stock options that are exercisable within 60 days of March 1, 2022.
(11) Mr. Woods has shared voting and investment powers as to 878,939 of these shares held in a trust with Mr. Woods as a co-trustee or in his wife's IRA. Mr. Woods disclaims ownership of 33,088 shares which are held in his wife's IRA.
(12) Dr. Woolf has shared voting and investment powers as to 2,393 of these shares held in his wife's IRA or in custody for minors.
(13) Mr. Yarbenet has 29,022 shares subject to stock options that are exercisable within 60 days of March 1, 2022.
(14) Includes 82,601 shares that are subject to stock options which are exercisable and subject to vesting within 60 days of March 1, 2022.
(15) Based solely on a Schedule 13GA was filed with the SEC on February 16, 2021 by Bridgewealth Advisory Group, LLC, 986 West Alluvial Ave., Suite 101, Fresno, CA 93711. This Schedule 13G/A reports that Bridgewealth Advisory Group, LLC has sole voting power with respect to 935,171 shares and sole dispositive power with respect to 935,171 shares beneficially owned as of December 31, 2021.

CORPORATE GOVERNANCE PRINCIPLES AND CODE OF ETHICS

Corporate Governance Guidelines

The Company is committed to having sound corporate governance principles that are important to the way the Company manages its business and to maintaining the Company's integrity in the marketplace. The Company's Corporate Governance Principles are available at https://investors.unitedsecuritybank.com/corporate-information/documents/default.aspx.

Board of Directors and Committees of the Company

The Board of Directors of the Company oversees its business and monitors the performance of management. In accordance with Corporate Governance Principles, our Board of Directors does not involve itself in day-to-day operations. The directors keep themselves informed through, among other things, discussions with the Chief Executive Officer, other key executives and our principal outside advisers (legal counsel, outside auditors, and other consultants), by reading reports and other materials provided by the Company, and by participating in board and committee meetings.

During 2021, the Board of Directors held 11 meetings. During 2021, no director attended less than 75% of all Board of Directors meetings and the meetings of any committee of the Board of Directors on which he or she served.

In 2021, the Board of Directors had the following committees: ALCO, Audit Committee, Compensation Committee, Corporate Governance/Nominating Committee, IT Committee, Loan Committee, Merger and Acquisition Committee, and 401K Committee.

Attendance at Annual Meetings

While the Company does not have a policy regarding director attendance at each Annual Meeting of Shareholders, a majority of the Company's directors attended the 2021 Annual Meeting of Shareholders.

Shareholder Communications with the Board

Shareholders who wish to communicate with the Board of Directors as a whole, or with an individual director, may do so by emailing the Board of Directors at roberg@unitedsecuritybank.com.

Selection and Evaluation of Director Nominees

The Corporate Governance/Nominating Committee is responsible for identifying and presenting nominees for membership on the Board, as needed, by the following process:

- The Corporate Governance/Nominating Committee identifies nominees by first evaluating the qualifications and willingness to continue in service of current members of the Board of Directors.
- The Corporate Governance/Nominating Committee identifies if the Board of Directors needs to add new members with specific skills or to fill a vacancy on the Board.
- The Corporate Governance/Nominating Committee initiates a search, working with staff support and seeking input from the members of the Board and senior management for nominee(s) including existing members that are willing to continue to serve as directors. The Corporate Governance/Nominating Committee also considers any nominee(s) recommended by shareholders.
- The Corporate Governance/Nominating Committee identifies a potential slate of nominee(s), after taking into account the criteria discussed in the next section below.
- The Corporate Governance/Nominating Committee determines if any Board members have contacts with the potential nominee(s).
- The Corporate Governance/Nominating Committee interviews prospective nominee(s) other than existing board members.
- The Corporate Governance/Nominating Committee keeps the Board informed of the selection progress.
- The Corporate Governance/Nominating Committee meets to consider and approve its slate of recommended nominee(s) also using the criteria discussed in the next section below. The Corporate Governance/Nominating Committee, in evaluating existing directors as nominees and nondirectors as nominees, balances the value of continuity of service by existing members of the Board with that of obtaining a new perspective.
- The Corporate Governance/Nominating Committee presents its slate of recommended nominees to the Board and seeks the Board's endorsement of such nominee(s).
- There is no third party that is currently paid to assist in identifying or evaluating potential director nominees, although the Corporate Governance/Nominating Committee has sole authority to retain or terminate the services of a third-party search firm to identify director nominees. The Corporate Governance/Nominating Committee's process for identifying and evaluating nominees for directors will not materially differ based on whether or not the nominee is recommended by a shareholder.

Board Diversity

While the Board of Directors does not have a formal diversity policy, it broadly defines diversity to encompass a range of skills and expertise sufficient to provide prudent guidance to the Company. In addition to the qualifications and characteristics described below, it considers whether the potential Director assists in achieving a mix of Board members that represents a diversity of background, perspective, and experience. Our Board of Directors also has a broad set of skills necessary for providing oversight to a financial institution, which includes proven leadership, and expertise in agriculture, finance, accounting, technology, and capital markets. The table below provides certain highlights of the composition of the Board of Directors and nominees. Each of the categories listed in the below table has meaning as it is used in Nasdaq rule 5605(f):

	Board Diversity (As of December 31, 2021)			
Total Number of Directors or Nominees	**11**			
Part I: Gender Identity	**Female**	**Male**	**Non-Binary**	**Did not Disclose Gender**
Directors	3	8	—	—
Part II: Demographic Background				
African American	—	—	—	—
Asian	—	1	—	—
Hispanic or Latinx	1	—	—	—
Native Hawaiian or Pacific Islander	—	—	—	—
White	2	7	—	—
Two or More Races or Ethnicities	—	—	—	—
LGBTQ+	—	—	—	—
Did Not Disclose	—	—	—	—

Director Independence

It is the policy of the Board of Directors that a significant majority of its members be independent from management, and the Board has adopted director independence standards that meet the listing standards and applicable rules of The NASDAQ Stock Market, LLC ("NASDAQ"). These independence standards are included in our Corporate Governance Principles which can be found on the Company's website at https://investors.unitedsecuritybank.com/corporate-information/documents/default.aspx..

In accordance with our Corporate Governance Principles, the Board undertook its annual review of director independence. During this review, the Board considered any and all commercial and charitable relationships of directors, including transactions and relationships between each director or any member of his or her immediate family and the Company and the Bank. Following the review, the Board affirmatively determined, by applying the director independence standards contained in the Corporate Governance Principles, that each of our directors nominated for election at this Meeting (Stanley J. Cavalla, Tom Ellithorpe, Heather Hammack, Benjamin Mackovak, Nabeel Mahmood, Kenneth D. Newby, Susan Quigley, Brian Tkacz, Dora Westerlund, and Michael T. Woolf, D.D.S.) is independent of the Company and its management in that none has a direct or indirect material relationship with the Company, with the exception of Dennis R. Woods, who is considered an inside director because of his employment as President and CEO of the Company.

In addition, all members of the Audit Committee, the Compensation Committee and the Corporate Governance / Nominating Committee satisfy the standards of independence applicable to members of such committees established under applicable law, the listing standards and applicable rules of NASDAQ and the director independence standards set forth in the Company's Corporate Governance Principles.

Nomination of Directors

The Board of Directors maintains a Corporate Governance/Nominating Committee, which is responsible for assisting the Board of Directors in director selection, as well as review and consideration of developments in corporate governance practices. This committee consists solely of independent directors. This committee will also review director nominees submitted by shareholders. The Corporate Governance/Nominating Committee is responsible for annually reviewing and evaluating, in conjunction with the Board of Directors, the appropriate skills and characteristics required for Board of Directors members in the context of the current composition of the Board of Directors and our goals for nominees to the Board of Directors, including nominees who are current directors.

The Board of Directors' policies with respect to director nominees have been to consider, among other factors: (a) the business experience of the nominee; (b) his or her reputation and influence in the community and standards of moral and ethical responsibility; (c) availability and willingness to devote time to fully participate in the work of the Board of Directors and its committees; and (d) commitment to the Company as evidenced by personal investment. Directors are expected to have demonstrated notable achievement in business, education or public service; possess the education and experience to make a significant contribution to the Board of Directors; bring a range of skills, diverse perspective and background to the Board of Directors; and serve as active resources for referrals and business development.

The Board of Directors will consider properly submitted nominees to the Board of Directors proposed by shareholders, although the Board has no formal policy with regard to shareholder nominees as it considers all nominees on their merits, as discussed above. Any shareholder nominations proposed for consideration by the Board should include the nominee's name and qualifications for Board membership and should be addressed to:

Dennis R. Woods, Chairman of the Board
United Security Bancshares
2126 Inyo Street
Fresno, California 93721

In addition, the Bylaws of the Company permit shareholders to nominate directors for consideration at an Annual Meeting of Shareholders. For a description of the process for nominating directors in accordance with the Bylaws, please see the Notice of Annual Meeting of Shareholders accompanying this Proxy Statement.

Board Leadership Structure

Our Board of Directors is led by Dennis Woods, our Chairman of the Board, President and Chief Executive Officer. The decision as to who should serve as Chairman of the Board, and who should serve as Chief Executive Officer, and whether those offices should be combined or separate, is properly the responsibility of our Board. The members of our Board possess considerable experience and unique knowledge of the challenges and opportunities we face, and are in the best position to evaluate our needs and how best to organize the capabilities of the directors and senior officers to meet those needs. The Board believes that the most effective leadership structure entails Mr. Wood's continued service as both Chairman of the Board and Chief Executive Officer. Mr. Woods was the founding Chairman of the Bank and has been the Company's Chairman of the Board and Chief Executive Officer since 2001. The Board of Directors believes that he is uniquely qualified through his experience and expertise to be the person who generally sets the agenda for, and leads discussions of, strategic issues for our Board. He was one of the key individuals behind our formation and his leadership was instrumental in the drafting and implementing of our strategic plan as well as our mission and vision statements. Mr. Wood's leadership, as both the Chairman of the Board and as the Chief Executive Officer, continues to ensure that we remain dedicated to and focused on our mission.

Like many companies, our Board of Directors has an Executive Committee and other committees through which our Board of Directors accomplishes most of its corporate governance role, including new director and succession planning. Some of the committees are chartered to undertake significant activities and are made up entirely of independent directors.

In addition, our independent directors participated in eleven executive sessions during the year, in which our Chairman of the Board and Chief Executive Officer does not participate. Any independent director may request additional executive sessions at any meeting. Our executive sessions are led by our Lead Director, Benjamin Mackovak, who is an independent director recommended by our Corporate Governance/Nominating Committee and appointed by our Board. The Lead Director is responsible for setting the agenda for executive sessions and leading them.

Board Role in Risk Oversight

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. The Company faces a number of risks, including economic risks, environmental and regulatory risks and others, such as the impact of competition. Management is responsible for the day-to-day management of risks the Company faces, while the Board, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, the Board of Directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed.

The Audit Committee engages in periodic discussions with the Chief Risk Officer, the Company's executive officers and other Company officers as the Audit Committee may deem appropriate related to risk management. In addition, each Board committee has been assigned oversight responsibility for specific areas of risk and risk management to be included as an agenda topic at all regular committee meetings. The committees consider risks within their areas of responsibility; for instance the Compensation Committee considers risks that may result from changes in compensations programs.

Corporate Governance/Nominating Committee

The Corporate Governance/Nominating Committee did not formally meet in 2021, however, they had several informal discussions over the phone and email regarding corporate governance and Board succession related matters. During 2021, the committee members were Mr. Ellithorpe, Mr. Mahmood, and Mr. Woolf. The Corporate Governance/Nominating Committee currently consists of Mr. Ellithorpe, Mr. Mahmood, and Mr. Woolf, all of whom are independent as defined by the applicable NASDAQ and SEC rules. The charter of the Corporate Governance/Nominating Committee can be found on the Company's website at http://www.unitedsecuritybank.com. Click "About Us" and then "Governance."

Compensation Committee

The Compensation Committee did not formally meet in 2021, however, they had several informal discussions over the phone and email regarding compensation related matters. The Compensation Committee consists of three (3) directors, all of whom are independent as defined by the applicable NASDAQ and SEC rules. During 2021, the members of the Compensation Committee were Mr. Mackovak, Mr. Tkacz, and Mr. Woolf. The Compensation Committee reviews human resource policies, establishes the compensation for the Chief Executive Officer and other executive officers, reviews salary recommendations, grants stock based compensation and approves other personnel matters, which are in excess of management's authority.

None of the Company's executive officers served on the Compensation Committee and none of the members of the Compensation Committee serves or has served as an officer or employee of the Company. The charter of the Compensation Committee can be found on the Company's website at http://www.unitedsecuritybank.com. Click "About Us" and then "Governance."

Audit Committee

During 2021, the Audit Committee met twelve (12) times. During 2021, the Audit Committee consisted of Mr. Newby (Chairman), Mr. Ellithorpe, Mr. Mahmood, and Ms. Quigley, all of whom are independent as defined by the applicable NASDAQ and SEC rules. Ms. Westerlund was appointed to the Audit Committee in December 2021. Mr. Newby and Ms. Quigley are deemed by the Company to be audit committee financial experts pursuant to the applicable rules and regulations of the SEC. Mr. Newby and Ms. Quigley have an understanding of generally accepted accounting principles (GAAP) and have the ability and experience to prepare, audit, evaluate and analyze financial statements which present the breadth and level of complexity of issues that are reasonably expected to be raised by the Company's financial statements. For more information on Mr. Newby and Ms. Quigley's qualifications and business expertise, please see their profiles under "PROPOSAL 1: ELECTION OF DIRECTORS," herein.

The Audit Committee oversees the Company's corporate accounting and reporting practices and the quality and integrity of the Company's financial statements and reports; selects, hires, oversees and terminates the Company's independent auditors; monitors the Company's independent auditors' qualifications, independence and performance; monitors the Company and its affiliates' compliance with legal and regulatory requirements; and oversees all internal auditing functions and controls. The Audit Committee also oversees the risk management functions of the Bank.

The Board of Directors has adopted a written charter for the Audit Committee which is available on the Company's website at www.unitedsecuritybank.com. Click "About Us" and then "Governance."

Audit Committee Report

The Audit Committee report shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act or the Securities Exchange Act (the "Acts"), and shall not otherwise be deemed filed under the Acts.

In the performance of its oversight function, the Audit Committee considered and discussed the consolidated audited financial statements with management, and Moss Adams LLP, with, and without, management present. The Audit Committee also discussed with Moss Adams LLP the matters required to be discussed by Public Company Accounting Oversight Board (PCAOB) Auditing Standards No. 16, Communication with Audit Committees, as currently in effect. The Audit Committee discussed with management and Moss Adams LLP the quality and adequacy of the internal controls of the Company. The Audit Committee received written disclosures and a letter from Moss Adams LLP, required by Independence Standards Board Standard No. 1, and has discussed with them their independent status. Moss Adams LLP did not perform any prohibited services for the Company.

Based on the review and discussions noted above, the Audit Committee recommended to the Board that the Company's audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, for filing with the SEC.

The Audit Committee has also confirmed that there have been no new circumstances or developments since their respective appointments to the Audit Committee that would impair any member's ability to act independently. Respectfully submitted by the members of the Audit Committee:

Dated: April 7, 2022

Audit Committee of the Board of Directors of United Security Bancshares

Kenneth Newby, Chairman
Tom Ellithorpe
Nabeel Mahmood
Susan Quigley
Dora Westerlund

Director Compensation

Director compensation is evaluated and recommended by the Compensation Committee and approved by the Board of Directors. Non-employee directors receive cash and equity compensation for committee attendance, premiums for serving as chairs of certain committees, and may receive equity grants in the form of stock options and awards.

During August 2021, the Board of Directors changed the payment of director compensation from 100% cash to a 50/50 split between cash and stock awards. In addition, the Board of Directors approved a 15% increase in all Board of Directors fees, effective September 2021. The monthly Board meeting fee increased from $1,400 to $1,610. In addition to the $1,610 monthly Board meeting fee, the Chairman received an additional $345 per meeting. Also, directors, other than Mr. Woods, were paid $230 for Executive Committee meetings, $288 for Governance, ALCO, Mergers and Acquisition, and 401(k) Committee meetings, and $403 for Audit, Compensation, IT, and Loan Committee meetings. The Chairmans of the Audit, Compensation, and IT committees received $575 per meeting and the Chairmans of the 401(k) and Governance committees received $403 per meeting. The Lead Director, who facilitates the Executive Session, received $345 per meeting. Director fees are calculated and paid based on an estimated number of Board and Committee meetings per year.

Historically, the non-employee Company directors have received equity compensation in the form of nonqualified stock options or restricted stock units. The Committee selected this form of equity compensation because it aligned the interests of the Board of Directors to those of the shareholders and also because of accounting and tax treatments of such awards.

The following table shows compensation paid or accrued for the last fiscal year to the Company's non-employee directors. Mr. Woods does not receive committee fees and his director meeting fees are disclosed in the "All Other Compensation" column in the Summary Compensation Table for the Named Executive Officers. No stock awards to non-employee directors were outstanding at December 31, 2021.

NON-EMPLOYEE DIRECTOR COMPENSATION TABLE 2021

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($) (2) (3)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Stanley Cavalla	17,779	2,852	—	—	—	—	20,631
Tom Ellithorpe	40,971	6,588	—	—	—	—	47,559
Heather Hammack (1)	2,415	2,410	—	—	—	—	4,825
Benjamin Mackovak	38,735	6,340	—	—	—	—	45,075
Nabeel Mahmood	40,925	6,479	—	—	—	—	47,404
Kenneth D. Newby	25,209	4,053	—	—	—	—	29,262
Susan Quigley, Secretary	23,241	3,736	—	—	—	—	26,977
Brian Tkacz	20,862	3,387	—	—	—	—	24,249
Dora Westerlund (1)	2,415	2,410	—	—	—	—	4,825
Mike Woolf, D.D.S.	20,508	3,294	—	—	—	—	23,802

(1) Ms. Hammack and Ms. Westerlund joined the Company and Bank's Boards of Directors in September 2022.
(2) Board members received 50% of their September- November monthly director fees in the form of stock awards on December 1, 2021.
(3) Fair market value upon vesting on December 1, 2021.

Director Emeritus Plans

In 1995, the Bank established the Directors Emeritus Plan I, which was amended in May 2000. Those directors who (i) retired as directors of the Bank prior to 2015 or (ii) retired as directors of Golden Oak Bank and Legacy Bank and who signed a shareholder's agreement were eligible to participate in the Directors Emeritus Plan I. Directors Emerita under Directors Emeritus Plan I receive a monthly fee of $400, and receive preferential deposit and customer service with free checking as long as they serve as a Director Emeritus. Director Emeritus benefits terminate upon (i) the sale of a majority of the Director Emeritus' shares of the Company's common stock originally held, or (ii) the finding by the Company's board of directors that the Director Emeritus is engaging in activities or making statements which are detrimental to the Company or the Company's public image. At December 31, 2021, there were twelve (12) participants in the Directors Emeritus Plan. A total of $57,600 was paid under the Directors Emeritus Plan I in 2021.

In 2015, the Bank established the Directors Emeritus Plan II. The new plan resets monthly fees every five years for directors retiring during that five-year period. Directors retiring during 2015-2019 receive $600 per month for life and will receive preferential deposit and customer service with free checking as long as they serve as a Director Emeritus. Directors retiring between 2020-2024 will receive $700 per month. To qualify, the retiring director must have served as a director for at least 5 years prior to retirement; and to continue receiving benefits the Director Emeritus must continue to own at least 25,000 shares of the Company's common stock and not engage in activities or speech detrimental to the Company or the Bank. At December 31, 2021, there were four (4) participants in the Directors Emeritus Plan II. A total of $28,600 was paid under the Directors Emeritus Plan II in 2021.

Both Director Emeritus Plans terminate if the Company is merged, acquired, or dissolved.

PROPOSAL 1:

ELECTION OF DIRECTORS

Nominees

The Company's Bylaws provide that the number of directors of the Company shall not be less than eight (8) nor more than fifteen (15) until changed by an amendment of the Articles of Incorporation or the Bylaws adopted by the vote or written consent of holders of a majority of the outstanding shares entitled to vote, with the exact number of directors to be fixed from time to time, within the range: (i) by a resolution duly adopted by the Board of Directors; or (ii) by the approval of the shareholders. The authorized number of directors was last fixed at eleven (11).

The persons named below, all of whom are currently members of the Board of Directors, have been nominated for election as directors to serve until the 2023 Annual Meeting of Shareholders and until their successors are elected and have qualified. Each nominee has consented to being named in the Proxy Statement and has agreed to serve as a member of the Board of Directors, if elected. Votes will be cast in such a manner as to effect the election of all eleven (11) nominees, as appropriate (or as many thereof as possible under the rules of cumulative voting). The eleven (11) nominees for directors receiving the most votes will be elected directors. In the event that any of the nominees should be unable to serve as a director, it is intended that the proxy will be voted for the election of such substitute nominee, if any, as shall be designated by the Board of Directors. The Board of Directors has no reason to believe that any of the nominees named below will be unable to serve if elected.

The Board of Directors has determined that all of the current directors on the Board of Directors, except for one (1), are "independent," as that term is defined in the listing standards and applicable rules of NASDAQ. These ten (10) independent directors comprise a majority of the Board of Directors.

The following table sets forth, as of March 1, 2022, the names of, and certain information concerning, the persons nominated by the Board of Directors for election as directors of the Company.

Name and Title Other than Director	Age	Year First Appointed	Principal Occupation During the Past Five Years
Stanley J. Cavalla	71	2001	President of Suburban Steel, Inc.; President of Tri State Stairway Corp.
Tom Ellithorpe	79	2001	Owner of Insurance Buying Service.
Heather Hammack	45	2021	President, Famous Software.
Benjamin Mackovak	41	2017	Co-Founder and Managing Member of Strategic Value Bank Partners (2015-present); Founder and Managing Member of Cavalier Capital (2012-2015).
Nabeel Mahmood	44	2017	Managing Director- CXO & Consultant- Mahmood, LLC (2014- Present); CIO- Instor (2020-present); SCB Global (2021-present); Managing Director- Nomad Futurist (2021- Present); President and CEO- Querai (2019-2020); Director- International Data Centers Authority (2018-2021); CEO, DRT, Inc. (2018-2019); Chief Information Officer, Maxco (2014-2018).
Kenneth D. Newby	76	2014	Owner, Kenneth D. Newby, CPA.
Susan Quigley, Secretary	76	2017	Retired. Former Audit Managing Director at Deloitte, an international public accounting firm.
Brian C. Tkacz	45	2017	Senior Director, Global IT Managed Services, Markel Corporation (2019-present); Director, Information Technology, Markel Corp. (2015-2019)
Dora Westerlund	50	2021	Founder and CEO, Fresno Area Hispanic Foundation.
Dennis R. Woods Chairman, President and Chief Executive Officer	74	2001	Chairman of the Board, President and Chief Executive Officer of United Security Bancshares and United Security Bank.
Michael T. Woolf, D.D.S.	66	2005	Retired Dentist; Owner and Board Member- Woolf Farming Company; Owner- Mike Woolf Farming Company

Dennis R. Woods
Chairman of the Board
Director since 2001

Mr. Woods is the founding chairman of the Bank, and assumed the additional duties of President and CEO in 1993. Prior to the inception of the Bank, Mr. Woods was the President and CEO and a 50% shareowner of a wholesale and retail food distribution company, Hestbeck's Incorporated, for over 20 years. Mr. Woods has also been active in real estate investment, including ownership of commercial warehouses, apartments and residential real estate for more than 30 years. Additionally, Mr. Woods has been involved with the development and cultivation of pistachio and almond farms from 1980 to present. Mr. Woods has continuously served on the boards of directors of a number of for profit and non-profit organizations such as Hestbeck's Incorporated; Pacific Coast Bankers Bank; California State University Fresno Bulldog Foundation; State Center Community College; United Way of Fresno County; Northern California Loan Fund Advisory and Denwoods Farm Company. Mr. Wood's background in various businesses qualifies him for service as a director.

Stanley J. Cavalla
Director since 2001

Mr. Cavalla has lived in Fresno County for over 60 years. He is President of Suburban Steel, Inc. and Vice President of Tri State Stairway Corp. He is active in Fresno County as a businessman and farmer. Mr. Cavalla's relevant experience as an executive in managing and operating manufacturing and farming businesses within the Company's market area, qualifies him for service as a director.

Tom Ellithorpe
Director since 2001

Mr. Ellithorpe has lived in Fresno, California for nearly 55 years. He is the owner of Insurance Buying Service. He is active in the Fresno community as an insurance broker, and has been involved in the California insurance industry since 1972. He has also been involved in a number of business ventures in the Company's market area including agricultural ventures. Mr. Ellithorpe's relevant experience as an executive in the insurance industry and his understanding of risk management qualifies him for service as a director.

Heather Hammack
Director since 2021

Ms. Hammack is the President of Famous Software, LLC, one of the largest software solutions providers for the the fresh produce industry. She is a graduate of California Polytechnic University, San Luis Obispo, where she received a degree in Agribusiness, with a concentration in Finance. Heather currently serves as a Business Advisory Council Member for the Craig School of Business at California State University, Fresno, and as a Dean's Advisory Council Member for the College of Agriculture, Food and Environmental Science at California Polytechnic University, San Luis Obispo.

Benjamin Mackovak
Lead Director
Director since 2017

Mr. Mackovak has over 17 years of experience as an institutional investor in the public equity market. He is the Co-Founder and Managing Member of Strategic Value Bank Partners, an investment partnership specializing in community banks. He has served as a director for nine community banks and as a board observer for three other community banks. He earned his MBA from the University of Virginia's Darden Graduate School of Business and a BA from Kent State University, where he graduated magna cum laude. Mr. Mackovak's relevant experience as an institutional investor, bank director, and board observer, combined with his knowledge of corporate governance, executive compensation, ALCO strategies, and capital markets qualifies him for service as a director.

Nabeel Mahmood
Director since 2017

Mr. Mahmood brings over 20 years of experience leading large-scale global technology organizations for companies experiencing robust growth through M&A, global expansion, implementing new business models and technology innovation. His expertise includes leading organizations through transformational changes, connecting IT to the needs of the business, technology innovation, Big Data, Cloud, ERP, IoT, RPA, Mobility and Data Centers. Mr. Mahmood's relevant experience as a Technologist, Executive and member of various boards qualify him for service as a director.

Kenneth D. Newby
Director since 2014

Mr. Newby is a well-respected Certified Public Accountant with long-standing ties to the community. He has been self-employed as a financial consultant in Fresno, California since June 2008. Previously, he worked as a manager and a partner with the public accounting firm of Deloitte & Touche, LLP. Mr. Newby is a graduate of the California State University, Fresno, where he received his Bachelor of Science in Business Administration and Accounting in 1972. Mr. Newby's relevant experience as a certified public accountant and knowledge of auditing, accounting and finance qualifies him for service as a director.

Susan Quigley
Director since 2017

Ms. Quigley is a long-term resident of the Fresno community. She served as an Audit Managing Director for Deloitte & Touche, LLP until her retirement in 2010. While at Deloitte she audited companies in many industries, including agribusiness, banking and hospitals. She has made many presentations to boards of various companies. Ms. Quigley is currently a member of the Board of Directors of the National Raisin Company, a private raisin processor. She is also a member of the board of directors of the Boys and Girls Club of Fresno County and a Master Gardener. Ms. Quigley's relevant experience in auditing and finance and as a member of various boards qualifies her for service as a director.

Brian Tkacz
Director since 2017

Mr. Tkacz has over 17 years of experience in large-scale Information Technology strategy and delivery roles. He is a Senior Director in Information Technology for Markel Corporation, a holding company for insurance, reinsurance, and investment operations around the world. He earned his MBA from the University of Virginia's Darden Graduate School of Business and a BS in Managerial Economics from Cornell University. Mr. Tkacz's relevant experience as a business leader, general manager, and successful P&L owner in the financial services and insurance industries, combined with his understanding of analytical problem solving and defining and executing business strategies, qualifies him for service as a director.

Dora Westerlund
Director since 2021

Dora Westerlund is the President and CEO of Fresno Area Hispanic Foundation, which established the only bilingual business incubator in the western United States. An alumna of California State University, Fresno, she has strong ties to the Central Valley. Dora currently serves on the Board of Governors for California State University, Fresno, and on the St. Agnes Medical Center Board of Directors.

Michael Woolf, D.D.S.
Director since 2005

Dr. Woolf has lived in Fresno, California, for over 50 years. He is a retired dentist, but he has also been active in the Fresno community as a farmer. He is currently a 1/6th owner of Woolf Enterprises, a diversified foods grower and processing operation. Dr. Woolf has also served on various professional and community organization boards including Fresno Madera Dental Society, American Pistachio Growers, Fresno Metropolitan Museum Trustees and Carden Private School. Dr. Woolf's relevant experience as a dentist, farmer, member of various boards, and his understanding of the community qualifies him for service as a director.

All nominees will continue to serve if elected at the Meeting until the 2023 Annual Meeting of Shareholders and until their successors are elected and have been qualified.

None of the directors were selected pursuant to any arrangement or understanding other than with the directors and executive officers of the Company acting within their capacities as such. There are no family relationships between any of the Company's directors and executive officers. No director serves as a director of any company that has a class of securities registered under, or which is subject to the periodic reporting requirements of, the Securities Exchange Act of 1934, or of any company registered as an investment company under the Investment Company Act of 1940.

Recommendation:

THE BOARD OF DIRECTORS RECOMMENDS A VOTE OF "FOR" ALL ELEVEN (11) NOMINEES TO SERVE UNTIL THE 2023 ANNUAL MEETING OF SHAREHOLDERS AND UNTIL THEIR RESPECTIVE SUCCESSORS SHALL BE ELECTED AND QUALIFIED.

COMPENSATION DISCUSSION AND ANALYSIS ("CD&A")

Introduction

This Compensation Discussion and Analysis ("CD&A") explains our executive compensation program for our named executive officers ("NEOs") listed below. The CD&A also describes the process followed by the Compensation Committee of the Board (the "Committee") for making pay decisions, as well as its rationale for specific decisions related to 2021.

The following table sets forth the names, age, and position as of March 1, 2022, of the Company's NEOs. None of the executive officers were selected pursuant to any arrangement or understanding other than with the directors and executive officers of the Company acting within their capacities as such.

NEO	Age	Position and Principal Occupation For the Past Five Years
Dennis R. Woods	74	President and Chief Executive Officer of United Security Bancshares and United Security Bank since 1993.
David L. Eytcheson	81	Senior Vice President and Chief Operating Officer of United Security Bancshares and United Security Bank since 1997.
Bhavneet Gill	36	Senior Vice President and Chief Financial Officer of United Security Bancshares and United Security Bank since March 2015. Served as Vice President and Controller of United Security Bank from May 2013 to March 2015.
Robert Oberg	61	Senior Vice President and Chief Risk Officer at United Security Bank since October of 2018. Previously served as a consultant advising commercial and investment banks and their senior management to address regulatory challenges, operations and risk/reward performance assessments.
William Yarbenet	63	Senior Vice President and Chief Credit Officer of United Security Bank since July 2013.

Executive Summary

2021 Financial Highlights

- Total net loans increased to $862,200,000 at December 31, 2021 compared to $645,825,000 at December 31, 2020.
- Total deposits increased to $1,188,106,000 at December 31, 2021 compared to $952,651,000 at December 31, 2020.
- Book value per share increased to $7.06 at December 31, 2021 from $6.93 at December 31, 2020.
- Net income increased to $10,098,000 for the year ended December 31, 2021 compared to $8,961,000 for the year ended December 31, 2020.
- The cost of funds was 0.17% for the year ended December 31, 2021 compared to 0.24% for the year ended December 31, 2020.
- The allowance for credit losses as a percentage of gross loans decreased from 1.30% to 1.07% at December 31, 2021.

2021 Executive Compensation Highlights

Our executive compensation program is designed to align the interests of our NEOs with those of our shareholders. Based on our performance, and consistent with our desire to place greater emphasis on variable pay elements in our executive compensation program going forward, the Committee made the following executive compensation decisions for fiscal 2021:

- ***Base Salaries:*** The Committee approved base salary adjustments of 1.76% for each NEO effective January 2021. For details, please refer to "2021 Executive Compensation Program in Detail" discussion below.

- ***2021 Short-Term Incentives:*** Based on our 2021 financial performance, the NEOs earned incentives ranging from 19% to 26% of base salary, approximately 96% to 100% of their respective maximum incentive opportunity.For details, please refer to "2021 Executive Compensation Program in Detail" discussion below.

Summary of Executive Compensation Practices

Our executive compensation program includes the following practices and policies, which we believe promote sound compensation governance and are in the best interests of our shareholders:

What we do	What we don’t do
Pay for performance and allocate individual awards based on actual results and how results were achieved	No employment arrangements that provide for guaranteed salary increases, non-performance based bonuses or equity compensation for executive officers
Restricted stock unit awards that are aligned with the long-term creation of stockholder value	No severance benefits to our executive officer exceeding three times base salary and bonus
Independent, external compensation consultant	No excise tax gross-ups upon a change in control
Clawback features are incorporated into our executive employment agreements	No repricing, buyout or exchange of underwater stock options
Use of multiple performance measures and caps on potential incentive payments	No excessive perquisites
Annual review of executive incentive compensation programs	No single trigger acceleration of vesting in the event of a change-in-control

What Guides Our Program

Compensation Philosophy

Our executive compensation program is designed to achieve the following objectives:

- Attract and retain the most qualified and experienced individuals available to further the company’s success.
- Align the interests of executives and shareholders by linking a significant portion of executive compensation to the Company’s financial performance.
- Reward and motivate appropriate executive behavior that produces strong financial results, while managing risks and promoting safety and soundness.
- Provide compensation opportunities competitive with those offered by our peers and consistent with the Company’s level of performance.

Elements of the Executive Compensation Program

The three main elements of the Company’s executive compensation program are base salary, short-term incentives, and long-term incentives, each of which is described below:

Compensation Element	Fixed or Variable	Annual or Long Term	Cash or Equity	Purpose
Base Salary	Fixed	Annual	Cash	To attract and retain the best talent.
Annual Incentive Award	Variable	Annual	Cash	To motivate and maximize performance over a one-year period.
Restricted Stock Units	Variable	Long-Term	Equity	To motivate and incent sustained performance over the long-term. Aligns interests of our NEOs with those of our shareholders. Also supports our leadership retention objectives.

The Decision-Making Process

The Role of the Committee. The Committee oversees the executive compensation program for our NEOs. The Committee works with its independent consultant and management to examine the effectiveness of the Company’s executive compensation program annually. Details of the Committee’s authority and responsibilities are specified in the Committee’s charter, which may be accessed at our website, http://www.unitedsecuritybank.com.

The Committee makes recommendations to the Board regarding the structure of incentive-based compensation plans and equity based plans, which then requires Board approval. Operating within the plans approved by the Board, the Committee makes all final compensation and equity award decisions regarding our NEOs.

Role of the CEO. The CEO provides recommendations to the Committee on compensation for NEOs other than himself. The CEO does not provide recommendations concerning his own compensation, nor is he present during discussions of the Committee about his compensation.

Use of Independent Consultants and Advisors. The Committee engaged the services of Pearl Meyer & Partners ("Pearl Meyer") as its outside independent compensation consultant during 2020. Pearl Meyer advises the Compensation Committee on a range of executive and director compensation matters including plan design, competitive market assessments, trends, and best practices. Pearl Meyer does not provide any other services to the Company.

The Role of Benchmarking and Market Data. The companies comprising the comparator peer group are reviewed and selected by the Committee to ensure relevance, with data and recommendations provided to the Committee by Pearl Meyer. The companies comprising the 2021 peer group were selected based on the following considerations:

- Size Characteristics: Assets, operating revenue and market capitalization approximately one-half to twice the size of the Company;
- Geography: Headquartered in California;
- Operations: Commercial banks with reasonably similar loan mix and ratio of non-interest income to operating revenue as the Company

The 2021 peer group approved by the Committee consisted of the following companies:

1st Capital Bank	Community West Bancshares
American River Bankshares (1)	First Northern Community Bancorp
American Riviera Bank	Oak Valley Bancorp
Bank of Commerce Holdings (1)	Pacific Mercantile Bancorp (1)
BayCom Corp.	Plumas Bancorp
California BanCorp	Summit State Bank
Central Valley Community Bancorp	Valley Republic Bancorp

(1) Subsequently acquired

The Committee engaged Pearl Meyer in 2019 to review the compensation of the NEOs and provide the Committee with an analysis of competitive pay practices for senior executives at the peer group companies listed above. The Committee establishes base salaries, variable cash incentive awards, and long-term, equity-based incentive awards on a case-by-case basis for each NEO taking into account, among other things, individual and company performance, length of service, market data, advancement potential, recruiting needs, internal equity, retention requirements, succession planning and best compensation governance practices. While the Committee used the Pearl Meyer analysis to help inform its compensation decisions, it does not target individual compensation levels to specific market pay percentiles.

2021 Executive Compensation Program in Detail

Base Salary

Base salary represents annual fixed compensation and is a standard element of compensation necessary to attract and retain executive leadership talent. In making base salary decisions, the Committee considers the CEO's feedback as it relates to NEO performance, as well as each NEO's position and level of responsibility within the Company. The Committee takes into account factors such as relevant market data, individual performance and contributions, and length of service. The Committee initially determined the appropriate annual base salary rate for each NEO as follows:

NEO	2020 Base Salary	2021 Base Salary	% Adjustment
Dennis R. Woods	$567,941	$577,937	1.76%
David L. Eytcheson	$195,230	$198,666	1.76%
Bhavneet Gill	$240,000	$244,224	1.76%
Robert Oberg	$185,220	$188,480	1.76%
William Yarbenet	$239,135	$243,344	1.76%

Short-term (Annual) Incentives

All of our NEOs are eligible to receive annual incentive awards, which are designed to focus executives on short-term financial and strategic goals that contribute to long-term value.

The NEOs are eligible to participate in the Annual Incentive Plan, which provides an opportunity to receive an annual incentive award that is contingent on achieving pre-defined annual corporate objectives, as well as individual goals.

Annual Incentive Plan. The 2021 Annual Incentive Plan provided our NEOs the opportunity to earn a performance-based annual cash incentive award. Actual bonus payouts depend on the achievement of pre-established performance objectives. Maximum annual incentive opportunities are expressed as a percentage of base salary, and were established by the Committee based on the NEO's level of responsibility and his or her ability to impact overall results. 2021 maximum award opportunities for the NEOs were as follows:

NEO	Maximum Opportunity as % of Base Salary
Dennis R. Woods	27%
David L. Eytcheson	19%
Bhavneet Gill	23%
Robert Oberg	20%
William Yarbenet	23%

Performance Metrics and Assigned Weights. At the beginning of each year, the Committee approves the corporate financial measures, goals and assigned weights for each NEO. For 2021 the Committee selected the following performance metrics:

- *Core Net Income Before Tax ("CNIBT"):* Core net income is defined as pretax income less gain or loss on sales, OREO expenses, provision for loan loss, bonus expense, and gain or loss on fair value of financial liability.
- *Deposit Growth:* Deposit growth is defined as growth in average deposit balances over prior year.
- *Non-performing Assets ("NPA") Ratio:* NPA is defined as total nonaccrual loans, accruing restructured loans, accruing loans past due 90 days or more and other real estate owned as a percentage of total assets.
- *Regulatory Results:* This metric applies only to Mr. Oberg and is based on regulatory examination results.

The following table shows the performance measures and assigned weights for 2021:

NEO	CNIBT	NPA Ratio	Regulatory Results	Deposit Growth
Dennis R. Woods	56%	18%	—%	26%
David L. Eytcheson	21%	—%	—%	79%
Bhavneet Gill	56%	22%	—%	22%
Robert Oberg	25%	—%	75%	—%
William Yarbenet	56%	22%	—%	22%

The following table shows the performance requirements assigned for each measure and 2021 results:

Performance Measure	Threshold	Target / Maximum	Results
CNIBT Growth	10%	23%	25.4%
NPA Ratio	1.5%	1.00%	1.25%
Regulatory Results (1)	--	--	--
Deposit Growth	5.0%	10.0%	21.5%

(1) Regulatory results cannot be publicly disclosed, but the outcome resulted in an earned payout for Mr. Oberg.

Annual incentive awards are calculated based on actual performance as compared to the goals set forth. Performance below the threshold requirement results in no payout for the respective measure. The Committee has the discretion to reduce or increase the payouts to the extent it determines appropriate to reflect the business environment and market conditions that may affect the Company's financial and stock price performance. No such discretion was exercised by the Committee for payouts earned in 2021.

2021 Annual Incentive Plan Results. Based on the corporate results and individual performance achievements described above, the Committee approved the following Annual Incentive Plan incentive award payouts:

NEO	Earned Payout as a % of Base Salary	Actual Payout ($)
Dennis R. Woods	26%	150,264
David L. Eytcheson	19%	37,747
Bhavneet Gill	22%	53,729
Robert Oberg	20%	37,696
William Yarbenet	22%	53,536

Long Term Incentives

Under the 2015 Equity Incentive Award Plan, the Company may grant stock options, restricted stock awards and restricted stock units.

On February 23, 2021, each NEO was granted 6,000 restricted stock units ("RSUs") with a fair market value of $44,940. These RSUs vest as follows: 33.3% on December 31, 2021, 33.3% on December 31, 2022, and 33.4% on December 31, 2023. There were no long-term incentive awards granted during 2020.

Supplemental Executive Retirement Plan

The Company has established and sponsors a supplemental executive retirement plan in order to appropriately incent key employees, including the NEOs, to remain with the Company and become long-term loyal leaders. For more information on the Company's supplemental executive retirement plan and the benefits payable to the NEOs thereunder, please see "Narrative Disclosure Regarding Retirement Benefits and Change in Control Benefits - Supplemental Executive Retirement Plan" below.

Other Benefits and Perquisites

Group insurance premiums, including, medical, disability, dental and vision, are paid for by the Company for NEOs and their families. These benefits are common in the industry for similar positions. The Company pays these insurance benefits for all other employees and employees may elect to pay for the cost of insurance for their families. The Company has also established a contributory 401(k) defined contribution plan that allows eligible employees to contribute a portion of their income to a trust on a tax-favored basis. The Company matches participant contributions up to 4% of their eligible annual compensation. For more information on the Company's 401(k) plan, please see "Narrative Disclosure Regarding Retirement Benefits and Change in Control Benefits - 401(k) Plan," below.

The Chief Executive Officer is provided with a Company-owned vehicle and given reimbursement for membership dues in a country club. The Chief Operating Officer and Chief Credit Officer are provided with Company-owned vehicles due to their job duties requiring extensive business travel. See "All Other Compensation" in the Summary Compensation Table below. The Company provides these perquisites to certain of its NEOs because these perquisites are offered by many of its peers, and, therefore, the Compensation Committee believes that providing these perquisites to these NEOs is necessary for their retention and for the recruitment of new executive officers.

Employment Agreements and Executive Change in Control Agreements

The Bank has employment agreements in place with Mr. Woods and Mr. Yarbenet. Mr. Eytcheson, Ms. Gill, and Mr. Oberg have an agreement with the Company that provides severance compensation in the event of a change in control of the Company or Bank. The severance benefits provided were determined by the Compensation Committee based on its judgment of prevailing market practices at the time the change in control agreement was entered into. For more information on the employment agreements and executive change in control agreements, please see "Narrative Disclosure Regarding Retirement Benefits and Change in Control Benefits" below.

Other Practices, Policies and Guidelines

Clawback Policy

Our executive employment agreements contain a provision that, in the event of a material restatement of financial results, allows the Board, based on available remedies, to seek recovery or forfeiture from any executive officer of the portion of incentive compensation that was received by or vested in the executive officer prior to the determination that a restatement was required and that would not have been earned had performance been measured on the basis of the restated results where the Board reasonably determines that the executive engaged in knowing or intentional fraudulent or illegal conduct that materially contributed to the need for the restatement.

Compensation Risk Assessment

It is our belief that a material portion of our executives' total compensation should be variable compensation, tied to the Company's financial performance. However, we strive to ensure that incentives do not result in actions that may conflict with the long-term interests of the Company, our shareholders and our customers. The Committee reviews an evaluation of all of our plans covered under the Sound Incentive Compensation Policies for attributes that could cause excessive risk-taking or unethical sales practices. We concluded that our programs and practices do not encourage excessive risk-taking nor do they encourage unethical sales practices, potentially causing harm to the Company or our customers.

Tax and Accounting Considerations

The Compensation Committee believes that its primary responsibility is to provide a compensation program that attracts, retains and rewards the executive talent necessary for our success.

Compensation Committee Report

The information contained in this report shall not be deemed to be "soliciting material," to be "filed" with the SEC, or to be subject to Regulation 14A or Regulation 14C (other than as provided in Item 407 of Regulation S-K) or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and shall not be deemed to be incorporated by reference in future filings with the SEC except to the extent that the Company specifically incorporates it by reference into a document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934.

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based on that review and those discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Proxy Statement.

Dated: April 7, 2022

Compensation Committee of the Board of Directors of United Security Bancshares
Michael Woolf, Chairman
Benjamin Mackovak
Brian Tkacz

EXECUTIVE OFFICER COMPENSATION

Summary Compensation Table

The following table sets forth, for the fiscal years ended December 31, 2021 and 2020 compensation information for services in all capacities to the Company's executive officers who served as: (i) the Company's principal executive officer; (ii) the Chief Financial Officer, and (iii) the other most highly compensated executive officers who were serving as executive officers at the end of 2021 and whose total compensation in 2021 exceeded $100,000 (collectively, the "Named Executive Officers"). At December 31, 2021, there were no other executive officers of the Company.

Summary Compensation

Name and Principal Position	Year	Salary ($) (1)	Bonus ($)	Stock Awards ($) (2)(3)	Non-Equity Incentive Plan Compensation ($) (4)	Non-Qualified Deferred Compensation Earnings ($) (5)	All Other Compensation ($)(6)	Total Compensation ($)
Dennis R. Woods, President & CEO	2021	586,324	—	44,940	150,264	(50,151)	94,121	825,498
	2020	578,886	—	24,325	39,756	83,964	81,856	808,787
Dave Eytcheson, Senior Vice President & COO	2021	199,079	—	44,940	37,747	(25,076)	57,829	314,519
	2020	198,328	—	24,325	29,285	41,982	49,267	343,187
Bhavneet Gill, Senior Vice President & CFO	2021	245,896	—	44,940	53,729	20,626	41,349	406,540
	2020	240,000	—	24,325	12,000	25,976	40,289	342,590
Robert Oberg, Senior Vice President & CRO	2021	189,333	—	44,940	37,696	132,550	30,222	434,741
	2020	185,221	—	24,325	27,783	N/A	29,211	266,540
William Yarbenet, Senior Vice President & CCO	2021	249,974	—	44,940	53,536	110,338	54,795	513,583
	2020	243,743	—	24,325	11,957	74,630	42,646	397,301

(1) Includes compensation for accrued personal days not used (maximum 5 days) plus imputed income for life insurance provided by the Company in excess of $50,000 of coverage.

(2) Represents the grant date fair value determined in accordance with FASB ASC Topic 718, using the valuation assumptions described in the "Notes to the Consolidated Financial Statements" section of our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC. On February 23, 2021, each NEO was granted 6,000 RSUs that vest 33.3% on December 31, 2021, 33.3% on December 31, 2022, and 33.4% on December 31, 2023.

(3) Reflects the dollar amount recognized for financial statement report purposes for the fiscal years ended December 31, in accordance with FAS 123(R), of awards pursuant to the Company's Stock Option Plan. Assumptions used in the calculation of these amounts are included in the Company's audited consolidated financial statements for the fiscal years ended December 31 included in the Company's Annual Report on Form 10-K.

(4) The amounts shown for 2021 reflect payments made under the terms of the Annual Incentive Plan for 2021 performance, and in each case paid in the first quarter of 2022.

(5) The amounts shown for 2021 represent only the aggregate change in the actuarial present value of the accumulated benefit under each NEO's supplemental executive retirement plan salary continuation agreement from December 31, 2020 to December 31, 2021. The amounts are established by the Company determined using interest rate assumptions consistent with those used in the Company's financial statements.

(6) See following table for details of All Other Compensation column amounts.

All Other Compensation

Name and Principal Position	Year	Auto ($)	Club Membership ($)	401(k) ($)	Health Insurance ($)	Director Fees ($)	SERP - Medicare Tax ($)	Total ($)
Dennis R. Woods, President & CEO	2021	20,162	3,600	11,600	33,730	25,029	—	94,121
	2020	15,363	3,600	11,400	29,393	22,100	—	81,856
Dave Eytcheson, Senior Vice President & COO	2021	14,938	—	9,161	33,730	—	—	57,829
	2020	10,657	—	9,217	29,393	—	—	49,267
Bhavneet Gill, Senior Vice President & CFO	2021	—	—	9,895	31,454	—	—	41,349
	2020	—	—	10,896	29,393	—	—	40,289
Robert Oberg, Senior Vice President & CRO	2021	—	—	—	30,222	—	—	30,222
	2020	—	—	—	29,211	—	—	29,211
William Yarbenet, Senior Vice President & CCO	2021	18,366	—	10,399	26,030	—	—	54,795
	2020	18,193	—	11,051	13,402	—	—	42,646

Outstanding Equity Awards at Fiscal Year End

The following table sets forth certain information regarding the holdings of all equity awards by the Company's NEOs as of December 31, 2021.

	Option Awards					Stock Units			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercise d Options (#) Un-exercisable	Equity Incentive Plan Awards: Number of securities Underlying Unexercise d Unearned Options (#)	Option exercise price ($)	Option Expiration Date	Number of Shares of Stock That Have Not Vested (#)	Market Value of Shares of Stock That Have Not Vested ($) (3)	Equity Incentive Plan Awards: Number of Unearned Shares or Units That Have Not Vested (#)	Equity Incentive Plan Awards: Market Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Dennis Woods	—	—	—			4,000 (1)	32,480	—	—
Dave Eytcheson	—	—	—			4,000 (1)	32,480	—	—
Bhavneet Gill	5,579	—	—	$ 5.22	8/26/2024	4,000 (1)	32,480	—	—
Robert Oberg	—	—	—			6,949 (2)	56,426	—	—
						4,000 (1)	32,480		
William Yarbenet	29,022	—	—	$ 3.68	7/23/2023	4,000 (1)	32,480	—	—

(1) The RSUs vest in two equal annual installments on December 31, 2022 and 2023.
(2) The RSUs vest in two equal annual installments on October 23, 2022 and 2023.
(3) The value of shares underlying unvested RSUs based on the closing price of the Company's common stock on December 31, 2021.

Option Exercises and Stock Vested

The following table presents information about the stock options that were exercised by, and the restricted stock that vested for, each of the NEOs during 2021.

	Option Awards		Stock Units	
NEO	Acquired on Exercise (#)	Exercise ($)	Acquired on Vesting (#)	Vesting ($) (1)
Dennis Woods	—	—	2,378	19,170
Dave Eytcheson	—	—	2,000	16,240
Bhavneet Gill	—	—	2,000	16,240
Robert Oberg	—	—	5,475	43,588
William Yarbenet	—	—	2,000	16,240

(1) The aggregate dollar value realized represents the value of shares received upon vesting of a restricted stock unit.

Narrative Disclosure Regarding Retirement Benefits and Change in Control Benefits

401(k) Plan

The Company has established a contributory 401(k) defined contribution plan (the "401(k) Plan") covering all eligible employees. The 401(k) Plan allows eligible employees to contribute a portion of their income to a trust on a tax-favored basis. All employees of the Company and/or the Bank are eligible to participate in the 401(k) Plan upon the first day of the month after completing three (3) months of service. Participants are automatically vested 100% in all participant contributions which may be invested in any of several authorized investments. The Company also matches participant contributions up to 4% of their eligible annual compensation. During 2021, the Company reserved $264,000 to match all employee contributions to the 401(k) Plan, of which $41,000 was reserved to match contributions of the Company's Named Executive Officers and is included as "All Other Compensation" in the Summary Compensation Table above.

Supplemental Executive Retirement Plan

The Board has determined that it is in the best interest of the Company and its shareholders to provide appropriate incentives to key employees, including certain Named Executive Officers, to remain with the Company and become long-term loyal leaders. As part of these incentives, the Company has established and sponsors a supplemental executive retirement plan ("SERP") pursuant to which the Company has agreed to provide supplemental retirement income to key employees, including certain Named Executive and their families, if certain agreed upon eligibility and vesting conditions are met. The primary condition to the vesting of benefits under the Company's SERP is the long-term service to the Company. Therefore, vesting is set pro-rata for each year over the term of the SERP. Prior service credit for any newly hired executive is not permitted, except in the discretion of the Compensation Committee, which oversees the management of the SERP. The expected annual payment under the SERP is limited to not more than 50% of the annual base salary of the executive officer at the time of entering into the SERP. The Compensation Committee may increase the annual payment amount of the SERP to 50% of the annual base salary averaged over the last five years of the executive officer's employment with the Company. The Compensation Committee may also approve a split dollar agreement related to the SERP of an executive officer, and determine the terms of such split dollar agreement including the treatment of imputed income of such split dollar agreement to the executive officer and any gross up of taxes associated with the imputed income. Prior to providing any SERP to an executive officer, the Compensation Committee will prepare and analyze the accounting and tax effects of any SERP to the Company.

Dennis R. Woods, the Company's President and CEO, commenced participation in the Company's SERP in June 1996 and by June 2007, all benefits under his SERP have fully vested and can be drawn on by Mr. Woods upon his retirement. Under the terms of his SERP, Mr. Woods will be entitled to compensation for 15 years at $100,000 per year.

David L. Eytcheson, the Company's Chief Operating Officer, commenced participation in the Company's SERP in January 1997 and by January 2008, all benefits under his SERP have fully vested and can be drawn on by Mr. Eytcheson upon his retirement. Under the terms of his SERP, Mr. Eytcheson will be entitled to compensation for 15 years at $50,000 per year. William Yarbenet, the Company's Chief Credit Officer, and Bhavneet Gill, the Company's Chief Financial Officer, commenced participation in the Company's SERP in August 2015. Mr. Yarbenet will be fully vested in August 2025 and will be entitled to compensation of $60,500 per year for life. Ms. Gill will be fully vested in August 2047 and will be entitled to compensation of $103,500 per year for life. Mr. Oberg commenced participation in the Company's SERP in February 2021, after completing two years of employment with the Company. Mr. Oberg will be fully vested in May 2029 and will be entitled to compensation of $70,000 per year for life.

The SERP also provides that benefits be paid to the executive officers' beneficiaries in the event of their deaths. The Company's obligation to pay begins in the month following death. The Company purchases single-premium life insurance policies for each SERP issued to protect the Company for this eventuality. The life insurance policies accrue tax-free income to the Company. The policies can remain in effect until the executive is deceased, even after all benefits under the SERP have been paid or can be liquidated at the option of the Company at the cash surrender value. The death benefit is designed to return to the Company the cost of the SERP expense and the cash value of the insurance is carried on its books as an asset.

The following table provides certain information regarding the retirement benefits to the NEOs.

Pension Benefits

NEO	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit ($) (1)	Payments During Last Fiscal Year ($)
Dennis R. Woods	SERP	25	1,273,624	—
Dave Eytcheson	SERP	24	636,811	—
Bhavneet Gill	SERP	7	147,172	—
Robert Oberg	SERP	1	132,550	—
William Yarbenet	SERP	7	475,369	—

(1) Present value of benefit earned in accordance with FAS 106. (See Note 13 to the Company's financial statements included in the 2021 Annual Report).

Employment Agreements

On April 28, 2015, the Bank entered into an employment agreement with Mr. Dennis R. Woods for his service as President and Chief Executive Officer of the Bank with an annual base salary of $499,392. The term of the employment agreement originally terminated on December 31, 2017 but, subject to early termination, renews annually for successive three-year terms unless prior notice of non-renewal is given by either party on an annual basis. Accordingly, Mr. Woods' employment agreement now terminates on December 31, 2024. The Board of Directors of the Bank may from time to time review Mr. Woods' base salary and, in its sole discretion, may increase the base salary. Mr. Woods may also receive discretionary bonuses, if any, as determined by the Board of Directors of the Bank and is eligible to earn incentive bonuses pursuant to any programs developed and implemented by the Bank. The employment agreement provides that, in the event of involuntary termination without cause or voluntary termination for Good Cause (as defined), Mr. Woods would continue to receive his then current base salary for twenty-four (24) months after such event, plus continuation of his group medical insurance benefits or payment of COBRA continuation benefits for twenty-four (24) months; provided, however, if Mr. Woods is terminated within one year following a change in control (as defined), he would be entitled to receive a lump sum payment equal to thirty-six (36) months' then current base salary plus continuation of group medical insurance benefits or payment of COBRA continuation benefits for thirty-six (36) months. Payments made in connection with a change in control would be reduced, if necessary, to ensure that no payments constitute an excess parachute payment under Internal Revenue Code Section 280G.

On April 28, 2015, the Bank entered into an employment agreement with Mr. William M. Yarbenet for his service as Senior Vice President and Chief Credit Officer of the Bank with an annual base salary of $210,272. The term of the employment agreement originally terminated on December 31, 2017 but, subject to early termination, renews annually for successive two-year terms unless prior notice of non-renewal is given by either party on an annual basis. Accordingly, Mr. Yarbenet's employment agreement now terminates on December 31, 2023. The Board of Directors of the Bank may from time to time review Mr. Yarbenet's base salary and, in its sole discretion, may increase the base salary. Mr. Yarbenet may also receive discretionary bonuses, if any, as determined by the Board of Directors of the Bank and is eligible to earn incentive bonuses pursuant to any programs developed and implemented by the Bank. The employment agreement provides that, in the event of involuntary termination without cause or voluntary termination for Good Cause (as defined), Mr. Yarbenet would continue to receive his then current base salary for twelve (12) months after such event plus continuation of his group medical insurance benefits or payment of COBRA continuation benefits for twelve (12) months; provided, however, if Mr. Yarbenet is terminated within one year following a change in control (as defined), he would be entitled to receive a lump sum payment equal to twenty-four (24) months' then current base salary plus continuation of group medical insurance benefits or payment of COBRA continuation benefits for twenty-four (24) months. Payments made in connection with a change in control would be reduced, if necessary, to ensure that no payments constitute an excess parachute payment under Internal Revenue Code Section 280G.

Executive Change in Control Agreements

On February 24, 2015, the Bank entered into a change in control agreements with Mr. David Eytcheson and Ms. Bhavneet Gill. If within twelve (12) months following a change in control (as defined), including in anticipation of a change in control, NEO's employment is terminated without cause (as defined) or the NEO terminates employment for good reason (as defined), the Company will pay the NEO a lump sum severance payment in an amount equal to the sum of (i) twelve (12) months of base salary that is in effect at the time immediately preceding the termination of employment without cause or for good reason and (ii) the amount of the bonus paid for the preceding calendar year. Payments made in connection with a change in control would be reduced, if necessary, to ensure that no payments constitute an excess parachute payment under Internal Revenue Code Section 280G.

On October 23, 2018, the Bank entered into a change in control agreement with Mr. Robert Oberg. If within twelve (12) months following a change in control (as defined), including in anticipation of a change in control, Mr. Oberg's employment is terminated without cause (as defined) or he terminates employment for good reason (as defined), the Company will pay him a lump sum severance payment in an amount equal to the sum of (i) twelve (12) months of his base salary that is in effect at the time immediately preceding the termination of employment without cause or for good reason and (ii) the amount of the bonus paid for the preceding calendar year. Payments made in connection with a change in control would be reduced, if necessary, to ensure that no payments constitute an excess parachute payment under Internal Revenue Code Section 280G.

Certain Relationships and Related Transactions

During 2021, there were no existing or proposed, material transactions between the Company and its executive officers, directors, or principal shareholders (beneficial owners of 5% or more of the Company's Common Stock), or the immediate family or associates of any of the foregoing persons, except as indicated below.

Some of the Company's directors and executive officers, as well as the companies with which such directors and executive officers are associated, are customers of, and have had banking transactions with the Bank in the ordinary course of its business, and the Bank expects to have such ordinary banking transactions with such persons in the future. During the normal course of business, the Bank enters into loans with related parties, including executive officers and directors. These loans are made with substantially the same terms, including rates, collateral and repayment terms, as those prevailing at the same time with unrelated parties, and do not involve more than the normal risk of collectability or represent other unfavorable features. See Note 3 Loans in the audited consolidated financial statements in the Company's Annual Report for detail on outstanding loans and commitments to related parties. The Company may also engage in banking (non-lending) transactions with corporations of which the Company's directors or officers may own a controlling interest, or also serve as directors or officers. These transactions were made in the ordinary course of business, on substantially the same terms, including interest and collateral, as those prevailing for comparable transactions with persons not related to the Company, did not involve more than the normal risk of collectability or present other unfavorable features, and comply with the provisions of applicable federal and state law.

PROPOSAL 2:
RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The firm of Moss Adams, LLP, independent auditors, has been selected to serve as the Company's independent registered public accounting firm for 2022. Shareholders are hereby asked to ratify the selection of Moss Adams LLP. It is anticipated that a representative of Moss Adams LLP will be present at the Meeting, will be able to make a statement, if desired, and will be available to respond to appropriate questions from shareholders.

Although ratification is not required by our Bylaws or the SEC, the Board is submitting the selection of Moss Adams LLP to our shareholders for ratification because we value our shareholders' views on the Company's independent registered public accounting firm and as a matter of good corporate practice. In the event that our shareholders fail to ratify the selection of Moss Adams LLP, however, we reserve the right to retain Moss Adams LLP as our independent registered public accounting firm for 2022. Even if the selection is ratified, the Board of Directors, in its discretion, may select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its shareholders.

During the two most recent fiscal years there were no disagreements between the Company and its principal accountant on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the principal accountant's satisfaction, would have caused the principal accountant to make reference to the subject matter of the disagreement in connection with its reports. The audit reports on the consolidated financial statements of the Company as of and for the fiscal year ended December 31, 2021 were issued by Moss Adams LLP and did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

Under applicable SEC rules, the Company's Audit Committee is required to pre-approve the audit and non-audit services performed by the independent registered public accountants in order to ensure that they do not impair the auditors' independence. The SEC's rules specify the types of non-audit services that the independent registered public accountants may not provide to its audit client and establish the Audit Committee's responsibility for administration of the engagement of the independent registered public accountants.

Consistent with SEC's rules, the Audit Committee Charter requires that the Audit Committee review and pre-approve all audit services and permitted non-audit services provided by the independent registered public accountants to the Company or any of its subsidiaries. The Audit Committee approved 100% of all professional services rendered by Moss Adams LLP during the 2021 and 2020 fiscal years, including pre-approval of all audit and tax services, and considered whether the provision of such services is compatible with Moss Adams LLP maintaining its independence. The Audit Committee determined that the provision of non-audit services to the Company by Moss Adams LLP was compatible with maintaining the independence of Moss Adams LLP.

Aggregate fees billed by Moss Adams LLP to the Company during 2021 and 2020, respectively, are as follows:

	2021	2020
Audit Fees (1)	$ 318,083	$ 283,942
Audit Related Fees (2)	22,575	95,713
Tax Fees (3)	28,475	26,172
Total Fees	$ 369,133	$ 405,827

(1) Audit fees relate to professional services rendered in connection with the audit of the Company's annual financial statement and internal control over financial reporting, quarterly review of financial statements, and audit services provided in connection with other statutory and regulatory filings.
(2) Audit related fees represent fees for professional services such as the audit of the Company's employee benefit plan, consent related procedures, and technical accounting, consulting and research.
(3) Tax fees relate to professional services rendered in connection with tax compliance and preparation relating to tax return and tax audits, as well as for tax consulting and planning services.

Ratification of the selection of Moss Adams LLP to serve as the Company's independent registered public accounting firm for 2022 requires the affirmative vote of: (i) a majority of the outstanding shares of the Company's Common Stock represented in person or by proxy and voting at the Meeting; and (ii) a majority of the shares required for a quorum. Unless otherwise directed or specified, shares represented by proxy will be voted "FOR" Proposal 2.

Recommendation:

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE "FOR" RATIFICATION OF THE SELECTION OF MOSS ADAMS LLP TO SERVE AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM OF UNITED SECURITY BANCSHARES FOR 2022.

PROPOSAL 3:
NON-BINDING ADVISORY VOTE ON EXECUTIVE COMPENSATION

Section14A of the Securities Exchange Act of 1934 requires that the Company permit an advisory (non-binding) vote on the executive compensation paid to the named executive officers listed in the Summary Compensation Table and the related narrative disclosure in this Proxy Statement. In 2019, the Company's shareholders voted to require this advisory vote once every 3 years. If Proposal 4 is adopted, as recommended, shareholders will next be asked to provide a non-binding advisory vote on executive compensation at the 2025 Annual Meeting.

This proposal, commonly known as a "Say-on-Pay" proposal, gives you as a shareholder the opportunity to provide an advisory vote on the Company's executive compensation as disclosed in this Proxy Statement through the following resolution:

> "RESOLVED, that the compensation paid to the Company's named executive officers, as disclosed in this Proxy Statement pursuant to Item 402 of Regulation S-K, including the compensation tables and related narrative disclosure, is hereby APPROVED."

Because the vote is advisory, it will not be binding upon the Board of Directors, will not overrule any decision made by the Board of Directors, and will not create or imply any additional fiduciary duty on the Board of Directors. The Compensation Committee may, however, take into account the outcome of the vote when considering future executive compensation arrangements.

The Board of Directors believes that the Company's executive compensation program is reasonable in comparison both to similar sized companies in the industry and to the performance of the Company during 2021. We also believe that the Company's compensation program is effective in aligning the interests of the executives with the interests of the Company's stockholders on a long-term basis and is appropriate.

Approval of the advisory (non-binding) vote on the executive compensation paid to the Company's named executive officers as disclosed in this Proxy Statement requires the affirmative vote of: (i) a majority of the outstanding shares of the Company's Common Stock represented in person or by proxy and voting at the Meeting; and (ii) a majority of the shares required for a quorum. Unless otherwise directed or specified, shares represented by proxy will be voted "FOR" Proposal 2.

Recommendation:

THE BOARD OF DIRECTORS RECOMMENDS A VOTE OF "FOR" THE APPROVAL OF A NON-BINDING ADVISORY VOTE ON EXECUTIVE COMPENSATION AS DESCRIBED IN THIS PROXY STATEMENT.

PROPOSAL 4:
NON-BINDING ADVISORY VOTE ON THE FREQUENCY OF THE ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

Section14A of the Securities Exchange Act of 1934 requires us to provide shareholders with an advisory vote to determine how often to present the advisory shareholder vote to approve the compensation of our named executive officers (the "Say-on-Pay" vote). We must solicit your advisory vote on whether to have the Say-on-Pay vote every 1, 2 or 3 years. Shareholders may vote as to whether the Say-on-Pay vote should occur every 1, 2 or 3 years, or may abstain from voting on the matter. The frequency (every 1, 2 or 3 years) that receives the highest number of votes will be deemed to be the choice of the shareholders.

The next time shareholders will have an opportunity to vote on the frequency of the advisory shareholder vote to approve the compensation of our named executive officers will be in 2025. We value the opinion of our shareholders and welcome communication regarding our executive compensation policies and practices. After taking into account various considerations described below, we believe that a triennial vote will provide shareholders with the ability to express their views on our executive compensation policies and practices while providing us with an appropriate amount of time to consult with our shareholders and to consider their input.

Our executive compensation program is administered by our Compensation Committee, as described in this proxy statement. Compensation decisions with respect to our named executive officers, are disclosed in our proxy statement. We believe that establishing a three-year time frame for holding shareholder advisory votes on executive compensation will both enhance shareholder communication and provide the Company time to consider, engage with and respond to shareholders, in terms of expressed concerns or other feedback. In addition, we believe a long term focus will decrease the likelihood of a detrimental change in the Company's executive compensation program made in response to short-term economic or market fluctuations

Although, as an advisory vote, this proposal is not binding upon the Company or the Board, the Board will carefully consider the shareholder vote on this matter, along with all other expressions of shareholder views it receives on this matter. Approval of the advisory (non-binding) vote on the frequency of the vote on the compensation paid to the Company's named executive officers as disclosed in this Proxy Statement requires the affirmative vote of: (i) a majority of the outstanding shares of the Company's Common Stock represented in person or by proxy and voting at the Meeting; and (ii) a majority of the shares required for a quorum. Unless otherwise directed or specified, shares represented by proxy will be voted "FOR" Proposal 2.

Recommendation:

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR A FREQUENCY OF EVERY 3 YEARS.

DELINQUENT SECTION 16(a) REPORT

Section 16(a) of the Exchange Act requires the Company's directors and certain executive officers and persons who own more than ten percent (10%) of a registered class of the Company's equity securities (collectively, the "Reporting Persons"), to file reports of ownership and changes in ownership with the SEC. The Reporting Persons are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such forms received by it, or written representations from the Reporting Persons that no Forms 4 or 5 were required for those persons, the Company believes that during 2021 the Reporting Persons complied with all filing requirements applicable to them, except for Mr. Mackovak, who filed one late Form 4.

SHAREHOLDER PROPOSALS

Proposals of shareholders intended to be presented at the 2023 Annual Meeting of Shareholders, **must be received** by the Company at its principal executive offices by December 9, 2022, for inclusion in the Proxy Statement and form of proxy relating to that meeting and must comply with the applicable requirements of federal securities laws, including Rule 14a-8 under the Exchange Act. As the rules of the SEC make clear, simply submitting a proposal does not guarantee its inclusion.

Proxies solicited by the Board of Directors for the 2023 Annual Meeting will confer discretionary authority to vote on any matter to come before the Annual Meeting with respect to which the Company does not receive notice of the matter by February 21, 2023.

DELIVERY OF DOCUMENTS TO SHAREHOLDERS SHARING AN ADDRESS

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more shareholders sharing the same address by delivering a single proxy statement or annual report, as applicable, addressed to those shareholders. As permitted by the Exchange Act, only one copy of this Proxy Statement and one copy of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021 are being delivered to shareholders residing at the same address, unless the Company has received contrary instructions from one or more of the shareholders at such address. This process, which is commonly referred to as "householding," potentially provides extra convenience for shareholders and cost savings for companies.

A number of brokers with account holders who are shareholders of the Company may have instituted householding, in which case only one Proxy Statement and Annual Report will be delivered to multiple shareholders sharing an address unless contrary instructions have been received from the affected shareholders. Once you have received notice from your broker that they will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent.

If, at any time, you no longer wish to participate in householding and would prefer to receive a separate copy in the future, or if you are receiving multiple copies and wish to receive only one, please contact us at United Security Bancshares, 2126 Inyo Street, Fresno, California 93721, Attn: Ms. Bhavneet Gill, by calling (888) 683-6030 (toll free), or by emailing us at bgill@unitedsecuritybank.com.

OTHER MATTERS

Management does not presently know of any matters to be presented at the Meeting other than those set forth above. If other matters come before the Meeting, it is the intention of the persons named in the accompanying proxy card to vote the proxy in accordance with the recommendations of the Board of Directors on such matters.

United Security Bancshares

Susan Quigley

Dated: April 7, 2022

Susan Quigley, Secretary

It is very important that every shareholder vote. Whether or not you plan to attend the Meeting we urge you to submit a proxy as promptly as possible to vote your shares via Internet, telephone or mail.

In order to facilitate the providing of adequate accommodations, when voting please also let us know whether or not you expect to attend the Meeting.

The Company's 2021 Annual Report on Form 10-K was previously mailed to all shareholders. You may request an additional copy of the Proxy Statement, the 2021 Annual Report on Form 10-K, and form of proxy as to this Meeting or all future shareholder meetings by calling us at (888) 683-6030 (toll free number), by writing to us at United Security Bancshares, 2126 Inyo Street, Fresno, California 93721, Attn: Ms. Bhavneet Gill or by email at bgill@unitedsecuritybank.com.

The 2021 Annual Report on Form 10-K is also available at https://investors.unitedsecuritybank.com/FinancialDocs.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2021.

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ______ TO ______.

Commission file number: 000-32987

UNITED SECURITY BANCSHARES

(Exact name of registrant as specified in its charter)

CALIFORNIA	91-2112732
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2126 Inyo Street, Fresno, California	93721
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (559) 248-4943

Securities registered pursuant to Section 12(b) of the Act: Common Stock, no par value (Title of Class) UBFO (Trading Symbol) Nasdaq (Exchange)

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Act.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrants knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a small reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒
Small reporting company ☒ Emerging growth company ☐

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

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

Aggregate market value of the Common Stock held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter - June 30, 2021: $111,143,275

Shares outstanding as of February 28, 2022: 17,028,239

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K will be found in the Company's definitive proxy statement for its 2022 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, and such information is incorporated herein by this reference.

UNITED SECURITY BANCSHARES
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PART 1

Certain matters discussed or incorporated by reference in this Annual Report on Form 10-K (this "Report" including, but not limited to, those described in "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations," are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. All statements contained in this Report that are not clearly historical in nature are forward-looking, and the words "anticipate," "assume," "intend," "believe," "forecast," "expect," "estimate," "plan," "continue," "will," "should," "look forward" and similar expressions are generally intended to identify forward-looking statements. You should not place undue reliance on these statements as they involve risks, uncertainties and contingencies, many of which are beyond our control, which may cause actual results, performance, or achievements to differ materially from those expressed in them. Actual results could differ materially from those anticipated in such forward-looking statements as a result of risks and uncertainties. Factors that might cause such differences include, but are not limited to:

- *the effects of the COVID-19 pandemic, including the effects of the steps being taken to address the pandemic and their impact on the Company's markets, customers and employees;*
- *the impacts on the Company's markets and customers of severe weather or natural disasters, such as wildfires, earthquakes, drought, or flood;*
- *the impacts of supply chain disruption and inflation on our customers, employees, and suppliers;*
- *asset/liability matching risks and liquidity risks;*
- *volatility and devaluation in the securities markets;*
- *our ability to compete effectively against other financial service providers in our markets;*
- *the effect of the current interest rate environment or impact of changes in interest rates or levels of market activity, especially on the fair value of our loan and investment portfolio;*
- *economic deterioration or a recession that may affect the ability of borrowers to make contractual payments on loans and may affect the value of real property or other property held as collateral for such loans, including the value of other real estate owned;*
- *changes in credit quality and the effect of credit quality on our allowance for loan and lease losses;*
- *our ability to attract and retain deposits and other sources of funding or liquidity;*
- *the need to retain capital for strategic or regulatory reasons;*
- *the impact of the Dodd-Frank Act on our business, business strategies and cost of operations;*
- *compression of the net interest margin due to changes in the interest rate environment, forward yield curves, loan products offered, spreads on newly originated loans and leases and/or asset mix;*
- *reduced demand for our services due to strategic or regulatory reasons;*
- *our ability to successfully execute on initiatives relating to enhancements of our technology infrastructure, including client-facing systems and applications;*
- *information security breaches;*
- *legislative or regulatory requirements or changes, including an increase to capital requirements, change in tax policy. and increased political and regulatory uncertainty;*
- *the impact on our reputation and business from our interactions with business partners, counterparties, service providers and other third parties;*
- *higher than anticipated increases in operating expenses;*
- *inability for the Bank to pay dividends to the Holding Company;*
- *a deterioration in the overall macroeconomic conditions or the state of the banking industry that could warrant further analysis of the carrying value of goodwill and could result in an adjustment to its carrying value resulting in a non-cash charge;*
- *the effectiveness of our risk management framework and quantitative models;*
- *the costs and effects of legal, compliance, and regulatory actions, changes and developments, including the impact of adverse judgments or settlements in litigation, the initiation and resolution of regulatory or other governmental inquiries or investigations, and/or the results of regulatory examinations or reviews;*
- *the impact of the changes in tax laws or regulations on our business and business strategies, or if other changes are made to tax laws or regulations affecting our business, including the disallowance of tax benefits by tax authorities and/or changes in tax filing jurisdictions or entity classifications; and*
- *our success at managing risks involved in the foregoing items and all other risk factors described in our audited consolidated financial statements, and other risk factors described in this Report and other documents filed or furnished by the Company with the SEC.*

Therefore, the information set forth therein should be carefully considered when evaluating the business prospects of the Company.

Item 1 - Business

General

United Security Bancshares is a California corporation incorporated in March 2001 and is registered with the Board of Governors of the Federal Reserve System (the "FRB") as a bank holding company under the Bank Holding Company Act of 1956, as amended (the "BHCA"). The stock of United Security Bancshares is listed on Nasdaq under the symbol "UBFO."

United Security Bank was chartered under the laws of the State of California in 1987 as a commercial bank. On June 12, 2001, United Security Bank reorganized into the bank holding company form of ownership and thereby became the wholly-owned subsidiary of United Security Bancshares and each share of United Security Bank stock was exchanged for a share of United Security Bancshares stock on a one-for-one basis. The principal business of United Security Bancshares is to serve as the holding company for United Security Bank.

References to the "Bank" refer to United Security Bank together with its wholly-owned subsidiary, York Monterey Properties. References to "we," "us," or the "Company" refer to United Security Bancshares together with its subsidiaries on a consolidated basis. References to the "Holding Company," refer to United Security Bancshares, the parent company, on a stand-alone basis.

United Security Bank

The Bank is a California state-chartered bank headquartered in Fresno, California. At December 31, 2021, the Bank operates three branches (including its main office), one construction lending office, and one commercial lending office in Fresno, California and one branch each in Oakhurst, Caruthers, San Joaquin, Firebaugh, Coalinga, Bakersfield, Taft, Campbell, and Mendota California. The Bank has ATMs at all branch locations, off-site ATMs at nine different non-branch locations, and Interactive Teller Machines ("ITMs") at seven branch locations . In addition, the Holding Company and the Bank have administrative headquarters located at 2126 Inyo Street, Fresno, California, 93721.

York Monterey Properties, Inc.

York Monterey Properties, Inc. ("YMP") was incorporated in California on April 17, 2019, for the purpose of holding specific parcels of real estate acquired by the Bank through, or in lieu of, foreclosures in Monterey County. These properties exceeded the 10-year regulatory holding period for other real estate owned, or "OREO." YMP was funded with a $250,000 cash investment and the transfer of those parcels by the Bank to YMP. In December 2021 $805,000 in additional funding was transferred to the subsidiary to fund estimated expenses over a five-year period. As of December 31, 2021, these properties are included within the consolidated balance sheets as part of "other real estate owned."

USB Capital Trust II

During July 2007, the Holding Company formed USB Capital Trust II as a wholly-owned special purpose entity for the purpose of issuing Trust Preferred Securities. USB Capital Trust II is a Variable Interest Entity (VIE) and a deconsolidated entity pursuant to current accounting standards related to variable interest entities. On July 23, 2007, USB Capital Trust II issued $15 million in Trust Preferred Securities. These securities have a thirty-year maturity and bear a floating rate of interest (repricing quarterly) of 1.29% over the three-month LIBOR rate. Interest is payable quarterly. Concurrent with the issuance of the Trust Preferred Securities, USB Capital Trust II used the proceeds of the Trust Preferred Securities offering to purchase a like amount of junior subordinated debentures issued by the Holding Company. The Holding Company pays interest on the junior subordinated debentures to USB Capital Trust II, which represents the sole source of dividend distributions to the holders of the Trust Preferred Securities. During 2015, $3.0 million of the $15.0 million principal balance of the subordinated debentures related to the Trust Preferred Securities was purchased by the Bank and subsequently purchased by the Company from the Bank. The Company redeemed the $3.0 million in par value of the subordinated debentures, resulting in a remaining contractual principal balance of $12.0 million since year-end 2015. The Company may redeem the junior subordinated debentures at any time at par.

The following discussion of services should be read in conjunction with "Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS."

Bank Services

The Bank offers a full range of commercial banking services primarily to the business and professional community and individuals located in Fresno, Madera, Kern, and Santa Clara Counties, including a variety of deposit instruments including personal and business checking accounts and savings accounts, interest-bearing negotiable order of withdrawal (NOW) accounts, money market accounts and time certificates of deposit. Most deposits are comprised of accounts from individuals and from small- and medium-sized business-related sources. Time deposits represent 5.7% and 6.5% of total deposits at December 31, 2021 and 2020, respectively.

The Bank also offers a full complement of lending activities, including real estate mortgage (64.2% of total loans at December 31, 2021), commercial and industrial (5.2% of total loans at December 31, 2021), real estate construction (17.7% of total loans at December 31, 2021), agricultural (6.9% of total loans at December 31, 2021), and installment loans (5.9% of total loans at December 31, 2021). Approximately 81.9% of the Bank's loans are secured by real estate at December 31, 2021. A loan may be secured (in whole or in part) by real estate even though the purpose of the loan is not to facilitate the purchase or development of real estate. At December 31, 2021, the Bank had total loans (net of unearned fees) outstanding of $871.5 million, which represented approximately 73.4% of total deposits and approximately 65.5% of total assets.

Real estate mortgage loans are secured by deeds of trust primarily on commercial property. The repayment of real estate mortgage loans generally is from the cash flow of the borrower. Commercial and industrial loans are diversified by industry. Loans may be originated in the Bank's market area, purchased, or participated with other financial institutions outside the market area. A substantial portion of commercial and industrial loans are secured by accounts receivable, inventory, leases or other collateral. The remainder are unsecured. However, extensions of credit are predicated on the financial capacity of the borrower to repay. Repayment of commercial loans is generally from the cash flow of the borrower. Real estate construction loans consist of loans to residential and commercial contractors, which are secured by single-family residential or multi-family properties. All real estate loans have established equity requirements. The repayment of real estate construction loans is generally from long-term mortgages with other lending institutions. Agricultural loans are generally secured by land, equipment, inventory and receivables. Repayment of agricultural loans is generally from the expected cash flow of the borrower.

While the Bank has a high concentration of commercial real estate loans, it is not in the business of making residential mortgage loans to individuals. Residential mortgage loans totaled $226.9 million, or 26.1% of the portfolio at December 31, 2021. The residential mortgage loan portfolio is primarily comprised of purchased fixed rate 30-year residential mortgage pools. The Bank does not originate, or have in the loan portfolio, any subprime, Alt-A, or option adjustable rate loans. The Bank does originate interest-only loans which are generally revolving lines of credit to commercial and agricultural businesses or for real estate development where the borrowers business may be seasonal or cash flows may be restricted until the completion of the project. In addition, the Bank has restructured certain loans to allow the borrower to continue to perform on the loan under a troubled debt restructuring plan.

Loan participations are purchased from and sold to other financial institutions. The underwriting standards for loan participations or purchases are the same as non-participated loans, and are subject to the same limitations, collateral requirements, and borrower requirements. As of December 31, 2021, purchased participation loans totaled $9.6 million. There were $9.7 million purchased loan participations held at December 31, 2020. Loan participations sold comprised 1.7% and 2.0% of the total loan portfolio at December 31, 2021 and 2020, respectively.

In the normal course of business, we make various loan commitments, including granting customers collateralized and uncollateralized lines of credit, and incur certain contingent liabilities. Due to the nature of the business of the Bank's customers, there is no absolute predictability to the utilization of unused loan commitments, including collateralized and uncollateralized lines of credit, and, therefore, it is not possible to forecast the extent to which these commitments will be exercised within the current year. While no assurance can be provided, it is not believed that any such utilization will constitute a material liquidity demand.

In addition to the loan and deposit services discussed above, the Bank also offers a wide range of specialized services designed to attract and service the needs of commercial customers and account holders. These services include online banking, mobile banking, safe deposit boxes, wire transfers, ITM services, ATM services, payroll direct deposit, cashier's checks, and cash management services. We do not operate a trust department; however, we make arrangements with correspondent banks to offer trust services to customers upon request.

Competition and Market Share

The banking business in California as well as the Bank's market area is highly competitive with respect to both loans and deposits. The Bank competes for loans and deposits with other commercial banks, savings and loan associations, money market funds, credit unions, and other financial institutions, including a number that are substantially larger than us. The bank competes for loans and deposits by offering competitive interest rates and by seeking to provide a higher level of personalized service than is generally offered by larger competitors. Regulatory restrictions on interstate bank branching and acquisitions and on the provision of certain financial services, such as securities underwriting and insurance, have been reduced or eliminated. The availability of online and mobile banking services continues to expand. Changes in laws and regulations governing the financial services industry cannot be predicted; however, past legislation has served to intensify the competitive environment. Many of the major commercial banks operating in the Bank's market areas offer certain services, such as trust and wealth management services, which the Bank does not offer directly. In addition, banks with larger capitalization have larger lending limits and are thereby able to serve larger customers.

The primary market area at December 31, 2021 was located in Fresno, Madera, Santa Clara, and Kern Counties, California, in which 58 FDIC-insured financial institutions compete for business. The following table sets forth information regarding deposit market share and ranking by county as of June 30, 2021, which is the most current information available.

	Rank	Share
Fresno County	9th	4.35%
Madera County	7th	6.76%
Kern County	15th	0.74%
Santa Clara County	43rd	0.01%
Total of Fresno, Madera, Kern, and Santa Clara Counties	18th	0.37%

Supervision and Regulation

Banking is a complex, highly regulated industry. Federal and state laws and the regulations of the federal and state bank regulatory agencies govern most aspects of a bank’s business, including capital adequacy ratios, reserves against deposits, limitations on the nature and amount of loans which may be made, the location of branch offices, borrowings, and dividends. The primary goals of the regulatory scheme are to maintain a safe and sound banking system, protect depositors and the FDIC’s insurance fund, and facilitate the conduct of sound monetary policy. In furtherance of these goals, Congress and the states have created several largely autonomous regulatory agencies and enacted numerous laws that govern banks, bank holding companies and the financial services industry. Consequently, the growth and earnings performance of the Company and the Bank can be affected not only by management decisions and general economic conditions, but also by the requirements of applicable state and federal statutes, regulations and the policies of various governmental regulatory authorities, including:

- the Federal Deposit Insurance Corporation, or FDIC;
- the California Department of Financial Protection and Innovation, or DFPI (formerly known as the Department of Business Oversight); and
- the Federal Reserve Board, or FRB.

Changes in applicable law or regulations, and in their application by the regulatory agencies, whether as the result of changes in the political climate or otherwise, cannot be predicted and may have a material effect on the business, operations, and financial results of the Company or the Bank.

Described below are elements of selected laws and regulations applicable to the Company and/or the Bank. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”),which was enacted in 2010, significantly revised and expanded the rulemaking, supervisory and enforcement authority of the federal bank regulatory agencies. The numerous rules and regulations being promulgated pursuant to the Dodd-Frank Act are impacting banks’ operations and compliance costs. Provisions of the Dodd-Frank Act include: revisions in the deposit insurance assessment base for FDIC insurance and the permanent increase in deposit insurance coverage to $250,000; reduced interchange fees on debit card transactions; interest payments on business checking accounts; the removal of barriers to interstate branching; and required disclosure and shareholder advisory votes on executive compensation. Other provisions of the Dodd-Frank Act include:

- *Capital Requirements*. The Dodd-Frank Act: increased the minimum Tier 1 capital ratio from 4.00% to 6.00% of risk-weighted assets; created a new category and required 4.50% of risk-weighted assets ratio for "common equity Tier 1" as a subset of Tier 1 capital limited to common equity; established a minimum non-risk-based leverage ratio set at 4.00%, eliminating a 3.00% exception for higher rated banks; changed the permitted composition of Tier 1 capital to exclude trust preferred securities (unless issued prior to May 19, 2010 by a bank holding company with less than $15 billion in assets), mortgage servicing rights and certain deferred tax assets and included unrealized gains and losses on available for sale debt and equity securities; added an additional capital conservation buffer of 2.5% of risk-weighted assets over each of the required capital ratios, which must be met to avoid limitations on the ability to pay dividends, repurchase shares or pay discretionary bonuses; changed the risk weights of certain assets for purposes of calculating the risk-based capital ratios for high volatility commercial real estate acquisition, development and construction loans, certain past due non-residential mortgage loans and certain mortgage-backed and other securities exposures.
- *Deposit Insurance*. The Dodd-Frank Act broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act requires the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds.
- *Corporate Governance*. The Dodd-Frank Act directed the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of $1.0 billion.
- *Interstate Branching*. The Dodd-Frank Act authorized national and state banks to establish branches in other states to the same extent as a bank chartered by that state would be permitted to branch.
- *Consumer Financial Protection Bureau*. The Dodd-Frank Act created an independent federal agency called the Consumer Financial Protection Bureau (the "CFPB"), which has been granted broad rulemaking, supervisory, and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Practices Act, the Consumer Financial Privacy provisions of the GLBA, and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions are subject to rules promulgated by the CFPB but are still examined and supervised by their federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act authorized the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, the Dodd-Frank Act allows borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB. The Dodd- Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.
- *Final Volcker Rule*. In December 2013, the federal bank regulatory agencies adopted final rules that implemented a part of the Dodd-Frank Act commonly referred to as the "Volcker Rule." The final rules were amended in August 2019. Under these rules and subject to certain exceptions, banking entities, including the Bank, are restricted from engaging in activities that are considered proprietary trading and from sponsoring or investing in certain entities, including hedge or private equity funds that are considered "covered funds." Banks that do not have significant trading activities, such as the Bank, will be assumed to operate under a presumption of compliance.

The Dodd-Frank Act also resulted in the creation of a new systemic risk oversight body, the Financial Stability Oversight Council (the "FSOC") to oversee and coordinate the efforts of the primary U.S financial regulatory agencies in establishing regulations to address financial stability matters.

The Dodd-Frank Act was enacted under the administration of former President Barack Obama and many of the rules and regulations implementing the provisions of the Dodd-Frank Act were enacted during that administration. The subsequent administration under President Donald Trump sought to roll-back key pieces of the Dodd-Frank Act in an effort to loosen regulatory restrictions on financial institutions including, but not limited to, easing the "Volker Rule," stress tests, and other constraints on financial institutions. The Biden administration has expressed a commitment to reemphasize restrictions on financial institutions which were loosened during the previous administration. The Company cannot predict which provisions of the Dodd-Frank Act will be repealed, put in to effect, delayed, or enforced and, therefore, cannot predict the effect, if any, that the Dodd-Frank Act and regulations promulgated thereunder or actions initiated by the Biden administration will have on its future results of operations and financial condition.

The Holding Company

General

The Holding Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended, and is registered with, and regulated and examined by, the Board of Governors of the Federal Reserve System, or FRB. The Holding Company is subject to regulation by the Securities and Exchange Commission ("SEC") and to the disclosure and regulatory requirements of the Securities Act of 1933, as amended (the "Securities Act"), and the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition, as the Holding Company lists its common stock on Nasdaq, it is subject to the listing standards and rules of Nasdaq.

Source of Strength

The Dodd-Frank Act codified existing FRB policy requiring the Holding Company to act as a source of financial strength to the Bank, and to commit resources to support the Bank in circumstances where it might not otherwise do so. However, because the Gramm-Leach-Bliley Act (“GLBA”) provides for functional regulation of financial holding company activities by various regulators, the GLBA prohibits the FRB from requiring payment by a holding company to a depository institution if the functional regulator of the depository institution objects to the payment. In those cases, the FRB could instead require the divestiture of the depository institution and impose operating restrictions pending the divestiture. As a result of the Dodd-Frank Act, non-bank subsidiaries of a holding company that engage in activities permissible for an insured depository institution must be examined and regulated in a manner that are at least as stringent as if the activities were conducted by the lead depository institution of the holding company.

Bank Holding Company Liquidity

As a legal entity, separate and distinct from the Bank, the Holding Company must rely on its own resources to pay its operating expenses and dividends to its shareholders. In addition to raising capital on its own behalf or borrowing from external sources, the Holding Company may also obtain funds from dividends paid by, and fees charged for services provided to, the Bank. However, statutory and regulatory constraints on the Bank may restrict or totally preclude the payment of dividends by the Bank to the Holding Company.

Transactions with Affiliates and Insiders

The Holding Company and any subsidiaries it may purchase or organize are deemed to be affiliates of the Bank within the meaning of Sections 23A and 23B of the Federal Reserve Act, and the FRB's Regulation W. Under Sections 23A and 23B and Regulation W, loans by the Bank to affiliates, investments by them in affiliates' stock, and taking affiliates' stock as collateral for loans to any borrower is limited to 10% of the Bank's capital, in the case of any one affiliate, and is limited to 20% of the Bank's capital, in the case of all affiliates. In addition, transactions between the Bank and any affiliates must be on terms and conditions that are consistent with safe and sound banking practices and substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with or involving non-affiliates. In particular, a bank and its subsidiaries generally may not purchase from an affiliate a low-quality asset, as defined in the Federal Reserve Act. These restrictions also prevent a bank holding company and a bank subsidiary’s other affiliates from borrowing from the bank subsidiary unless the loans are secured by marketable collateral of designated amounts.

The Holding Company and the Bank are also subject to certain restrictions with respect to engaging in the underwriting, public sale and distribution of securities.

The Federal Reserve Act and FRB Regulation O place limitations and conditions on loans or extensions of credit to a bank or bank holding company’s executive officers, directors and principal shareholders; any company controlled by any such executive officer, director or shareholder; or any political or campaign committee controlled by such executive officer, director or principal shareholder. Additionally, such loans or extensions of credit must comply with loan-to-one-borrower limits; require prior full board approval when aggregate extensions of credit to the person exceed specified amounts; must be made on substantially the same and follow credit-underwriting procedures no less stringent than those prevailing at the time for comparable transactions with non-insiders; must not involve more than the normal risk of repayment or present other unfavorable features; and must not exceed the bank's unimpaired capital and unimpaired surplus in the aggregate.

Limitations on Business and Investment Activities

Under the BHCA, a bank holding company must obtain the FRB's approval before: (i) directly or indirectly acquiring more than 5% ownership or control of any voting shares of another bank or bank holding company; (ii) acquiring all or substantially all of the assets of another bank; (iii) or merging or consolidating with another bank holding company.

The FRB may allow a bank holding company to acquire banks located in any state of the United States without regard to whether the acquisition is prohibited by the law of the state in which the target bank is located. In approving interstate acquisitions, however, the FRB must give effect to applicable state laws limiting the aggregate amount of deposits that may be held by the acquiring bank holding company and its insured depository institutions in the state in which the target bank is located, provided that those limits do not discriminate against out-of-state depository institutions or their holding companies, and state laws which require that the target bank have been in existence for a minimum period of time, not to exceed five years, before being acquired by an out-of-state bank holding company.

In addition to owning or managing banks, bank holding companies may own subsidiaries engaged in certain businesses that the FRB has determined to be "so closely related to banking as to be a proper incident thereto." The Holding Company, therefore, is permitted to engage in a variety of banking-related businesses.

Additionally, qualifying bank holding companies making an appropriate election to the FRB may engage in a full range of financial activities, including insurance, securities, and merchant banking. The Holding Company has not elected to qualify for these financial services.

Federal law prohibits a bank holding company and any subsidiary banks from engaging in certain tie-in arrangements in connection with the extension of credit. Thus, for example, the Bank may not extend credit, lease or sell property, or furnish any services, or fix or vary the consideration for any of the foregoing on the condition that:

- the customer must obtain or provide some additional credit, property, or services from or to the Bank other than a loan, discount, deposit or trust services;
- the customer must obtain or provide some additional credit, property, or service from or to the Holding Company or any subsidiaries; or
- the customer must not obtain some other credit, property, or services from competitors, except reasonable requirements to assure soundness of credit extended.

Capital Adequacy

Bank holding companies must maintain minimum levels of capital under the FRB's risk-based capital adequacy guidelines. If capital falls below minimum guideline levels, a bank holding company, among other things, may be denied approval to acquire or establish additional banks or non-bank businesses.

The FRB's risk-based capital adequacy guidelines, discussed in more detail below in the section entitled "The Bank - Capital Standards," assign various risk percentages or weights to different categories of assets and capital is measured as a percentage of risk-weighted assets. Under the terms of the guidelines, bank holding companies are expected to meet capital adequacy guidelines based both on total risk-weighted assets and on total assets, without regard to risk weights.

The risk-based guidelines are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual organizations. For example, the FRB's capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Moreover, any banking organization experiencing or anticipating significant growth or expansion into new activities, particularly under the expanded powers under the GLBA, would be expected to maintain capital ratios, including tangible capital positions, well above the minimum levels.

Limitations on Dividend Payments

As applicable to the Holding Company, California Corporations Code Section 500 provides that neither the Holding Company nor any of its subsidiaries shall make a distribution to the Holding Company's shareholders unless the board of directors has determined in good faith that either:

- The amount of retained earnings of the Holding Company immediately prior to the distribution equals or exceeds the sum of (A) the amount of the proposed distribution plus (B) the preferential dividends arrears amount; or

- Immediately after the distribution, the value of the Holding Company's assets would equal or exceed the sum of its total liabilities plus the preferential rights amount.

Additionally, the FRB's policy regarding dividends provides that a bank holding company should not pay cash dividends exceeding its net income for the past year or which can only be funded in ways that weaken the bank holding company's financial health, such as by borrowing. The FRB also possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations.

Securities Registration and Listing

The Company's common stock is registered with the SEC under the Exchange Act and, as a result, is subject to the information, proxy solicitation, insider trading, corporate governance, and other disclosure requirements and restrictions of the Exchange Act, as well as the Securities Act, both administered by the SEC. The Company is required to file annual, quarterly and other current reports with the SEC. The SEC maintains an Internet site, http://www.sec.gov, where SEC filings may be accessed. The SEC filings are also available on the Bank's website at http://investors.unitedsecuritybank.com/Docs.

The Company's common stock is listed on Nasdaq and trades under the symbol "UBFO." The Company is subject to Nasdaq standards for listed companies. Nasdaq has adopted corporate governance rules, which are intended to allow shareholders and investors to more easily and efficiently monitor the performance of companies and their directors.

The Bank

General

As a California state-chartered bank and a member of the FRB, the Bank is subject to regulation, supervision and regular examination by the FRB and the DFPI. The Bank is subject to California laws insofar as they are not preempted by federal banking law. Deposits of the Bank are insured by the FDIC up to the applicable limits in an amount up to $250,000 per customer and, as such, the Bank is subject to the applicable provisions of the Federal Deposit Insurance Act and the regulations of the FDIC. As a consequence of the extensive regulation of commercial banking activities in California and the United States, the Bank's business is particularly susceptible to changes in California and federal legislation and regulation, which may have the effect of increasing the cost of doing business, limiting permissible activities or increasing competition.

Capital Standards

Federal regulations require FDIC-insured depository institutions, including the Bank, to maintain adequate capital based on the size, asset composition, and complexity of the institution. Generally, FDIC-insured depository institutions must maintain several minimum capital ratios: a common equity tier 1 capital to risk-based assets ratio; a tier 1 capital to risk-based assets ratio; a total capital to risk-based assets; and a tier 1 capital to total assets leverage ratio. These ratios involve complex calculations of various categories of capital and various categories of assets. Failure to meet minimum capital requirements can initiate certain mandates and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the institution's financial condition and results of operations.

Effective January 1, 2020, pursuant to the Economic Growth, Regulatory Relief, and Consumer Protection Act, enacted in May 2018, the Federal regulatory agencies adopted simplified capital requirements for certain qualifying "community" banking organizations. Depository institutions and depository institution holding companies that have less than $10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio (equal to tier 1 capital divided by average total consolidated assets) of greater than 9 percent, are eligible to opt into the community bank leverage ratio framework. Qualifying community banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than 9 percent are considered to have satisfied the applicable risk-based and leverage capital requirements in the agencies' capital rules and are considered to have met the "well capitalized" ratio requirements. Institutions that cease meeting the qualifying criteria have two calendar quarters within which to re-qualify, so long as the institution maintains a leverage ratio of greater than 8 percent during the grace period.

The Company and the Bank met the criteria and adopted the community bank leverage ratio framework in the third quarter of 2020.

As of December 31, 2021, the Company and the Bank were "well capitalized" under the applicable standards. The actual capitalization ratios for the Bank and the Company as of December 31, 2021 are set forth under FN 25 - Regulatory Matters.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act ("FDICIA") requires each federal banking agency to take prompt corrective action to resolve the problems of insured depository institutions, including but not limited to those that fall below one or more prescribed minimum capital ratios. Pursuant to FDICIA, the FRB promulgated regulations defining the following five categories in which an insured depository institution will be placed, based on the level of its capital ratios:

Under the regulations, a bank shall be deemed to be:

- "well capitalized" if it has a total risk-based capital ratio of 10% or more, has a Tier 1 risk-based capital ratio of 8% or more, has a common equity Tier 1 capital ratio of 6.5% or more, has a Tier 1 leverage capital ratio of 5% or more, and is not subject to specified requirements to meet and maintain a specific capital level for any capital measure;
- "adequately capitalized" if it has a total risk-based capital ratio of 8% or more, a Tier 1 risk-based capital ratio of 6% or more and a leverage capital ratio of 4% or more (3% under certain circumstances) and does not meet the definition of "well capitalized";
- "undercapitalized" if it has a total risk-based capital ratio that is less than 8%, a Tier 1 risk-based capital ratio that is less than 4%, or a leverage capital ratio that is less than 4% (3% under certain circumstances);
- "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 3% or a leverage capital ratio that is less than 3%; and
- "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2%.

A bank's category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes.

While these benchmarks have not changed, due to market turbulence, the regulators have strongly encouraged and, in many instances, required, banks and bank holding companies to achieve and maintain higher ratios as a matter of safety and soundness.

Banks are prohibited from paying dividends or management fees to controlling persons or entities if, after making the payment, the bank would be "undercapitalized," that is, the bank fails to meet the required minimum level for any relevant capital measure. Asset growth and branching restrictions apply to "undercapitalized" banks. Banks classified as "undercapitalized" are required to submit acceptable capital plans guaranteed by its holding company, if any. Broad regulatory authority was granted with respect to "significantly undercapitalized" banks, including forced mergers, growth restrictions, ordering new elections for directors, forcing divestiture by its holding company, if any, requiring management changes, and prohibiting the payment of bonuses to senior management. Even more severe restrictions are applicable to "critically undercapitalized" banks. Restrictions for these banks include the appointment of a receiver or conservator. All of the federal banking agencies have promulgated substantially similar regulations to implement this system of prompt corrective action.

A bank, based upon its capital levels, that is classified as "well capitalized," "adequately capitalized" or "undercapitalized" may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for a hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment. Further, a bank that otherwise meets the capital levels to be categorized as "well capitalized," will be deemed to be "adequately capitalized," if the bank is subject to a written agreement requiring that the bank maintain specific capital levels. At each successive lower capital category, an insured bank is subject to more restrictions. The federal banking agencies, however, may not treat an institution as "critically undercapitalized" unless its capital ratios actually warrant such treatment.

Banking organizations that meet the criteria and have adopted the community bank leverage ratio framework, such as the Company and the Bank, are deemed to be "well capitalized" for "prompt corrective action" purposes.

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations, such as the Bank, may be subject to potential enforcement actions by the federal or state banking agencies for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, the issuance of a cease-and-desist order that can be judicially enforced, the termination of insurance for deposits (in the case of a depository institution), the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, and the issuance of removal and prohibition orders against institution-affiliated parties.

Brokered Deposit Restrictions

Well-capitalized institutions are not subject to limitations on brokered deposits, while an adequately capitalized institution is able to accept, renew or roll over brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the rate paid on such deposits. Undercapitalized institutions are generally not permitted to accept, renew, or roll over brokered deposits. As of December 31, 2021, the Bank was deemed to be "well-capitalized" and, therefore, eligible to accept brokered deposits.

Limitations on Dividend Payments

California law restricts the amount available for cash dividends the Bank may pay to the Holding Company. Under California law, funds available for cash dividend payments by a bank are restricted to the lesser of: (1) retained earnings; or (2) the bank's net income for its last three fiscal years (less any distributions to shareholders made during such period). Cash dividends may also be paid out of the greater of: (i) net income for a bank's last preceding fiscal year; (ii) a bank's retained earnings; or (iii) net income for a bank's current fiscal year, upon the prior approval of the DFPI. If the DFPI finds that the stockholders' equity of a bank is not adequate or that the payment of a dividend would be unsafe or unsound for the bank, the DFPI may order the bank not to pay any dividends.

Premiums for Deposit Insurance

The FDIC insures deposits up to $250,000 per qualified account. The FDIC utilizes a risk-based assessment system to set quarterly insurance premium assessments which categorizes banks into four risk categories based on capital levels and supervisory "CAMELS" ratings and names them Risk Categories I, II, III and IV. The CAMELS rating system is based upon an evaluation of the six critical elements of an institution's operations: Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to risk. This rating system is designed to take into account and reflect all significant financial and operational factors financial institution examiners assess in their evaluation of an institution's performance.

The Federal Deposit Insurance Act required the FDIC to maintain a reserve ratio of the FDIC's deposit insurance fund at not less than 1.35% of insured deposits and to adopt a restoration plan to achieve the statutory minimum within 8 years if the ratio falls below 1.35%. During 2020 the reserve ratio fell below 1.35% to 1.30% due to extraordinary growth in insured deposits and, accordingly, in September 2020, the FDIC adopted a restoration plan providing for FDIC monitoring deposit balance trends, potential losses, and other factors that affect the reserve ratio, while maintaining the current schedule of assessment rates for all insured institutions. Under the restoration plan, the FDIC is to provide updates at least semi-annually. In setting the assessments, the FDIC is required to offset the effect of the higher reserve ratio against insured depository institutions with total consolidated assets of less than $10 billion. Assessments are based on the average consolidated total assets less average tangible equity capital of a financial institution rather than on its insured deposits.

The FDIC is authorized to terminate a depository institution's deposit insurance upon a finding by the FDIC that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order or condition enacted or imposed by the institution's regulatory agency. The termination of deposit insurance would result in the forced closure of the Bank which would have a material adverse effect on the Company's business, financial condition, and results of operations.

Safety and Soundness Standards

The federal banking agencies have adopted guidelines designed to assist the federal banking agencies in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) asset growth; (v) earnings; and (vi) compensation, fees and benefits. In addition, the federal banking agencies have also adopted safety and soundness guidelines with respect to asset quality and earnings standards. These guidelines provide nine standards for establishing and maintaining a system to identify problem assets and prevent those assets from deteriorating.

Federal Home Loan Bank System

The Bank is a member of the Federal Home Loan Bank of San Francisco (the "FHLB-SF"). Among other benefits, each Federal Home Loan Bank ("FHLB") serves as a reserve or central bank for its members within its assigned region. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the Board of Directors of the individual FHLB. The FHLB-SF utilizes a single class of stock with a par value of $100 per share, which may be issued, exchanged, redeemed and repurchased only at par value. As an FHLB member, the Bank is required to own FHLB –SF capital stock in an amount equal to the greater of:

- a membership stock requirement with an initial cap of $25 million (100% of "membership asset value" as defined), or
- an activity based stock requirement (based on percentage of outstanding advances).

The FHLB – SF capital stock is redeemable on five years' written notice, subject to certain conditions. At December 31, 2021 the Bank owned 28,941 shares of the FHLB-SF capital stock.

Federal Reserve Bank

The FRB requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts and non-personal time deposits. At December 31, 2021, the Bank was in compliance with these requirements.

Consumer Regulation

The Company is subject to a number of federal and state consumer protection laws that extensively govern relationships with customers. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Service Members Civil Relief Act, and these laws' respective state-law counterparts, as well as state usury laws and laws regarding unfair and deceptive acts and practices. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys' fees. Federal bank regulators, state attorneys general and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights, action by the state and local attorneys general in each jurisdiction in which we operate, and civil money penalties. Failure to comply with consumer protection regulations may result in the failure to obtain required bank regulatory approval for merger or acquisition transactions or other transactions where approval is not required.

The CFPB has broad rulemaking, supervisory, and enforcement powers under various federal consumer financial protection laws. The CFPB is also authorized to engage in consumer financial education, track consumer complaints, request data, and promote the availability of financial services to underserved consumers and communities. The CFPB has broad supervisory, examination, and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged legal violations and to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. The CFPB also has the authority to obtain cease and desist orders providing for affirmative relief or monetary penalties. State regulation of financial products and potential enforcement actions could also adversely affect business, financial condition, or results of operations. For example, on November 29, 2021 the DFPI proposed rules under the California Consumer Financial Protection Law to allow the DFPI to require businesses that provide financial products such as debt settlement, student debt relief, education financing, and wage-based advances to register with the DFPI and provide records to facilitate the oversight of the registrants in their interaction with consumers in California. The DFPI's expanding its authority to have an increased emphasis on consumer protection that may be viewed as an effort to create a state-run equivalent of the CFPB.

USA PATRIOT Act

The PATRIOT Act, designed to deny terrorists and others the ability to obtain access to the United States financial system, has significant implications for depository institutions, brokers, dealers, and other businesses involved in the transfer of money. The PATRIOT Act, as implemented by various federal regulatory agencies, requires the Company and the Bank to establish and implement policies and procedures with respect to, among other matters, anti-money laundering, compliance, suspicious activity and currency transaction reporting and due diligence on customers and prospective customers. The PATRIOT Act and its underlying regulations permit information sharing for counter-terrorist purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, subject to certain conditions, and require the FRB, the FDIC and other federal banking agencies to evaluate the effectiveness of an applicant in combating money laundering activities when considering a bank holding company acquisition and/or a bank merger.

The Bank regularly evaluates and continues to enhance the systems and procedures to continue to comply with the PATRIOT Act and other anti-money laundering initiatives. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal, strategic, and reputational consequences for the institution and result in material fines and sanctions.

ANTI-MONEY LAUNDERING ACT OF 2020

The Anti-Money Laundering Act of 2020 (the “AML Act”) was enacted effective January 1, 2021 and presents the most comprehensive revisions and enhancements to anti-money laundering and counter terrorism laws since the Currency and Foreign Transactions Reporting Act of 1970 and the USA PATRIOT Act of 2001 (the “BSA”). The impact of the new legislation will not be fully known until required regulations are adopted and implemented, but the AML Act represents significant changes and reaffirms and broadens the government’s oversight and commitment to addressing the illicit activities and financing of terrorism.

Many of the provisions of the AML Act deal with the operations of the federal agencies primarily responsible for addressing terrorism financing and the safeguarding of the national security of the United States, such as the U.S. Treasury and its Financial Crimes Enforcement Network (“FinCEN”), including the requirement for FinCEN to engage anti-money laundering (“AML”) and terrorist financing investigations experts and the requirement to facilitate information sharing with other federal and state and even foreign law enforcement agencies. On June 30, 2021, FinCEN issued the first government-wide priorities for anti-money laundering and countering the financing of terrorism to encourage banks to incorporate the priorities into their risk-based BSA compliance programs. The priorities identified were: (i) corruption; (ii) cybercrime and cyber security; (iii) terrorist financing; (iv) fraud; (v) transnational crime organizations; (vi) drug trafficking; (vii) human trafficking; and (viii) proliferation financing through support networks.

The AML Act also expands the reach of federal AML laws by extending their applicability to a broader range of industries, such as entities involved in futures, precious metals, precious stones and jewels, antiquities, and cryptocurrency. On September 24, 2021, FinCEN issued proposed rules to include a person engaged in the trade of antiquities under the definition of “financial institution” subjecting such person to regulations prescribed by the Secretary of the Treasury.

The AML Act aims to balance the burdens imposed by reporting on financial institutions and the benefits derived by Federal law enforcement agencies. The AML Act requires a review of currency transaction and suspicious activity reports submitted by financial institutions to determine to what extent the reporting can be streamlined and made more useful. Included is the obligation to review the dollar thresholds for reporting currency transactions and to establish automated processes for filing simple, non-complex categories of reports. It calls for greater integration between financial institution systems and the electronic filing system to allow for automatic population of report fields and the submission of transaction data.

Other provisions of the AML Act enhance enforcement. One section provides protection for financial institutions keeping open a customer’s account or transaction at the request of a federal law enforcement agency or at the request of a state or local agency with the concurrence of FinCEN. Other sections increase civil penalties for financial institutions and persons violating the recordkeeping and reporting obligations. Persons found to have committed repeated “egregious violations” may be barred from serving on boards of directors of financial institutions and fined in an amount that is equal to the profit gained by such person by reason of such violation. If that person is a partner, director, officer or employee of a financial institution, that person may be ordered to repay any bonus paid to that person, irrespective of the amount of the bonus or how it was calculated. New criminal penalties have been created for concealing from or misrepresenting to a financial institution any material facts concerning: (i) the ownership or control of assets involved in a monetary transaction involving a senior foreign political figure in amounts exceeding $1 million; or (ii) the source of funds in a monetary transaction involving an entity found to be a primary money laundering concern. Other enforcement enhancement provisions in the AML Act authorize the Treasury to pay whistleblower awards leading to fines or forfeitures of at least $50,000 up to the lower of $150,000 or 25% of the fine or forfeiture and allows for the payment to whistleblowers of up to 30% of the fine or forfeiture.

One of the most significant portions of the AML Act is The Corporate Transparency Act ("CTA"), which will require the reporting of certain information regarding "beneficial owners" of "reporting companies" to a confidential database to be established by FinCEN**.** Reporting companies are defined as any corporation, limited liability company or other entity formed in the U.S. under the laws of a state or Indian Tribe or registered as a foreign entity to do business in the U.S., other than those specifically excluded, such as: (i) companies reporting or with a class of securities registered with the SEC under the Securities Act of 1934; (ii) banks, bank holding companies, and credit unions; (iii) money transmitters, registered broker-dealers, registered investment advisors, and investment companies; (iv) public utilities and insurance companies; (v) 503(c)(3) entities; (vi) entities that employ more than 20 employees, have reported gross receipts or sales to the Internal Revenue Service in excess of $5.0 million in the prior year, and have an operating presence in the U.S.; and (vii) certain "inactive" entities.

A beneficial owner is any individual who directly, or indirectly exercises substantial control over an entity or owns or controls 25% or more of the ownership interest of an entity. The reporting company will be required to provide FinCEN with the legal name, date of birth, current resident or business address, and an acceptable identification number of the beneficial owner. In December 2021, FinCEN issued proposed rules to implement the beneficial ownership information reporting addressing who, when, and what will be required to be reported.

Under the CTA, the Treasury is to minimize the burden on reporting companies and ensure the information deposited in the database is maintained in the strictest confidence and made available for inspection or disclosure by FinCEN only for the purposes set forth in the AML Act and only to: (i) federal agencies engaged in national security, intelligence or law enforcement; (ii) state, local or Tribal law enforcement agencies, subject to authorization by a court of competent jurisdiction; (iii) financial institutions subject to customer due diligence requirements with the consent of the reporting company; (iv) requests by a federal or other appropriate regulatory agency; (v) certain Treasury officials for tax administration purposes; and (vi) authorized federal agencies on behalf of a properly recognized foreign authority. On January 25, 2022, FinCEN issued proposed regulations for a pilot program to permit financial institutions to share suspicious activity information with their foreign branches, subsidiaries and affiliates to combat illicit finance risks under the AML Act.

The foregoing is only a summary of selected provisions of the AML Act. Given that regulations implementing the new AML Act are being proposed but have not yet been adopted or implemented, the Company cannot determine at this time the effect, if any, the AML Act will have on the Company's future results of operations or financial condition.

Office of Foreign Assets Control ("OFAC" Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, designated nationals, and others. These rules are based on their administration by OFAC. The OFAC-administered sanctions targeting designated countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off, or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal, strategic, and reputational consequences, and result in civil money penalties on the Company and the Bank.

Community Reinvestment Act

The Community Reinvestment Act (the "CRA") generally requires the Bank to identify the communities it serves and to make loans and investments, offer products, make donations in, and provide services designed to meet the credit needs of these communities. The CRA also requires the Bank to maintain comprehensive records of its CRA activities to demonstrate how we are meeting the credit needs of the Bank's communities. These documents are subject to periodic examination by the FRB. During these examinations, the FRB rates such institutions' compliance with CRA as "Outstanding," "Satisfactory," "Needs to Improve" or "Substantial Noncompliance." The CRA requires the FRB to take into account the record of a bank in meeting the credit needs of all of the communities served, including low- and moderate-income neighborhoods, in determining such rating. Failure of an institution to receive at least a "Satisfactory" rating could inhibit such institution or its holding company from undertaking certain activities, including acquisitions. The Bank received a CRA rating of "Satisfactory" as of its most recent examination. In the case of a bank holding company, such as the Company, when applying to acquire a bank, savings association, or a bank holding company, the FRB will assess the CRA record of each depository institution of the applicant bank holding company in considering the application.

Customer Information Privacy and Cybersecurity

The FRB and other bank regulatory agencies have adopted guidelines for safeguarding confidential, personal, and non-public customer information. These guidelines require each financial institution, under the supervision and ongoing oversight of its board of directors or an appropriate committee thereof, to create, implement, and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazard to the security or integrity of such information, and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. We have adopted a customer information security program to comply with these requirements.

In March 2015, federal regulators issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing Internet-based services of the financial institution. The other statement indicates that a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties.

Privacy

The GLBA and the California Financial Information Privacy Act require financial institutions to implement policies and procedures regarding the disclosure of non-public personal information about consumers to non-affiliated third parties. In general, the statutes require disclosures to consumers on policies and procedures regarding the disclosure of such non-public personal information and, except as otherwise required by law, prohibit disclosing such information except as provided in the Bank's policies and procedures. We have implemented privacy policies addressing these restrictions that are distributed regularly to all existing and new customers of the Bank.

Other Aspects of Banking Law

The Bank is subject to federal statutory and regulatory provisions covering, among other things, security procedures, management interlocks, funds availability and truth-in-savings. There are also a variety of federal statutes that regulate acquisitions of control and the formation of bank holding companies, and the activities beyond owning banks that are permissible.

Moreover, additional initiatives may be proposed or introduced before Congress, the California Legislature, and other government bodies in the future which, if enacted, may further alter the structure, regulation, and competitive relationship among financial institutions and may subject the bank holding companies and banks to increased supervision and disclosure, compliance costs and reporting requirements. In addition, the various bank regulatory agencies often adopt new rules and regulations and policies to implement and enforce existing legislation. Bank regulatory agencies have been very aggressive in responding to concerns and trends identified in examinations, and this has resulted in the increased issuance of enforcement actions to financial institutions requiring action to address credit quality, liquidity and risk management, capital adequacy, compliance with Bank Secrecy Act, as well as other safety and soundness concerns.

It cannot be predicted whether, or in what form, any such legislation or regulatory changes in policy may be enacted or the extent to which the Bank's businesses would be affected thereby. In addition, the outcome of examinations, any litigation, or any investigations initiated by state or federal authorities may result in necessary changes in the Bank's operations and increased compliance costs.

Human Capital

The Company employed 119 full-time equivalent staff as of December 31, 2021. The employees are not represented by a collective bargaining unit, and the Company believes its relationship with its employees is good.

The Company's ability to attract, retain, and develop employees is a key to its success. We provide competitive pay that is consistent with the employee's position and experience. Annual increases in compensation are based on merit, which is documented throughout internal systems and communicated at the time of review and upon promotion or transfer. Certain employees participate in the Company's performance-based incentive programs, which may include additional bonus and incentive compensation and equity-based awards. Certain benefits are subject to eligibility, vesting, and performance requirements. Employee performance is measured formally at least annually.

Our employees' health, wellness, and safety are a priority to the Company. Employees receive a comprehensive benefits package that includes paid time off, sick time, company contributions of 100% up to 4% of salary contributions to a qualified retirement plan, and other health and wellness benefits including participation in Company paid or subsidized medical, dental, term-life, accidental death and dismemberment (AD&D), long-term disability, and employee assistance programs.

The Company’s code of ethics prohibits discrimination or harassment. The Company requires all employees to agree to the code of ethics and participate in harassment prevention training annually.

Available Information

The Company files periodic reports and other reports under the Securities Exchange Act of 1934 with the Securities and Exchange Commission. These reports, as well as the Company’s Code of Ethics, are posted and are available at no cost on the Company’s website at http://www.unitedsecuritybank.com as soon as reasonably practical after the Company files such reports with the SEC. The Company’s periodic and other reports filed with the SEC are also available at the SEC’s website (http://www.sec.gov).

Item 1A - Risk Factors

Not required for smaller reporting companies.

Item 1B - Unresolved Staff Comments

The Company had no unresolved staff comments at December 31, 2021.

Item 2 - Properties

The Bank’s main bank branch is located at 2151 West Shaw Avenue, Fresno, California. The Company owns the building and leases the land under a sublease dated December 1, 1986, between Central Bank and USB. The current sublessor under the master ground lease is Bank of the West, which acquired the position through the purchase of Central Bank. The lessor under the ground lease (Master Lease) is Thomas F. Hinds. A lease extension was executed for an additional 5- year term starting January 1, 2021, as the most recently renewed lease agreement expired December 31, 2020. The Company holds additional options to extend the term for two (2) more periods of five (5) years under the same terms and conditions.

The Company leases the banking premises of approximately 6,450 square feet for its second of three Fresno branches at 7088 N. First St, Fresno, California, under a lease which commenced August 2005 and renewed July 2015 for a term of 10 years expiring July 2025. The facility provides space for the branch as well as the Real Estate Construction Department and the Indirect Consumer Lending Department.

The Company leases the Oakhurst bank branch located at the Old Mill Village Shopping Center, 40074 Highway 49, Oakhurst, California. The branch facility consists of approximately 5,000 square feet. The original lease agreement was signed April 1999 for 15 years with two 5-year options to extend the lease. In May 2019, the Company renegotiated terms and signed a new 5-year lease which is set to expire in April 2024.

The Company owns the Caruthers bank branch located at 13356 South Henderson, Caruthers, California, which consists of approximately 5,000 square feet of floor space.

The Company owns the San Joaquin bank branch facility located at 21574 Manning Avenue, San Joaquin, California. The Bank branch is approximately 2,500 square feet.

The Company owns the Firebaugh bank branch located at 1067 O Street, Firebaugh, California. The premises are comprised of approximately 4,666 square feet of office space situated on land totaling approximately one-third of an acre.

The Company owns the Coalinga bank branch located at 145 East Durian, Coalinga, California. The office building has a total of 6,184 square feet of interior floor space situated on approximately 0.45 acres of land.

The Company leases the Convention Center bank branch located at 855 “M” Street, Suite 130, Fresno, California. Total space leased is approximately 4,520 square feet, and was occupied during March 2004. The Company signed a 5-year lease renewal in June 2019 which is set to expire in May 2024. The new lease provides two potential 5-year options to extend.

The Company owns the Taft bank branch office premises located at 523 Cascade Place, Taft, California. The branch facility consists of approximately 9,200 square feet of office space.

The Company owns the Bakersfield bank branch facility located at 3404 Coffee Road, Bakersfield, California, which has approximately 6,130 square feet of office space located on 1.15 acres.

The Company leases the Campbell bank branch located at 1875 S. Bascom Ave., Suite 119, Campbell, California, which has approximately 1,470 square feet. The original lease commenced on January 1, 2011 and expired on December 31, 2020. In July 2021 terms were negotiated on a modified and fully renovated space and a new 5-year lease was signed which is set to expire in June 2026. From December 2020 to July 2021 the Company and lessor were operating under a month-to-month arrangement under the terms of the previous lease agreement.

The Company leases the new Mendota bank branch located at 643 Quince St., Ste B, Mendota, California, which has approximately 480 square feet. The lease commenced on October 1, 2020 and expires on September 30, 2030.

The Company owns its administrative headquarters at 2126 Inyo Street, Fresno, California and is occupied by the Company’s administrative staff. The facility consists of approximately 21,400 square feet. A portion of the premises has been subleased to a third-party under a lease term which expires in March 2025.

The Company also has nine remote ATM locations leased from unrelated parties.

Item 3 - Legal Proceedings

From time to time, the Company is party to claims and legal proceedings arising in the ordinary course of business. At this time, the management of the Company is not aware of any pending legal proceedings to which it is a party or of which any of its property is the subject, nor is the Company aware of any such proceedings known to be contemplated by governmental entities, which proceedings will have a material adverse effect on the financial condition or results of operations of the Company.

Item 4 - Mine Safety Disclosures

Not applicable

PART II

Item 5 - Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Trading History

The common stock trades on The Nasdaq Global Select Market and is traded under the symbol UBFO. At December 31, 2021, there were approximately 549 record holders of common stock. This does not reflect the number of persons or entities who hold their stock in nominee or street name through various brokerage firms.

The following table sets forth the high and low closing sales prices by quarter for the common stock, for the years ended December 31, 2021 and 2020.

	Closing Prices		Volume
Quarter	High	Low	
4th Quarter 2021	$ 8.21	$ 7.75	981,342
3rd Quarter 2021	$ 8.25	$ 7.77	1,754,001
2nd Quarter 2021	$ 8.56	$ 7.70	5,946,233
1st Quarter 2021	$ 8.85	$ 6.76	2,631,103
4th Quarter 2020	$ 7.75	$ 5.89	1,595,565
3rd Quarter 2020	$ 7.13	$ 5.74	1,679,943
2nd Quarter 2020	$ 7.68	$ 5.07	1,971,912
1st Quarter 2020	$ 10.58	$ 5.20	1,495,926

Dividends

The Company's shareholders are entitled to dividends when and if declared by the Board of Directors out of funds legally available therefore. Dividends paid to shareholders are subject to restrictions set forth in the California General Corporation Law, which provides that a California corporation may make a distribution, including paying dividends on its capital stock, from retained earnings to the extent that the retained earnings exceed (a) the amount of the proposed distribution plus (b) the amount, if any, of dividends in arrears on shares with preferential dividend rights. Alternatively, a California corporation may make a distribution, if, immediately after the distribution, the value of its assets equals or exceeds the sum of (a) its total liabilities plus (b) the liquidation preference of any shares which have a preference upon dissolution over the rights of shareholders receiving the distribution. As a bank holding company without significant assets other than its equity position in the Bank, the ability to pay dividends to shareholders depends primarily upon dividends received from the Bank. Such dividends paid by the Bank to our Holding Company are subject to certain limitations. See “Management’s Discussion and Analysis of Financial and Results of Operations - Regulatory Matters.”

Cash dividends issued 2021 and 2020:

2021			2020		
Date Declared	**Date Paid**	**Dividend Amount**	**Date Declared**	**Date Paid**	**Dividend Amount**
March 23, 2021	April 16, 2021	$0.11	March 24, 2020	April 15, 2020	$0.11
June 22, 2021	July 16, 2021	$0.11	June 23, 2020	July 15, 2020	$0.11
September 28, 2021	October 25, 2021	$0.11	September 22, 2020	October 16, 2020	$0.11
December 14, 2021	January 18, 2022	$0.11	December 15, 2020	January 19, 2021	$0.11

The amount and payment of dividends to our shareholders are set by the Board of Directors with numerous factors being taken into consideration including but not limited to earnings, financial condition, and the need for capital for expanded growth and general economic conditions. No assurance can be given that cash or stock dividends will be paid in the future.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth securities authorized for issuance under equity compensation plans as of December 31, 2021.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (column a)		Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	94,601	(1)	$ 7.87	515,494
Equity compensation plans not approved by security holders	N/A		N/A	N/A
Total	94,601		$ 7.87	515,494

(1) Under the United Security Bancshares 2015 Equity Incentive Award Plan (the "2015 Plan"), we are authorized to issue restricted stock awards. Restricted stock awards are not included in the total in column (a). At December 31, 2021, there were 27,949 shares of restricted stock issued and outstanding.

A complete description of the above plans is included in Note 12 of the Financial Statements, within Item 8 of this Report, and is hereby incorporated by reference.

Recent Sales of Unregistered Securities and Use of Proceeds

None.

Purchases of Equity Securities by Affiliates and Associated Purchasers

On April 25, 2017, the Company's Board of Directors approved the repurchase of up to $3 million of the outstanding common stock of the Company. The duration of the program is open-ended and the timing of purchases will depend on market conditions. The Company did not repurchase any common shares under the stock repurchase plan during the years ended December 31, 2021 and 2020.

Item 6 - [Reserved]

Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the Company's financial condition and results of operations should be read together with the consolidated financial statements and related notes included in this report.

Overview

The Company

United Security Bancshares, a California corporation, is a bank holding company registered under the BHCA with corporate headquarters located in Fresno, California. The principal business of United Security Bancshares is to serve as the holding company for its wholly-owned subsidiary, United Security Bank. References to the “Bank” refer to United Security Bank together with its wholly-owned subsidiary, York Monterey Properties, Inc. References to the “Company” refer to United Security Bancshares together with its subsidiaries on a consolidated basis. References to the “Holding Company” refer to United Security Bancshares, the parent company, on a stand-alone basis. The Bank currently has twelve banking branches, which provide banking services in Fresno, Madera, Kern, and Santa Clara counties in the state of California. In addition to full-service branches, the Bank has several stand-alone ATM and ITM machines within its geographic footprint.

Executive Summary

During 2021, the Company executed a multi-phase strategy to deploy excess liquidity in a challenging interest rate environment with weak loan demand.

2021 Financial Summary and 2020 Comparison

- Total assets increased 21.8% to $1.3 billion, compared to $1.1 billion at December 31, 2020.
- Total loans, net of unearned fees, increased 33.2% to $871.5 million, compared to $654.3 million at December 31, 2020.
- Total investments increased 111.9%, or $96.5 million, to $182.6 million, compared to $86.2 million at December 31, 2020.
- Total deposits increased 24.7% to $1.2 billion, compared to $952.7 million at December 31, 2020.
- Net interest income before the provision for credit losses increased 10.45% to $35.7 million for the year ended December 31, 2021, compared to $32.3 million for the year ended December 31, 2020.
- Book value per share increased to $7.06, compared to $6.93 at December 31, 2020.
- Net charge-offs totaled $1.3 million, compared to net charge-offs of $2.2 million for the year ended December 31, 2020.
- Capital position remains well-capitalized with a 9.79% Tier 1 Leverage Ratio compared to 11.37% as of December 31, 2020.
- Return on average assets ("ROAA") was 0.82%, compared to 0.86% for the year ended December 31, 2020.
- Return on average equity ("ROAE") was 8.47%, compared to 7.55% for the year ended December 31, 2020.

Current Trends Affecting Results of Operations and Financial Position

The Company’s overall operations are impacted by a number of factors, including not only interest rates and margin spreads, which impact the results of operations, but also the composition of the Company’s balance sheet. One of the primary strategic goals of the Company is to maintain a mix of assets that will generate a reasonable rate of return without undue risk, and to finance those assets with a low-cost and stable source of funds. Liquidity and capital resources must also be considered in the planning process to mitigate risk and allow for growth.

Since the Bank primarily conducts banking operations in California’s Central Valley, its operations and cash flows are subject to changes in the economic condition of the Central Valley. Our business results are dependent in large part upon the business activity, population, income levels, deposits and real estate activity in the Central Valley, and declines in economic conditions can have adverse material effects upon the Bank. In addition, the Central Valley remains largely dependent on agriculture. A downturn in agriculture and agricultural related business could indirectly and adversely affect the Company as many borrowers and customers are involved in, or are impacted to some extent, by the agricultural industry. While a great number of our borrowers are not directly involved in agriculture, they would likely be impacted by difficulties in the agricultural industry since many jobs in our market areas are ancillary to the regular production, processing, marketing and sale of agricultural commodities. The state of California is experiencing a severe drought and water allocations have been significantly reduced for farmers in the Central Valley. Due to these water issues the impact on businesses and consumers located in the Company's market areas is not possible to quantify. In response the California state legislature passed the Sustainable Groundwater

Management Act with the purpose to ensure better local and regional management of groundwater use and sustainable groundwater management in California by 2042. The local districts began to develop, prepare, and begin implementation of the Groundwater Sustainability Plans in 2020. The effect of such plans to Central Valley agriculture, if any, is still unknown.

The Company's earnings are impacted by monetary and fiscal policies of the United States government and its agencies. The FRB has, and is likely to continue to have, an important impact on the operating results of depository institutions through its power to implement national monetary policy, among other things, in order to curb inflation or combat a recession. The FRB affects the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to member banks and its influence over reserve requirements to which member banks are subject. The FOMC has indicated that due to rising inflation it expects to raise interest rates in the near term. While the expectation is that the FRB will raise short-term interest rates in 2022, it is unknown what effects the current international instability will have on inflation and the FRB's monetary policies.

The Company continually evaluates its strategic business plan as economic and market factors change in its market area. Balance sheet management, enhancing revenue sources, and maintaining market share will continue to be of primary importance.

COVID-19

The COVID-19 pandemic has impacted the local economy in the Central Valley. Federal, State and local shelter-in-place recommendations were enacted in our markets in March 2020 causing many businesses to close and workers to be furloughed or lose jobs. Essential purpose entities such as medical professionals, food and agricultural businesses, and transportation and logistical businesses were exempted from the closures; however, unemployment rates have increased in our local market area. As of December 2021, the unemployment rate in Fresno County was 7.0%, a decrease from 10.4% as of December 31, 2020. Congress, the President, and the Federal Reserve have taken several actions designed to cushion the economic fallout. Most notably, the Coronavirus Aid, Relief and Economic Security (“CARES”) Act was signed into law at the end of March 2020 as a $2 trillion legislative package, and the Consolidated Appropriations Act, 2021 was signed into law at the end of December 2020 as a $900 billion legislative package. The goal of the CARES Act and Consolidated Appropriations Act, were to prevent a severe economic downturn through various measures, including direct financial aid to American families and economic stimulus to significantly impacted industry sectors. In addition to the general impact of COVID-19, certain provisions of the CARES Act as well as other recent legislative and regulatory relief efforts may have a material impact on our operations. While it is not possible to know the full universe or extent of these impacts as of the date this filing, we are disclosing potentially material items of which we are aware.

Financial position and results of operations

Pertaining to the Company's December 31, 2021 financial condition and results of operations, COVID-19 has had an impact on the allowance for credit losses. While the Company has not yet experienced any charge-offs related to COVID-19, its allowance for credit loss calculation and resulting provision for credit losses are significantly impacted by changes in economic conditions resulting from a significant increase in unemployment. Although economic scenarios improved since the pandemic was declared in March 2020, the credit risk in the loan portfolio remains heightened resulting in the need for an additional reserve for credit loss. Should economic conditions worsen, the Company could experience further increases in its required allowance for credit loss and record additional provision expense.

Capital and liquidity

As of December 31, 2021, the Company and Bank's capital ratios were in excess of all regulatory requirements. The Company's management team believes that while the Company and Bank have sufficient capital to withstand an extended economic recession brought about by COVID-19, its reported and regulatory capital ratios could be adversely impacted by further credit losses. The Company relies on cash on hand as well as dividends from the Bank to service its debt. If the Bank is unable to pay dividends for an extended period of time, the Company may not be able to service its debt.

The Company maintains access to multiple sources of liquidity. If extended economic weakness caused large numbers of its deposit customers to withdraw their funds, it might become more reliant on volatile or more expensive sources of funding. Wholesale funding markets are available to the Company.

Asset valuation

Currently, the Company does not expect COVID-19 to affect its ability to account timely for the assets on the balance sheet; however, this could change in future periods. While certain valuation assumptions and judgments will change to account for pandemic-related circumstances such as widening credit spreads, the Company does not anticipate significant changes in methodology used to determine the fair value of assets measured in accordance with GAAP.

Processes, controls and business continuity plan

The Company maintains a Business Continuity Plan to prepare, and respond to unforeseen circumstances, such as, natural disasters and pandemics. Upon the COVID-19 pandemic declaration, the Company invoked its Business Continuity Plan. Shortly after invoking the plan, the Company implemented protocols for team member safety, provided timely communication to team members and customers, established remote work capabilities to isolate certain personnel essential to critical business continuity operations, and initiated strategies for monitoring and responding to local COVID-19 impacts. Due to the nature of their functions, many team members continue to operate from physical Company locations, while effectively employing social distancing standards. The Company's Management Team continues to meet regularly to anticipate and respond to any future COVID-19 interruptions or developments. As of December 31, 2021, the Company does not anticipate significant challenges to its ability to maintain its systems and controls in light of the measures it has taken to prevent the spread of COVID-19. The Company does not currently face any material resource constraint through the implementation of its business continuity plans.

Lending operations and accommodations to borrowers

In keeping with regulatory guidance to work with borrowers during this unprecedented situation, the Company executed a payment deferral program for our commercial lending clients that are adversely affected by the pandemic. During 2020, the Company had executed 23 payment deferrals or modifications on outstanding loan balances of $69,814,000 in connection with the COVID-19 relief provided by the CARES Act and interagency guidance issued in March 2020. The Company has not recognized any losses on the loan modifications and as of December 31, 2021, there were no modifications outstanding.

The Company participated in the first and second draw of the Paycheck Protection Program ("PPP"), administered by the SBA. The first PPP draw ended on August 8, 2020, the second draw and PPP program ended May 31, 2021. PPP loans earn interest at 1% and have either a two or five year term. In addition to interest, the Company receives a processing fee ranging from 3%-5% of the loan balance for each PPP loan. The Company believes that the majority of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program. As of December 31, 2021, there were 15 SBA PPP loans outstanding, representing $1,731,000 in funding and $57,000 in unearned fees.

The Company is working with customers directly affected by COVID-19. The Company has provided and continues to offer short-term assistance in accordance with regulatory guidelines. As a result of the current economic environment, the Company is engaging in more frequent communication with borrowers to better understand their situation and the challenges faced, allowing it to respond proactively as needs and issues arise. The Company is engaging in more frequent communication with the servicer and individual schools participating in the student loan portfolio to better understand the effects of COVID-19 on school closures and students in school or in clinical programs. It is possible that the Company’s asset quality measures could worsen at future measurement periods if the effects of COVID-19 are prolonged.

The Company continually evaluates its strategic business plan as economic and market factors change in its market area. The Company may see a short-term slowdown in new loan originations. There remain shortages in raw materials, manufactured products and labor across many industries resulting in rising prices, which may disrupt business operations and negatively impact financial performance and operating results for the Company's borrowers. Balance sheet management, enhancing revenue sources, and maintaining market share will continue to be of primary importance heading into 2022 and beyond.

Results of Operations

The following table sets forth selected historical consolidated financial information for each of the years in the three-year period ended December 31, 2021. The selected financial data should be read in conjunction with our "Management's Discussion and Analysis of Financial Condition and Results of Operations," the consolidated financial statements as of December 31, 2021 and 2020, and the related Notes to Consolidated Financial Statements contained in “Item 8. Financial Statements and Supplementary Data.”

(in thousands except per share data and ratios)	For the Year Ended December 31, 2021	2020	2019
Summary of Year-to-Date Earnings:			
Interest income	$ 37,730	$ 34,567	$ 41,282
Interest expense	2,079	2,290	3,888
Net interest income	35,651	32,277	37,394
Provision for credit losses	2,107	2,769	20
Net interest income after provision for credit losses	33,544	29,508	37,374
Noninterest income	3,385	5,174	5,754
Noninterest expense	23,615	22,270	21,859
Income before taxes on income	13,314	12,412	21,269
Taxes on income	3,216	3,451	6,097
Net income	$ 10,098	$ 8,961	$ 15,172
Per Share Data:			
Net income - Basic	$ 0.59	$ 0.53	$ 0.90
Net income - Diluted	$ 0.59	$ 0.53	$ 0.89
Average shares outstanding - Basic	17,011,379	16,976,704	16,951,955
Average shares outstanding - Diluted	17,030,874	16,998,584	16,984,796
Book value per share	$ 7.06	$ 6.93	$ 6.83
Financial Position at Period-end:			
Total assets	$ 1,330,944	$ 1,092,654	$ 956,919
Total net loans and leases	862,200	645,825	588,646
Total deposits	1,188,106	952,651	818,362
Total shareholders' equity	120,207	117,807	115,988
Selected Financial Ratios:			
Return on average assets	0.82 %	0.86 %	1.58 %
Return on average equity	8.47 %	7.55 %	13.30 %
Average equity to average assets	9.69 %	11.45 %	11.89 %
Net interest margin (1)	3.16 %	3.34 %	4.22 %
Allowance for credit losses as a percentage of total nonperforming assets	56.06 %	48.56 %	37.26 %
Net charge-offs to net loans	0.15 %	0.33 %	0.08 %
Allowance of credit losses as a percentage of period-end loans	1.07 %	1.30 %	1.33 %
Dividend payout ratio	74.16 %	83.34 %	49.16 %

(1)Fully taxable equivalent

Net income for the year ended December 31, 2021 was $10.1 million or $0.59 per basic share ($0.59 diluted) compared to $9.0 million or $0.53 per basic share ($0.53 diluted) for year ended December 31, 2020. The increase of $1.1 million between December 31, 2020 and December 31, 2021 is primarily the result of increases in net interest income, offset by a loss on the fair value of a financial liability. Interest income increased by $3.2 million, or 9.2%, between December 31, 2020 and December 31, 2021. Taxes on income decreased by $235,000, or 6.8%.

Return on average assets was 0.82% for the year ended December 31, 2021 compared to 0.86% for the year ended December 31, 2020. Return on average equity was 8.47% for the year ended December 31, 2021 compared to 7.55% for the year ended December 31, 2020.

The decline in the return on average assets experienced by the Company during 2021 and 2020 were the result of large increases in assets during the second half of the year resulting from loan and security purchases. Increases in the return on average equity were the result of growth in net income outpacing growth in shareholder's equity. Lower equity growth rate is attributed to a higher dividend payout ratio. A high dividend payout ratio results slower growth in retained earnings, which is a component of shareholders' equity.

Net Interest Income

Net interest income, the most significant component of earnings, is the difference between the interest and fees received on earning assets and the interest paid on interest-bearing liabilities. Earning assets consist primarily of loans and, to a lesser extent, investments in securities issued by federal, state and local authorities, and corporations, as well as interest-bearing deposits and overnight investments in federal funds loaned to other financial institutions. These earning assets are funded by a combination of interest-bearing and noninterest-bearing liabilities, primarily customer deposits, and may include short-term and long-term borrowings.

Net interest income before provision for credit losses was $35.7 million for the year ended December 31, 2021, representing an increase of $3.4 million, or 10.5%, compared to net interest income before provision for credit losses of $32.3 million for the year ended December 31, 2020. As market rates remained low in the current year, even a disciplined deposit pricing effort saw the net interest margin, as shown in Table 1 below, decrease to 3.16% for the year ended December 31, 2021. The net interest margin was 3.41% for the year ended December 31, 2020.

Table 1. Distribution of Average Assets, Liabilities and Shareholders' Equity:

The following table summarizes the distribution of average assets, liabilities and shareholders' equity, as well as interest income and yields earned on average interest-earning assets and interest expense and rates paid on average interest-bearing liabilities, presented on a tax equivalent basis for the years indicated:

	2021			2020		
(Dollars in thousands)	**Average Balance**	**Interest**	**Yield/Rate**	**Average Balance**	**Interest**	**Yield/Rate**
Assets:						
Interest-earning assets:						
Loans and leases (1)	$ 779,062	$ 35,154	4.51 %	$ 639,815	$ 32,404	5.06 %
Investment Securities – taxable	150,748	2,337	1.55 %	90,685	1,433	1.58 %
Interest-bearing deposits in FRB	199,610	239	0.12 %	217,273	730	0.34 %
Total interest-earning assets	1,129,420	$ 37,730	3.34 %	947,773	$ 34,567	3.65 %
Allowance for credit losses	(8,866)			(8,661)		
Noninterest-earning assets:						
Cash and due from banks	44,269			30,300		
Premises and equipment, net	9,043			9,385		
Accrued interest receivable	7,755			8,389		
Other real estate owned	4,847			5,815		
Other assets	47,002			43,968		
Total average assets	$ 1,233,470			$ 1,036,969		
Liabilities and Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 157,014	$ 226	0.14 %	$ 126,115	$ 173	0.14 %
Money market accounts	319,858	1,152	0.36 %	258,196	1,145	0.44 %
Savings accounts	106,979	118	0.11 %	88,562	108	0.12 %
Time deposits	65,386	403	0.62 %	62,945	588	0.93 %
Junior subordinated debentures	11,089	180	1.62 %	9,746	276	2.83 %
Total interest-bearing liabilities	660,326	$ 2,079	0.31 %	545,564	$ 2,290	0.42 %
Noninterest-bearing liabilities:						
Noninterest-bearing checking	443,639			363,004		
Accrued interest payable	106			110		
Other liabilities	9,908			9,564		
Total average liabilities	1,113,979			918,242		
Total average shareholders' equity	119,491			118,727		
Total average liabilities and shareholders' equity	$ 1,233,470			$ 1,036,969		
Interest income as a percentage of average earning assets			3.34 %			3.65 %
Interest expense as a percentage of average earning assets			0.18 %			0.24 %
Net interest margin			3.16 %			3.41 %

(1) Loan amounts include nonaccrual loans, but the related interest income has been included only if collected for the period prior to the loan being placed on a nonaccrual basis. Loan interest income includes loan fees of approximately $1,681 for the year ended December 31, 2021 and loan fees of approximately $1,226 for the year ended December 31, 2020.

For the years ended 2021 and 2020 the prime rate remained at 3.25%. Future increases or decreases will affect rates for both interest income and expense and the resultant net interest margin.

Both net interest income and net interest margin are affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as "volume change." Both are also affected by changes in yields on interest-earning assets and rates paid on interest-bearing liabilities, referred to as "rate change." The following table sets forth the changes in interest income and interest expense for each major category of interest-earning asset and interest-bearing liability, and the amount of change attributable to volume and rate changes for the years ended December 31, indicated.

Table 2. Rate and Volume Analysis

	2021 compared to 2020		
(In thousands)	**Total**	**Rate**	**Volume**
Increase (decrease) in interest income:			
Loans	$ 2,750	$ (3,790)	6,540
Investment securities	904	(28)	932
Interest-bearing deposits in other banks	—	—	—
Interest-bearing deposits in FRB	(491)	(474)	(17)
Total interest income	3,163	(4,292)	7,455
Increase (decrease) in interest expense:			
Interest-bearing demand accounts	60	(227)	287
Savings accounts	10	(11)	21
Time deposits	(185)	(207)	22
Subordinated debentures	(96)	(130)	34
Total interest expense	(211)	(575)	364
Increase in net interest income	$ 3,374	$ (3,717)	7,091

The net interest margin decreased in 2021 due to decreases in loan portfolio yields, yields on overnight investments with the Federal Reserve Bank ("FRB"), and investment securities yields, offset by decreases in interest expense. The decreases in yields are a result of repricing of variable-rate loans, floating-rate investment securities, and interest-bearing deposits in FRB to lower rates. Interest-bearing deposits in FRB are the Company's lowest-yielding interest-earning asset. The yield on the loan portfolio was 4.5% for the year ended December 31, 2021, as compared to 5.1% for the year ended December 31, 2020. For the year ended December 31, 2021, total interest income increased approximately $3.2 million, or 9.2%, as compared to the year ended December 31, 2020, reflective of increases of $2.8 million in loan interest income and $904,000 in investment income. Average interest-earning assets increased approximately $181.6 million between 2021 and 2020 and the rate on interest-earning assets decreased 31 basis points during the two periods. The increase in average earning assets between 2021 and 2020 was the result of an increase of $139.2 million in loans and an increase of $60.1 million in investment securities, offset by a decrease of $17.7 million in interest-bearing deposits held with the FRB.

For the year ended December 31, 2021, total interest expense decreased approximately $211,000, or 9.2%, as compared to the year ended December 31, 2020. Between the two periods, average interest-bearing liabilities increased by $114.8 million, and the average rates paid on these liabilities decreased by 11 basis points. While the Company may utilize brokered deposits as an additional source of funding, the Company held no brokered deposits at December 31, 2021 or 2020.

The following table summarizes the year-to-date averages of the components of interest-earning assets as a percentage of total interest-earning assets, and the components of interest-bearing liabilities as a percentage of total interest-bearing liabilities:

	YTD Average 12/31/21	**YTD Average 12/31/20**
Loans	68.99 %	67.51 %
Investment securities available for sale	13.35 %	9.57 %
Interest-bearing deposits in FRB	17.66 %	22.92 %
Total earning assets	100.00 %	100.00 %
NOW accounts	23.77 %	23.12 %
Money market accounts	48.44 %	47.32 %
Savings accounts	16.20 %	16.23 %
Time deposits	9.90 %	11.54 %
Subordinated debentures	1.69 %	1.79 %
Total interest-bearing liabilities	100.00 %	100.00 %

Provision for Credit Losses

Provisions for credit losses are determined on the basis of management's periodic credit review of the loan portfolio, consideration of past loan loss experience, current and future economic conditions, and other pertinent factors. After reviewing these factors, management, at times, makes adjustments in order to maintain an allowance for credit losses adequate for the coverage of estimated losses inherent in the loan portfolio. Based on the condition of the loan portfolio, management believes the allowance is appropriate to cover risk elements in the loan portfolio.

For the year ended December 31, 2021, a $2.1 million provision was made to the allowance for credit losses. A provision totaling $2.8 million was made for the year ended December 31, 2020.

The allowance for credit losses decreased to 1.07% of total loans during the year ended December 31, 2021, as compared to 1.30% at December 31, 2020. The provision of $2.8 million recorded in 2020, and the provision of $2.1 million recorded during 2021, are a result of charge-offs recognized within the student loan portfolio and adjustment in qualitative factors related to the economic uncertainties caused by COVID-19. For further discussion, refer to Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Asset Quality and Allowance for Credit Losses.

Noninterest Income

The following table summarizes significant components of noninterest income for the years indicated and the net changes between those years:

(In thousands)	2021	% of Total	2020	% of Total
Customer service fees	$ 2,793	82.51 %	$ 2,663	51.47 %
Increase in cash surrender value of bank-owned life insurance	555	16.40 %	504	9.74 %
(Loss) gain on fair value of marketable equity securities	(106)	(3.13)%	74	1.43 %
Gain on proceeds from bank-owned life insurance	—	— %	310	5.99
(Loss) gain on fair value of junior subordinated debentures	(660)	(19.50)%	970	18.75 %
Gain on sale of assets	8	0.23 %	—	— %
Other	795	23.49 %	653	12.62 %
Total	$ 3,385	100.00 %	$ 5,174	100.00 %

Noninterest income consists primarily of fees and commissions earned on services provided to banking customers, fair value adjustments to the value of the junior subordinated debentures, and, to a lesser extent, gains on sales of Company assets and other miscellaneous income.

Noninterest income for the year ended December 31, 2021 decreased $1.8 million, or 34.6%, when compared to the same period of 2020. Customer service fees, the primary component of noninterest income, increased $130,000, or 4.9%, between the two periods presented. The decrease in noninterest income of $1.8 million between the two periods is primarily the result of changes in the fair value of junior subordinated debentures. A loss of $660,000 was recorded during the year ended 2021 as compared to a gain of $970,000 recorded during the year ended 2020. The change in the fair value of junior subordinated debentures was primarily caused by fluctuations in the LIBOR yield curve.

Noninterest Expense

The following table sets forth the components of total noninterest expense in dollars and as a percentage of average earning assets for the years ended December 31, 2021 and 2020:

(Dollars in thousands)	2021 Amount	2021 % of Average Earning Assets	2020 Amount	2020 % of Average Earning Assets
Salaries and employee benefits	$ 11,713	1.04 %	$ 10,825	1.14 %
Occupancy expense	3,537	0.31 %	3,475	0.37 %
Data processing	565	0.05 %	493	0.05 %
Professional fees	3,572	0.32 %	3,327	0.35 %
Regulatory assessments	743	0.07 %	459	0.05 %
Director fees	385	0.03 %	376	0.04 %
Correspondent bank service charges	88	0.01 %	71	0.01 %
Net cost on operation and sale of OREO	256	0.02 %	972	0.10 %
Other	2,756	0.24 %	2,272	0.24 %
Total	$ 23,615	2.09 %	$ 22,270	2.35 %

Noninterest expense increased $1.3 million, or 6.0%, between the years ended December 31, 2021 and 2020. The net increase in noninterest expense between the comparative periods is primarily the result of increases in salaries and employee benefits, regulatory assessments, and professional fees, partially offset by declines in the net cost on operation of OREO. The net cost on operation of OREO in 2020 included a $727,000 write-down on one property and a $113,000 loss on the sale of another property. The increase in regulatory assessments was due to an increase in the FDIC assessment rate. The increase in professional fees for the year ended December 31, 2021 is attributed to increases in legal fees and consulting expense. Included in net costs on operations of OREO for the years ended December 31, 2021 and 2020 are OREO operating expenses totaling $255,000 and $133,000, respectively.

During the years ended December 31, 2021 and 2020, the Company recognized stock-based compensation expense of $238,000 ($0.02 per share basic and diluted) and $425,000 ($0.02 per share basic and diluted), respectively. This expense is included in noninterest expense under salaries and employee benefits.

Income Taxes

Income tax expense is impacted to some degree by permanent taxable differences between income reported for book purposes and income reported for tax purposes, as well as certain tax credits which are not reflected in the statements of operations and comprehensive income. As pretax income or loss amounts become smaller, the impact of these differences become more significant and are reflected as variances in the effective tax rate for the periods presented. In general, the permanent differences and tax credits affecting tax expense have a positive impact and tend to reduce the effective tax rates shown in the statements of operations and comprehensive income. The effective tax rate for the year ended December 31, 2021 was 24.2% compared to 27.8% for the year ended December 31, 2020.

Financial Condition

Total assets increased by $238.3 million, or 21.8%, from $1.1 billion at December 31, 2020 to $1.3 billion at December 31, 2021. During the year ended December 31, 2021, net loans increased by $216.4 million and investment securities increased by $96.5 million. Overnight interest-bearing deposits in the Federal Reserve Bank and federal funds sold decreased a net $76.4 million. Total deposits of $1.2 billion at December 31, 2021, increased $235.5 million, or 24.7%, from $952.7 million at December 31, 2020.

Interest-earning assets averaged approximately $1.1 billion during the year ended December 31, 2021, as compared to $947.8 million for the year ended December 31, 2020. Average interest-bearing liabilities increased to $660.3 million for the year ended December 31, 2021, as compared to $545.6 million for the year ended December 31, 2020.

Loans

The Company's primary business is that of acquiring deposits and making loans, with the loan portfolio representing the largest component of earning assets. Loans totaled $869.3 million at December 31, 2021, an increase of $213.9 million, or 32.6%, from total loans of $655.4 million at December 31, 2020. During 2021, average loans increased 21.8% when compared to the year ended December 31, 2020. Average loans totaled $779.1 million and $639.8 million for the years ended December 31, 2021 and 2020, respectively.

The following table sets forth the amounts of loans outstanding by category and the category percentages as of the year-end dates indicated:

	2021		2020	
(In thousands)	Dollar Amount	% of Loans	Dollar Amount	% of Loans
Commercial and industrial	$ 45,504	5.2 %	$ 47,514	7.2 %
Real estate mortgage	558,056	64.2 %	320,294	48.9 %
RE construction & development	154,270	17.7 %	175,016	26.7 %
Agricultural	60,239	6.9 %	51,079	7.8 %
Installment and student loans	51,245	5.9 %	61,508	9.4 %
Total loans	$ 869,314	100.0 %	$ 655,411	100.0 %

Loan volume continues to be highest in what has historically been the primary lending emphasis: real estate mortgage, and construction lending. Total loans increased $213.9 million during 2021. There were increases of $237.8 million, or 74.2%, in real estate mortgage loans and $9.2 million, or 17.9%, in agriculture loans. There were decreases of $20.7 million, or 11.9%, in real estate construction and development loans, $10.3 million, or 16.7%, in installment loans, and $2.0 million, or 4.2% in commercial and industrial loans. The Bank is subject to internal limits of 115% of capital on the real estate construction and development portfolio and 330% of capital for the non-owner occupied commercial real estate portfolio, which also includes construction and development loans. At December 31, 2021, the real estate construction and development portfolio totaled 100% of capital and non-owner occupied commercial real estate totaled 299% of capital. The current limits may affect the ability of the Bank to significantly grow these segments of the loan portfolio. The Bank is not approaching internal or regulatory concentration limits in other loan segments.

The real estate mortgage loan portfolio, totaling $558.1 million at December 31, 2021, consists of commercial real estate, residential mortgages, and home equity loans. Commercial real estate loans have remained a significant percentage of total loans over the past year, amounting to 38.1% and 43.2%, of the total loan portfolio at December 31, 2021 and December 31, 2020, respectively. Commercial real estate balances increased to $331.1 million at December 31, 2021 from $283.0 million at December 31, 2020. Commercial real estate loans are generally a mix of short to medium-term, fixed and floating rate instruments and are mainly secured by commercial income and multi-family residential properties. Residential mortgage loans are generally 30-year amortizing loans with an average life of six to eight years. These loans totaled $226.9 million or 26.1% of the portfolio at December 31, 2021, and $37.2 million, or 5.7% of the portfolio at December 31, 2020. Real estate mortgage loans in total increased $237.8 million during 2021. Residential mortgage loans are not generally a large part of the loan portfolio, but some residential mortgage loans have been made over the past several years to facilitate take-out loans for construction borrowers who were unable to obtain permanent financing elsewhere. The Company does purchase residential mortgage portfolios and purchased $201.0 million in 2021 and entered into a firm commitment to purchase $15.8 million in 2022. The home equity loan portfolio totaled $80,000 at December 31, 2021, and $107,000 at December 31, 2020. Real estate construction and development loans, representing 17.7% and 26.7% of total loans at December 31, 2021 and December 31, 2020, respectively, consist of loans for residential and commercial construction projects, as well as land acquisition and development, or land held for future development. Loans in this category are secured by real estate including improved and unimproved land, as well as single-family residential, multi-family residential, and commercial properties in various stages of completion. All real estate loans have established equity requirements. Repayment on construction loans generally comes from long-term mortgages with other lending institutions obtained at completion of the project or from the sale of the constructed homes to individuals.

Purchased loan participations totaled $9.6 million at December 31, 2021. There were $9.7 million purchased loan participations held at December 31, 2020. Loan participations sold increased from $12.9 million, or 2.0%, of the portfolio at December 31, 2020, to $14.4 million, or 1.7%, at December 31, 2021.

At December 31, 2021, approximately 76.3% of commercial and industrial loans have floating rates and, although some may be secured by real estate, many are secured by accounts receivable, inventory, and other business assets. Construction loans are generally short-term, floating-rate obligations, which consist of both residential and commercial projects. Agricultural loans, are primarily short-term, floating rate loans for crop financing.

Included within the installment loan portfolio are $48.5 million in student loans as of December 31, 2021, as compared to $57.4 million at December 31, 2020, a decrease of $8.9 million. The student loan portfolio consists of unsecured loans to medical and pharmacy students currently enrolled in medical and pharmacy schools in the US and the Caribbean. The medical student loans are made to US citizens attending medical schools in the US and Antigua, while the pharmacy student loans are made to pharmacy students attending pharmacy school in the US. Upon graduation the loan is automatically placed on deferment for six months. This may be extended up to 48 months for graduates enrolling in internship, medical residency or fellowship. As approved the student may receive additional deferment for hardship or administrative reasons in the form of forbearance for a maximum of 24 months throughout the life of the loan. The outstanding balance of student loans that have not entered repayment status totaled $7.5 million at December 31, 2021. Accrued interest on loans that have not entered repayment status totaled $3.9 million at December 31, 2021. At December 31, 2021, there were 901 loans within repayment, deferment, and forbearance which represented $23.8 million, $9.0 million, and $8.2 million in outstanding balances, respectively. No new student loans were originated during the years ended December 31, 2021 and 2020.

Repayment of the unsecured student loans is premised on the medical and pharmacy students graduating and becoming high-income earners. Under program guidelines repayment terms can vary per borrower, however repayment occurs on average within 10 to 20 years. Underwriting is premised on qualifying credit scores. Currently the weighted average credit score for the portfolio is in the mid-700s. In addition, there are non-student co-borrowers for roughly one-third of the portfolio that provide additional repayment capacity. Graduation and employment placement rates are high for both medical and pharmacy students. The average student loan balance per borrower as of December 31, 2021 was approximately $80,577. Loan interest rates range from 2.6% to 7.6%.

At December 31, 2021, $23.8 million in loans were in repayment compared to $28.9 million as of December 31, 2020. Accrued interest on student loans was $4,638,000 and $4,974,000 as of December 31, 2021 and 2020, respectively. At December 31, 2021, the reserve against the student loan portfolio totaled $2,647,000. Additionally, during the year ended December 31, 2021, $122,000 in accrued interest receivable was reversed, due to charge-offs of $1,439,000. At December 31, 2020, the reserve totaled $2,546,000 and $125,000 in accrued interest was reversed due to charge-offs of $1,947,000. There were no TDRs within the portfolio as of December 31, 2021 or 2020.

The following table sets forth the Bank's student loan portfolio with activity from December 31, 2020 and *December 31, 2021:*

(In thousands)		
Student Loan Portfolio Balance as of December 31, 2019	$	65,800
Disbursements		38
Capitalized Interest		3,936
Payments Received		(10,442)
Loans Charged-off		(1,947)
Student Loan Portfolio Balance as of December 31, 2020		57,385
Disbursements		—
Capitalized Interest		2,375
Payments Received		(9,865)
Loans Charged-off		(1,439)
Student Loan Portfolio Balance as of December 31, 2021	$	48,456

Student Loan Finance Corporation (ZuntaFi) is the third-party servicer for the student loan portfolio. ZuntaFi provides servicing for the student loan portfolio, including application administration, processing, approval, documenting, funding, and collection of current and charged off balances. They also provide file custodial responsibilities. Except in cases where applicants/loans do not meet program requirements, or extreme delinquency, ZuntaFi provides complete program management. ZuntaFi is paid a monthly servicing fee based on the principal balance outstanding. This servicing fee is presented as part of professional fees within noninterest expense.

The following table sets forth the maturities of the Bank's loan portfolio at December 31, 2021. Amounts presented are shown by maturity dates rather than repricing periods:

(In thousands)	Due in one year or less	Due after one year through five years	Due after five years through fifteen years	Due after fifteen years	Total
Commercial and agricultural	$ 37,752	$ 55,507	$ 12,484	$ —	$ 105,743
Real estate construction & development	117,826	30,412	6,032	—	154,270
Real estate – mortgage	27,714	142,194	159,188	228,960	558,056
All other loans	1,036	1,739	6,628	41,842	51,245
Total loans	$ 184,328	$ 229,852	$ 184,332	$ 270,802	$ 869,314

For the years ended December 31, 2021 and 2020, the average yield on loans was 4.5% and 5.1%, respectively. Rate floors are occasionally used to mitigate interest rate risk if interest rates fall, as well as to compensate for additional credit risk under current market conditions. The loan portfolio is generally comprised of short-term or floating-rate loans that adjust in alignment to changes in market rates of interest.

At December 31, 2021 and 2020, approximately 46.5% and 60.8%, respectively, of the loan portfolio consisted of floating rate instruments, with the majority of those tied to the prime rate.

The following table sets forth the contractual maturities of the Bank's fixed and floating-rate loans at December 31, 2021. Amounts presented are shown by maturity dates rather than repricing periods, and do not consider renewals or prepayments of loans:

(In thousands)	Due in one year or less	Due after one Year through Five years	Due after Five years	Total
Accruing loans:				
Fixed rate loans	$ 33,521	$ 150,317	$ 278,905	$ 462,743
Floating rate loans	139,368	79,535	176,230	395,133
Total accruing loans	172,889	229,852	455,135	857,876
Nonaccrual loans:				
Fixed rate loans	11,226	—	—	11,226
Floating rate loans	212	—	—	212
Total nonaccrual loans	11,438	—	—	11,438
Total Loans	$ 184,327	$ 229,852	$ 455,135	$ 869,314

Securities

The following table sets forth certain information regarding carrying values and percentage of total carrying value of available-for-sale securities for the years indicated:

	December 31, 2021		December 31, 2020	
(In thousands)	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Available-for-sale:				
U.S. Government agencies	$ 33,376	18.7 %	$ 33,710	40.9 %
U.S. Government sponsored entities & agencies collateralized by mortgage obligations	64,735	36.1 %	38,445	46.8 %
Corporate bonds	11,423	6.4 %	5,219	6.3 %
Asset-backed securities	4,130	2.3 %	3,909	4.7 %
Municipal bonds	50,052	28.0 %	1,058	1.3 %
U.S. Treasury securities	15,187	8.5 %	—	— %
Total available-for-sale	$ 178,903	100.0 %	$ 82,341	100.0 %

As of December 31, 2021 and 2020, there were no securities classified as held for trading or held to maturity.

The contractual maturities of investment securities as well as yields based on carrying value of those securities at December 31, 2021 are shown below. Actual maturities may differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties.

	One year or less		After one year to five years		After five years to ten years		After ten years		Total	
(Dollars in thousands)	Amount	Yield (1)	Amount	Yield (1)	Amount	Yield (1)	Amount	Yield (1)	Amount	Yield (1)
Available-for-sale:										
U.S. Government agencies	$ —	— %	$ 137	2.10 %	$ 8,805	1.32 %	$ 24,434	1.44 %	$ 33,376	1.41 %
U.S. Government sponsored entities & agencies collateralized by mortgage obligations	—	— %	936	2.10 %	2,479	0.70 %	61,320	1.57 %	64,735	1.54 %
Corporate bonds	—	— %	—	— %	11,423	3.82 %	—	— %	11,423	3.82 %
Asset-backed securities	510	0.64 %	—	— %	—	— %	3,620	0.79 %	4,130	0.77 %
Municipal bonds	—	— %	397	1.11 %	32,253	1.65 %	17,402	1.95 %	50,052	1.75 %
U.S. Treasury securities	—	— %	15,187	0.72 %	—	— %	—	— %	15,187	0.72 %
Total amortized cost	$ 510	0.64 %	$ 16,657	0.82 %	$ 54,960	2.01 %	$106,776	1.58 %	$178,903	1.63 %

(1) Weighted average yields are not computed on a tax equivalent basis

At December 31, 2021 and 2020, available-for-sale securities with an amortized cost of approximately $94.9 million and $80.5 million, respectively (fair value of $95.2 million and $81.4 million, respectively) were pledged as collateral for public funds and FHLB borrowings.

During the year ended December 31, 2021, the Company recognized unrealized losses of $106,000 related to marketable equity securities within the consolidated statements of income, compared to unrealized gains of $74,000 during the year ended December 31, 2020.

Deposits

The Bank attracts commercial deposits primarily from local businesses and professionals, as well as retail checking accounts, savings accounts and time deposits. Core deposits, consisting of all deposits other than time deposits of $250,000 or more and brokered deposits, continue to provide the foundation for the Bank's principal sources of funding and liquidity. Core deposits amounted to 98.2% and 97.8% of the total deposit portfolio at December 31, 2021 and 2020, respectively. The Bank currently holds no brokered deposits as part of its continuing effort to maintain sufficient liquidity without a reliance on brokered deposits.

The following table sets forth the year-end amounts of deposits and balances as a percentage of total deposits by category for the years indicated:

	December 31,					
(In thousands)	2021		2020		2019	
Noninterest-bearing deposits	$ 476,749	40.13 %	$ 391,897	41.14 %	$ 311,950	38.12 %
Interest-bearing deposits:						
NOW and money market accounts	529,841	44.60 %	402,566	42.26 %	$ 360,934	44.10 %
Savings accounts	113,930	9.59 %	96,669	10.15 %	$ 80,078	9.79 %
Time deposits:						
Under $250,000	46,631	3.92 %	40,302	4.23 %	$ 44,926	5.49 %
$250,000 and over	20,955	1.76 %	21,217	2.23 %	$ 20,474	2.50 %
Total interest-bearing deposits	711,357	59.87 %	560,754	58.86 %	$ 506,412	61.88 %
Total deposits	$ 1,188,106	100.00 %	$ 952,651	100.00 %	$ 818,362	100.00 %

The Bank's deposit base consists of two major components represented by noninterest-bearing (demand) deposits and interest-bearing deposits. Interest-bearing deposits consist of time certificates, NOW and money market accounts, and savings deposits. During the year ended December 31, 2021, NOW and money market deposits increased $127.3 million, or 31.6%, noninterest-bearing deposits increased $84.9 million, or 21.7%, total time deposits increased $6.1 million, or 9.9%, and savings accounts increased $17.3 million, or 17.9%. Uninsured deposits totaled $739.4 million and $540.4 million at December 31, 2021 and 2020, respectively.Included at December 31, 2021, are $21.0 million in uninsured time deposits exceeding $250,000, of which $4.2 million mature in three months or less, $16.1 million mature between three to twelve months, and $564,000 mature in one to three years.

On a year-to-date average basis, total deposits increased $194.1 million, or 21.6%, between the years ended December 31, 2020 and December 31, 2021. Interest-bearing deposits increased by $113.4 million, or 21.2%, and noninterest-bearing deposits increased $80.6 million, or 22.2%, during 2021. On average, balances increased in all categories between the years ended December 31, 2020 and December 31, 2021.

The following table sets forth the average deposits and average rates paid on those deposits for the years ended December 31, 2021 and 2020:

	2021		2020	
(Dollars in thousands)	Average Balance	Rate %	Average Balance	Rate %
Interest-bearing deposits:				
NOW and money market accounts	$ 476,872	0.29 %	$ 384,311	0.34 %
Savings	106,979	0.11 %	88,562	0.12 %
Time deposits	65,386	0.62 %	62,945	0.93 %
Total interest-bearing deposits	649,237		535,818	
Noninterest-bearing deposits	443,639		363,004	

Short-term Borrowings

The Bank has access to short-term borrowings which may consist of federal funds purchased, discount window borrowings, securities sold under agreements to repurchase (“repurchase agreements”), and Federal Home Loan Bank (FHLB) advances as alternatives to retail deposit funds. Collateralized and uncollateralized lines of credit have been established with several correspondent banks. The FRB discount window, as well as a securities dealer, may also be accessed as needed. Funds may be borrowed in the future as part of the Company's asset/liability strategy, and may be used to acquire assets as deemed appropriate by management for investment purposes or for capital utilization purposes. Federal funds purchased represent temporary overnight borrowings from correspondent banks and are generally unsecured. Repurchase agreements are collateralized by mortgage backed securities and securities of U.S. Government agencies, and generally have maturities of one to six months, but may have longer maturities if deemed appropriate. FHLB advances are collateralized by investments in FHLB stock, securities, and certain qualifying mortgage loans. Additionally, borrowings collateralized by pledged loans may be secured from the Federal Reserve Bank of San Francisco (FRB). Credit lines are subject to periodic review by the credit lines grantors relative to the Company's financial statements. Lines of credit may be modified or revoked at any time.

Lines of credit with the FRB of $320.6 million and $336.8 million, as well as FHLB lines of credit totaling $3.1 million and $4.9 million were held at December 31, 2021 and 2020, respectively. In addition, the Company maintains a $50 million uncollateralized line of credit with Pacific Coast Bankers Bank,a $40 million uncollateralized line of credit with PNC Bank, a $20 million uncollateralized line of credit with Zion's Bank, and a $10 million uncollateralized line of credit with Union Bank. At December 31, 2021, there were no outstanding balances drawn against any lines of credit. These lines of credit generally have interest rates tied to the Federal Funds rate or are indexed to short-term U.S. Treasury rates or LIBOR.

Asset Quality and Allowance for Credit Losses

Lending money is the principal business activity, and ensuring appropriate evaluation, diversification, and control of credit risks is a primary management responsibility. Losses are implicit in lending activities and the amount of such losses will vary, depending on the risk characteristics of the loan portfolio as affected by local economic conditions and the financial experience of borrowers.

The allowance for credit losses is maintained at a level deemed appropriate by management to provide for known and inherent risks in existing loans and commitments to extend credit. The adequacy of the allowance for credit losses is based upon management's continuing assessment of various factors affecting the collectability of loans and commitments to extend credit, including current economic conditions, past credit experience, collateral, and concentrations of credit. There is no precise method of predicting specific losses which may ultimately be charged off on particular segments of the loan portfolio. The conclusion that a loan may become uncollectible, either in part or in whole is judgmental and subject to economic, environmental, and other conditions which cannot be predicted with certainty. The allowance for credit losses is determined in accordance with GAAP and the guidelines set forth in the Revised Interagency Policy Statement on the Allowance for Loan and Lease Losses ("Statement") issued by banking regulators in December 2006. The Statement is a revision of the previous guidance released in July 2001, and outlines characteristics that should be used in the segmentation of the loan portfolio for analytical purposes such as including risk classification, past due status, type of loan, industry and collateral. It also outlines factors to consider when adjusting the loss factors for various segments of the loan portfolio and updates previous guidance that describes the responsibilities of the board of directors, management, and bank examiners regarding the allowance for credit losses. Securities and Exchange Commission Staff Accounting Bulletin No. 102, released during July 2001, provides additional guidance regarding methodologies and supporting documentation for the Allowance for Loan and Lease Losses that are consistent with federal securities laws and the Commission's interpretations. Their guidance is generally consistent with the guidance published by banking regulators.

The allowance for loan losses includes an asset-specific component, as well as a general or formula-based component. The loan portfolio is divided into eight (8) segments and categorized primarily by loan class homogeneity and commonality of purpose for analysis under the formula-based component of the allowance. Loans which are determined to be impaired under current accounting guidelines are not subject to the formula-based reserve analysis, and are instead evaluated individually for specific impairment under the asset-specific component of the allowance.

The eight segments of the loan portfolio are as follows (subtotals are provided as needed to allow the reader to reconcile the amounts to loan classifications reported elsewhere in this Report:

Loan Segments for Loan Loss Reserve Analysis	**Loan Balances at December 31,**	
(Dollars in thousands)	**2021**	**2020**
Commercial and business loans	$ 42,194	$ 37,349
Government program loans	3,310	10,165
Total commercial and industrial	45,504	47,514
Real estate – mortgage:		
Commercial real estate	331,050	282,951
Residential mortgages	226,926	37,236
Home improvement and home equity loans	80	107
Total real estate mortgage	558,056	320,294
Real estate construction and development	154,270	175,016
Agricultural	60,239	51,079
Installment and student loans	51,245	61,508
Total loans	$ 869,314	$ 655,411

The methodology for assessing the adequacy of the allowance for credit losses consists of several key elements, which include:

- the formula allowance;
- specific allowances for problem graded loans identified as impaired; and
- and the unallocated allowance.

The formula allowance is calculated by applying loss factors to outstanding loans and certain unfunded loan commitments. Loss factors are based on the historical loss experience and on the internal risk grade of those loans and may be adjusted for significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. Factors that may affect collectability of the loan portfolio include:

- Levels of, and trends in delinquencies and nonaccrual loans;
- Trends in volumes and term of loans;
- Effects of any changes in lending policies and procedures including those for underwriting, collection, charge-off, and recovery;

- Experience, ability, and depth of lending management and staff;
- National and local economic trends and conditions; and
- Concentrations of credit that might affect loss experience across one or more components of the portfolio, including high-balance loan concentrations and participations.

Management determines the loss factors for loans based on a loss migration model. The migration analysis incorporates loan losses over the previous quarters as determined by management (time horizons adjusted as business cycles or environment changes). Loss factors are adjusted to recognize and quantify the loss exposure due to changes in market conditions as well as trends in the loan portfolio. For purposes of analysis, loans are grouped by internal risk classifications and categorized as pass, special mention, substandard, doubtful, or loss. Certain loans are homogeneous in nature and are therefore pooled by risk grade. These homogeneous loans include consumer installment and home equity loans. Special mention loans are currently performing but are potentially weak, as the borrower has begun to exhibit deteriorating trends which, if not corrected, could jeopardize repayment of the loan and result in further downgrades. Substandard loans have well-defined weaknesses which, if not corrected, could jeopardize the full satisfaction of the debt. A loan classified as doubtful has critical weaknesses that make full collection of the obligation improbable. Classified loans include impaired loans and loans categorized as substandard, doubtful, and loss, which are not considered impaired. At December 31, 2021, impaired and classified loans totaled $13.7 million, or 1.6%, of gross loans as compared to $13.4 million, or 2.0%, of gross loans at December 31, 2020.

Loan participations are reviewed for allowance adequacy under the same guidelines as other loans in the portfolio, with an additional participation factor added, if required, for specific risks associated with participations. In general, participations are subject to certain thresholds and are reviewed for geographic location as well as the financial status of the underlying agent bank.

The formula allowance includes reserves for certain off-balance sheet risks including letters of credit, unfunded loan commitments, and lines of credit. Reserves for undisbursed commitments are generally formula allocations based on historical loss experience and other loss factors, rather than specific loss contingencies. At December 31, 2021 and 2020, the formula reserve allocated to undisbursed commitments totaled $669,000 and $606,000, respectively. The reserve for unfunded commitments is considered a reserve for contingent liabilities and is therefore carried as a liability on the balance sheet for all periods presented.

Specific allowances are established based on management's periodic evaluation of loss exposure inherent in impaired loans. For impaired loans, specific allowances are determined based on the net realizable value of the underlying collateral, the net present value of the anticipated cash flows, or the market value of the underlying assets. Formula allowances for classified loans, excluding impaired loans, are determined on the basis of additional risks involved with individual loans that may be in excess of risk factors associated with the loan portfolio as a whole. The specific allowance is different from the formula allowance in that the specific allowance is determined on a loan-by-loan basis based on risk factors directly related to a particular loan, as opposed to the formula allowance which is determined for a pool of loans with similar risk characteristics, based on past historical trends and other risk factors which may be relevant on an ongoing basis.

The unallocated portion of the allowance is based upon management's evaluation of various conditions that are not directly measured in the determination of the formula and specific allowances. The conditions may include, but are not limited to, general economic and business conditions affecting key lending areas, credit quality trends, collateral values, loan volumes and concentrations, and other business conditions.

The following table summarizes the specific allowance, formula allowance, and unallocated allowance at December 31, 2021 and 2020.

(In thousands)	December 31, 2021	December 31, 2020
Specific allowance – impaired loans	$ 130	$ 209
Formula allowance – classified loans not impaired	523	100
Formula allowance – special mention loans	503	256
Total allowance for special mention and classified loans	1,156	565
Formula allowance for pass loans	7,408	7,682
Unallocated allowance	769	275
Total allowance	9,333	8,522
Impaired loans	12,034	13,376
Classified loans not considered impaired	1,645	14
Total classified and impaired loans	13,679	13,390
Special mention loans not considered impaired	40,288	17,095

The following table summarizes allowance for loan losses, nonperforming loans, and classified loans for the periods shown:

(Dollars in thousands)	December 31, 2021	December 31, 2020
Allowance for loan losses ("ALLL") - beginning of period	$ 8,522	$ 7,908
Net loans charged-off during period	1,296	2,155
Provision for credit loss	2,107	2,769
Allowance for loan losses - end of period	9,333	8,522
Loans outstanding at period-end	869,314	655,411
ALLL as % of loans at period-end	1.07 %	1.30 %
Nonaccrual loans	11,438	11,496
Accruing restructured loans	176	535
Loans, past due 90 days or more, still accruing	453	513
Total non-performing loans	12,067	12,544
ALLL as % of nonperforming loans	77.34 %	67.94 %
Impaired loans	12,034	13,376
Classified loans not considered impaired	1,645	14
Total classified and impaired loans	$ 13,679	$ 13,390
ALLL as % of classified loans	68.23 %	63.64 %

Impaired loans decreased $1.3 million between December 31, 2020 and December 31, 2021 and the specific allowance related to those impaired loans decreased $79,000 between December 31, 2020 and December 31, 2021. The level of “pass” loans increased approximately $190.3 million between December 31, 2020 and December 31, 2021, and the related formula allowance decreased $274,000 during the same period. The formula allowance for "pass loans" is derived from loss factors using migration analysis and management's consideration of qualitative factors. The increase in formula allowance for "pass loans" was partially attributed to an adjustment in qualitative factor for COVID-19 related economic uncertainty. The unallocated reserve totaled $769,000, or 8.2% of the total allowance for credit losses at December 31, 2021, and $275,000, or 3.2%, of the total allowance for credit losses at December 31, 2020. In evaluating the level of the unallocated reserve, management considered loan relationships, construction and land development concentrations, and loss history relative to peers.

The specific allowance portion of the analysis is designed to be self-correcting by taking into account the current loan loss experience based on that segment of the portfolio. By analyzing the estimated losses inherent in the loan portfolio on a quarterly basis, management is able to adjust specific and inherent loss estimates using the most recent information available. In performing the periodic migration analysis, management believes that historical loss factors used in the computation of the formula allowance need to be adjusted to reflect current changes in market conditions and trends in the loan portfolio. There are a number of other factors which are reviewed when determining adjustments in the historical loss factors. Those factors include (1) trends in delinquent and nonaccrual loans, (2) trends in loan volume and terms, (3) effects of changes in lending policies, (4) concentrations of credit, (5) competition, (6) national and local economic trends and conditions, (7) experience of lending staff, (8) loan review and Board of Directors oversight, (9) high balance loan concentrations, and (10) other business conditions.

The general reserve requirements (ASC 450-70) were adjusted as a result of the overall condition of the local, state, and national economies and resultant impact on the local lending base. This has resulted in a lower qualitative component being used for the general reserve calculation. The stake-in-the-ground methodology requires the Company to use December 31, 2005 as the starting point of the look back period to capture loss history and better capture an entire economic cycle. Time horizons are subject to Management's assessment of the current period, taking into consideration changes in business cycles and environment changes.

Management and the Company's lending officers evaluate the loss exposure of classified and impaired loans on a weekly basis and, through discussions and officer meetings, as conditions change. The Company's Loan Committee meets weekly, serving as a forum to discuss specific problem assets that pose significant concerns to the Company and to keep the Board of Directors informed through committee minutes. All special mention and classified loans are reported quarterly on Problem Asset Reports and Impaired Loan Reports and are reviewed by senior management. Migration analysis and impaired loan analysis are performed on a quarterly basis and adjustments are made to the allowance as deemed necessary. The Board of Directors is kept abreast of any changes or trends in problem assets on a monthly basis, or more often if required.

The specific allowance for impaired loans is measured based on the present value of the 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 amount of impaired loans is not directly comparable to the amount of nonperforming loans. The primary differences between impaired loans and nonperforming loans are: (i) all loan categories are considered in determining nonperforming loans while impaired loan recognition is limited to commercial and industrial loans, commercial and residential real estate loans, construction loans, and agricultural loans, and (ii) impaired loan recognition considers not only loans 90 days or more past due, restructured loans and nonaccrual loans but may also include problem loans other than delinquent loans.

A loan is considered to be impaired when, based upon current information and events, it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans include nonaccrual loans, troubled debt restructures, and performing loans in which full payment of principal or interest is not expected. Management bases the measurement of these impaired loans either on the fair value of the loan's collateral or the expected cash flows on the loans discounted at the loan's stated interest rates. Cash receipts on impaired loans not performing to contractual terms and that are on nonaccrual status are used to reduce principal balances. Impairment losses are included in the allowance for credit losses through a charge to the provision, if applicable.

At December 31, 2021 and 2020, the recorded investment in loans for which impairment has been recognized totaled $12.0 million and $13.4 million, respectively. Included in total impaired loans at December 31, 2021, are $355,000 of impaired loans for which the related specific allowance is $130,000, as well as $11.7 million of impaired loans that, as a result of excess collateral or excess in the calculation of net present value of future cash flows, did not need a specific allowance. Total impaired loans at December 31, 2020 included $682,000 of impaired loans for which the related specific allowance was $209,000, as well as $12.7 million of impaired loans that as a result of excess collateral or excess in the calculation of net present value of future cash flows, did not have a specific allowance. The average recorded investment in impaired loans was $12.8 million and $15.4 million during the years ended December 31, 2021 and 2020, respectively. In most cases, the Company uses the cash basis method of income recognition for impaired loans. In the case of certain troubled debt restructuring for which the loan is performing under the current contractual terms, income is recognized under the accrual method.

The largest category of impaired loans at December 31, 2021 was real estate construction and development loans, comprising 93.3% of total impaired loans. Impaired commercial and industrial loans decreased $466,000, impaired real estate mortgage loans decreased $1,098,000, impaired construction loans increased $169,000, and impaired agricultural loans increased $53,000 during the year ended December 31, 2021. Specific collateral related to impaired loans is reviewed for current appraisal information, economic trends within geographic markets, loan-to-value ratios, and other factors that may impact the value of the loan collateral. Adjustments are made to collateral values as needed for these factors. Of total impaired loans, approximately $11.4 million, or 94.5%, were secured by real estate at December 31, 2021, as compared to $12.8 million, or 95.4%, of total impaired loans at December 31, 2020.

The following table summarizes the components of impaired loans and their related specific allowance at December 31, 2021 and 2020.

(In thousands)	Balance December 31, 2021	Allowance December 31, 2021	Balance December 31, 2020	Allowance December 31, 2020
Commercial and industrial	$ —	$ —	$ 466	$ —
Real estate – mortgage	146	3	1,244	13
Real estate construction and development	11,226	—	11,057	—
Agricultural	662	127	609	196
Installment and student loans	—	—	—	—
Total impaired loans	$ 12,034	$ 130	$ 13,376	$ 209

Included in impaired loans are loans modified in troubled debt restructurings (TDRs), where concessions have been granted to borrowers experiencing financial difficulties in an attempt to enhance collection. The Company makes various types of concessions when structuring TDRs including rate reductions, payment extensions, and forbearance.

At December 31, 2021, total TDRs of $2,594,000 included $2,206,000 in real estate construction balances, $146,000 in residential mortgage balances, and $242,000 in agricultural balances. At December 31, 2020, total TDRs of $3,426,000 included $2,452,000 in real estate construction balances, $609,000 in agricultural balances, and $365,000 in residential mortgage balances.

Total TDRs decreased by 24.3% at December 31, 2021, as compared to December 31, 2020. Nonaccrual TDRs decreased by 16.4% and accruing TDRs decreased by 67.1% over the same period. Concessions granted include lengthened maturities and/or rate reductions that enabled the borrower to complete projects. Current decreases are related to a recovering real estate market.

The following tables summarizes TDRs by type, classified separately as nonaccrual or accrual, which are included in impaired loans at December 31, 2021 and December 31, 2020.

(In thousands)	Total TDRs December 31, 2021	Nonaccrual TDRs December 31, 2021	Accruing TDRs December 31, 2021
Commercial and industrial	$ —	$ —	$ —
Real estate - mortgage:			
Commercial real estate	—	—	—
Residential mortgages	146	—	146
Total real estate mortgage	146	—	146
Real estate construction and development	2,206	2,206	—
Agricultural	242	212	30
Installment and student loans	—	—	—
Total Troubled Debt Restructurings	$ 2,594	$ 2,418	$ 176

(In thousands)	Total TDRs December 31, 2020	Nonaccrual TDRs December 31, 2020	Accruing TDRs December 31, 2020
Commercial and industrial	$ —	$ —	$ —
Real estate - mortgage:			
Commercial real estate	—	—	—
Residential mortgages	365	—	365
Total real estate mortgage	365	—	365
Real estate construction and development	2,452	2,452	—
Agricultural	609	439	170
Installment and student loans	—	—	—
Total Troubled Debt Restructurings	$ 3,426	$ 2,891	$ 535

Of the $2.6 million in total TDRs at December 31, 2021, $2.4 million were on nonaccrual status at period-end. Of the $3.4 million in total TDRs at December 31, 2020, $2.9 million were on nonaccrual status at period-end. As of December 31, 2021, the Company has no commercial real estate (CRE) workouts whereby an existing loan was restructured into multiple new loans.

For a restructured loan to return to accrual status there needs to be at least six months successful payment history. In addition, the Company's Credit Administration performs a financial analysis of the credit to determine whether the borrower has the ability to continue to perform successfully over the remaining life of the loan. This includes, but is not limited to, a review of financial statements and a cash flow analysis of the borrower. Only after determining that the borrower has the ability to perform under the terms of the loans will the restructured credit be considered for accrual status.

The following table summarizes special mention loans by type for the years ended December 31, 2021 and December 31, 2020.

(In thousands)	December 31, 2021	December 31, 2020
Commercial and industrial	$ —	$ 1,307
Real estate - mortgage:		
Commercial real estate	29,092	14,343
Residential mortgages	—	—
Home equity loans	—	—
Total real estate mortgage	29,092	14,343
RE construction & development	—	—
Agricultural	11,197	1,434
Installment and student loans	—	11
Total Special Mention Loans	$ 40,289	$ 17,095

The Company focuses on competition and other economic conditions within its market area and other geographical areas in which it does business, which may ultimately affect the risk assessment of the portfolio. The Company continues to experience increased competition from major banks, local independents and non-bank institutions which creates pressure on loan pricing. The Company continues to place increased emphasis on reducing both the level of nonperforming assets and the level of losses on the disposition of these assets. It is in the best interest of both the Company and the borrowers to seek alternative options to foreclosure in an effort to reduce the impacts on the real estate market. As part of this strategy, the Company enters into troubled debt restructurings, when it improves collection prospects. While business and consumer spending have shown improvement over the last several years, it is difficult to forecast the impact COVID-19 will have on the economy. Local unemployment rates in the San Joaquin Valley have improved, but are expected to substantially increase due to closure of non-essential business and shelter-in-place orders. Management recognizes the increased risk of loss due to the Company's exposure to local and worldwide economic conditions, as well as potentially volatile real estate markets, and takes these factors into consideration when analyzing the adequacy of the allowance for credit losses.

The following table provides a summary of the Company's allowance for credit losses, provisions made to that allowance, and charge-off and recovery activity affecting the allowance for the years indicated.

(Dollars in thousands)	December 31, 2021	2020
Total loans outstanding at end of period before deducting allowances for credit losses	$ 871,533	$ 654,347
Average net loans outstanding during period	779,062	639,815
Balance of allowance at beginning of period	8,522	7,908
Loans charged off:		
Real estate	—	(359)
Commercial, industrial & agricultural	—	—
Installment and student loans	(1,543)	(1,961)
Total loans charged off	(1,543)	(2,320)
Recoveries of loans previously charged off:		
Real estate	18	128
Commercial, industrial & agricultural	91	29
Installment and student loans	138	8
Total loan recoveries	247	165
Net loans (charged off) recovered	(1,296)	(2,155)
Provision (recovery of provision) charged to operating expense	2,107	2,769
Balance of allowance for credit losses at end of period	$ 9,333	$ 8,522
Net loan (charge-offs) recoveries to total average loans	(0.17)%	(0.34)%
Net loan (charge-offs) recoveries to loans at end of period	(0.15)%	(0.33)%
Allowance for credit losses to total loans at end of period	1.07 %	1.30 %
Net loan (charge-offs) recoveries to allowance for credit losses	(13.89)%	(25.29)%
Net loan (charge-offs) recoveries to provision (recovery of provision) for credit losses	(61.51)%	(77.83)%

Loan charge-offs decreased $777,000 during the year ended December 31, 2021, when compared to the year ended December 31, 2020. Loan recoveries increased $165,000 during the same period. Student loan charge-offs totaled $1,439,000 and $1,947,000 during the years ended 2021 and 2020, respectively. The charge-offs in the student loan portfolio were primarily related to the Antigua medical school loans. Additions to the overdraft reserve of $7,000 and $14,000 were made during the same periods.

At December 31, 2021 and 2020, $669,000 and $606,000, respectively, of the formula allowance was allocated to unfunded loan commitments and was, therefore, carried separately in Other Liabilities on the consolidated balance sheets.

Management believes that the 1.07% credit loss allowance to total loans at December 31, 2021 is adequate to absorb known and inherent risks in the loan portfolio. There is no guarantee, however, against economic conditions or other circumstances materializing which could adversely affect the Company's service areas resulting in increased losses in the loan portfolio not captured by the current allowance for loan losses. Management is not currently aware of any conditions that may adversely affect the levels of losses incurred in the Company’s loan portfolio.

The allocations to specific loan categories are estimates based upon the same factors considered by management in determining the amount of additional provisions to the credit loss allowance and the overall adequacy of the allowance for credit losses. The unallocated portion provides for coverage of credit losses inherent in the loan portfolio but not captured in the loss factors used in the risk rating-based component or in the specific impairment reserve component of the allowance for credit losses. The unallocated portion acknowledges the inherent imprecision of all loss prediction models.

	2021		2020	
(Dollars in thousands)	Allowance for Credit Losses	% of Loans	Allowance for Credit Losses	% of Loans
Commercial and industrial	$ 597	0.07 %	$ 625	0.10 %
Real estate – mortgage	1,174	0.14 %	575	0.09 %
RE construction and development	2,840	0.33 %	3,722	0.57 %
Agricultural	1,233	0.14 %	711	0.11 %
Installment and student loans	2,720	0.31 %	2,614	0.40 %
Not allocated	769	0.10 %	275	0.04 %
	$ 9,333	1.07 %	$ 8,522	1.30 %

During 2021, reserve allocations as a percentage of loans decreased for commercial and industrial, real estate construction and development, and installment and student loans These decreases are a result of a combination of factors including decreases in charge-offs, classified and past due loans, and credit quality improvements. Increases in reserve allocations for real estate mortgage loans was primarily due to the growth of the loan segment, adjusted by the change in the qualitative factors related to portfolio concentrations and uncertainty related to COVID-19. Reserves for installment and student loans increased although the allowance as a percentage of loans decreased for that segment. The increase in reserve was attributed to an increase in loss factor on installment and student loans.

During 2020, reserve allocations as a percentage of loans decreased for commercial and industrial, real estate mortgage, and agricultural loans. These decreases are a result of a combination of factors including decreases in charge-offs, classified and past due loans, and credit quality improvements. Increases in reserve allocations for real estate construction an development loans were primarily due to the growth of the loan segment, adjusted by the change in the qualitative factors related to portfolio concentrations and uncertainty related to COVID-19. Increases in reserve allocation for installment loans were a result of an increase in loss factors attributed to the student loan portfolio and qualitative adjustments related to student loan forbearance balances. The qualitative adjustments related to the student loan forbearance balances result in a 5% reserve for pharmacy school forbearance balances and a 15% reserve for medical school forbearance balances.

The following summarizes the allowance for credit losses related to the specific, formula, and unallocated reserves for the year-ends shown:

	December 31,	
(In thousands)	2021	2020
Formula allowance	$ 8,434	$ 8,038
Specific allowance	130	209
Unallocated allowance	769	275
Total allowance	$ 9,333	$ 8,522

The total formula allowance has increased in the current period as a result of increased loan balances, qualitative adjustments for COVID-19, and the allowance attributed to student loans.

No loans were classified as doubtful at December 31, 2021 or December 31, 2020.

The accrual of interest income on loans is discontinued when reasonable doubt exists with respect to the timely collectability of interest or principal due to the inability of the borrower to comply with the terms of the loan agreement. Outside of student loans, loans are typically placed on nonaccrual status when the payment of principal or interest is 90 days past due or earlier when the conditions warrant. Interest collected thereafter is credited to principal to the extent necessary to eliminate doubt as to the collectability of the net carrying amount of the loan. Exceptions may be granted to this policy if the loans are well secured and in the process of collection.

The following table sets forth nonperforming assets as of the dates indicated:

(Dollars in thousands)	December 31, 2021	December 31, 2020
Nonaccrual loans (1)	$ 11,438	$ 11,496
Accruing restructured loans	176	535
Loans, past due 90 days or more, still accruing	453	513
Total non-performing loans	12,067	12,544
Other real estate owned	4,582	5,004
Total non-performing assets	$ 16,649	$ 17,548
Non-performing loans to total gross loans	1.39 %	1.91 %
Non-performing assets to total gross loans	1.92 %	2.68 %
Allowance for loan losses to nonaccrual loans	78.49 %	70.96 %

(1) Included in nonaccrual loans at December 31, 2021 and 2020 are restructured loans totaling $2,418 and $2,891, respectively.

Non-performing assets at December 31, 2021 decreased $899,000 between December 31, 2021 and December 31, 2020, due to decreases of $359,000 in accruing restructured loans, decreases of $58,000 in nonaccrual loans, and decreases in other real estate owned.

Non-performing assets decreased $3,677,000 between December 31, 2020 and December 31, 2019, due to decreases of $1,854,000 in accruing restructured loans, decreases of $1,749,000 in other real estate owned, and decreases of $201,000 in nonaccrual loans, offset by increases loans past due more than 90 days and still accruing.

The following table summarizes various nonperforming components of the loan portfolio as compared to total loans for the periods shown.

(In thousands)	December 31, 2021	December 31, 2020
Provision for credit losses during period	$ 2,107	$ 2,769
Allowance as % of nonaccrual loans	78.49 %	70.96 %
Nonperforming loans as % total loans	1.39 %	1.91 %
Restructured loans as % total loans	0.30 %	0.52 %

In determining the adequacy of the underlying collateral related to these loans, management monitors trends within specific geographical areas, loan-to-value ratios, appraisals, and other credit issues related to specific loans.

Management continues to monitor and reduce the level of problem assets by working with borrowers to identify options, such as loan restructures, which may help borrowers facing difficulties. Restructured loan numbers have been greatly reduced over the last four years. Net loan charge-offs during the year ended December 31, 2021 totaled $1.3 million, as compared to net loan charge-offs of $2.2 million for the year ended December 31, 2020. Approximately 39 loans were charged-off during the year ended December 31, 2021, compared to 49 loans during the year ended December 31, 2020. Net loan charge-offs totaling $1,296,000 during the year ended December 31, 2021, included $348,000 in net charge-offs during the quarter ended March 31, 2021, $175,000 in net charge-offs during the quarter ended June 30, 2021, $509,000 in net charge-offs during the quarter ended September 30, 2021, and $264,000 in net charge-offs during the fourth quarter of 2021. Charge-offs of $1,439,000 during the year were related to the student loan portfolio. The percentage of net charge-offs to average loans was 0.17%, for the year ended December 31, 2021.

The loan portfolio increased from $655.4 million at December 31, 2020 to $869.3 million at December 31, 2021. Nonperforming loans decreased to $12.1 million at December 31, 2021, from $12.5 million at December 31, 2020. Nonaccrual loans and accruing restructured loans are included in nonperforming loans. During the same period, total impaired and classified loans increased from $13.4 million at December 31, 2020, to $13.7 million at December 31, 2021.

The following table summarizes the nonaccrual totals by loan category for the periods shown:

	Balance				Change	
(In thousands)	December 31, 2021		December 31, 2020		2021-2020	
Commercial and industrial	$	—	$	—	$	—
Real estate - mortgage		—		—		—
Real estate - construction		11,226		11,057		169
Agricultural		212		439		(227)
Total Nonaccrual Loans	$	11,438	$	11,496	$	(58)

Loans past due more than 30 days receive management attention and are monitored for increased risk. As of December 31, 2021 and 2020 loans past due more than 30 days totaled $18.4 million and $11.1 million, respectively. Impaired loans, nonaccrual and restructured loans are reviewed for specific reserve allocations and the allowance for credit losses is adjusted accordingly.

Except for the loans included in the above tables, there were no loans at December 31, 2021, where the known credit problems of a borrower made doubtful the ability of such borrower to comply with the present loan repayment terms resulting in such loan being included as nonaccrual, past due, or restructured at some future date.

Liquidity and Capital Resources

The Company's asset/liability management, liquidity strategy, and capital planning is guided by policies, formulated and monitored by the Asset and Liability Management Committee ("ALCO") and Management, to provide adequate liquidity and maintain an appropriate balance between interest-sensitive assets and interest-sensitive liabilities.

Liquidity

Liquidity management may be described as the ability to maintain sufficient cash flows to fulfill both on- and off-balance sheet financial obligations, including loan funding commitments and customer deposit withdrawals, without straining the Company's equity structure. To maintain an adequate liquidity position, the Company relies on, in addition to cash and cash equivalents, cash inflows from deposits and short-term borrowings, repayments of principal on loans and investments, and interest income received. The Company's principal cash outflows are for loan origination, purchases of investment securities, depositor withdrawals and payment of operating expenses.

The Company's liquid asset base, which generally consists of cash and due from banks, federal funds sold, and investment securities, is maintained at levels deemed sufficient to provide the cash necessary to fund loan growth, unfunded loan commitments, and deposit runoff. Included in this framework is the objective of maximizing the yield on earning assets. This is generally achieved by maintaining a high percentage of earning assets in loans and investment securities, which are higher yielding assets compared to cash. At December 31, 2021, loans represented 65.5% of total assets and accounted for a loan to deposit ratio of 73.4%, as compared to 59.9% of total assets and a loan to deposit ratio of 68.7% at December 31, 2020. Investment securities represented 13.72% of total assets at December 31, 2021, compared to 7.89% at December 31, 2020. Liquid assets at December 31, 2021 include cash and cash equivalents totaling $219.2 million, as compared to $294.1 million at December 31, 2020.

Liabilities used to fund liquidity sources include core and non-core deposits as well as short-term borrowings capability. Core deposits, which comprised approximately 98.2% of total deposits at December 31, 2021, provide a significant and stable funding source for the Company. At December 31, 2021, unused lines of credit with the Federal Home Loan Bank, Pacific Coast Banker's Bank, Zion's Bank, Union Bank and the Federal Reserve Bank totaling $403.7 million were collateralized in part by certain qualifying loans in the Company's loan portfolio. The carrying value of loans pledged on these used and unused borrowing lines totaled $490.5 million at December 31, 2021. For a further detail of the Company's borrowing arrangements, see Note 8 of the consolidated financial statements..

Cash and cash equivalents have fluctuated during the two years ended December 31, 2021 and 2020, with period-end balances as follows (from Consolidated Statements of Cash Flows – in 000's):

		Balance
December 31, 2021	$	219,219
December 31, 2020	$	294,069
December 31, 2019	$	218,995

Cash and cash equivalents decreased $74.9 million during the year ended December 31, 2021, and increased $75.1 million during the year ended December 31, 2020.

The Company had a net cash inflow from operations of $16.6 million for the year ended December 31, 2021, and a net cash inflow from operations totaling $13.8 million for the period ended December 31, 2020. The Company experienced net cash outflows from investing activities totaling $319.4 million and net cash outflows of $65.5 million during the years ended December 31, 2021 and December 31, 2020, respectively.

During the year ended December 31, 2021, the Company experienced net cash inflows from financing activities totaling $228.0 million due primarily to increases in demand deposits and savings accounts. The Company experienced net cash outflows from investing activities totaling $319.4 million as a result of purchases of residential mortgage loan pools and purchases of investment securities.

Liquidity risk arises from the possibility the Company may not be able to satisfy current or future financial commitments, or the Company may become unduly reliant on alternative funding sources. The Company maintains a liquidity risk management policy and contingency funding plan to address and manage this risk. The policy identifies the primary sources of liquidity, sets wholesale funding limits, establishes procedures for monitoring and measuring liquidity, and establishes minimum liquidity requirements in compliance with regulatory guidance. The liquidity position is continually monitored and reported on a monthly basis to the Board of Directors. In addition to ongoing monitoring, the Company performs liquidity stress testing in accordance with industry best practices to ensure cash flow requirements are met under stressed scenarios.

The liquidity of the parent company, United Security Bancshares, is separate from the Bank and is primarily dependent on the payment of cash dividends by its subsidiary, United Security Bank, subject to limitations imposed by the Financial Code of the State of California and federal and state banking regulations. During the years ended December 31, 2021 and December 31, 2020, the Bank paid $7.9 million and $8.0 million in cash dividends to the parent company, respectively.

Capital and Dividends

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements adopted by the Board of Governors of the Federal Reserve System (the “Board of Governors”). Failure to meet minimum capital requirements can initiate certain mandates and possible 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, the consolidated 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 classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Company has adopted a capital plan that includes guidelines and trigger points to ensure sufficient capital is maintained at the Bank and the Company, and that capital ratios are maintained at a level deemed appropriate under regulatory guidelines given the level of classified assets, concentrations of credit, allowance for credit losses, current and projected growth, and projected retained earnings. The capital plan also contains contingency strategies to obtain additional capital as required to fulfill future capital requirements for both the Bank, as a separate legal entity, and the Company on a consolidated basis. The capital plan requires the Bank to maintain a ratio of tangible shareholders' equity to total tangible assets equal to or greater than 9%. The Bank’s ratio of tangible shareholders’ equity to total tangible assets was 9.5% and 11.2% at December 31, 2021 and 2020, respectively.

The Company's equity capital totaled $120.2 million at December 31, 2021, compared to $117.8 million at December 31, 2020. During the year ended December 31, 2021, the Holding Company paid $7.5 million in cash dividends to shareholders.

For a more detailed discussion of regulatory capital requirements and dividends, see Note 21 to the consolidated financial statements, as well as under the captions “*Supervision and Regulation - The Holding Company - Capital Adequacy*” and "*Supervision and Regulation - The Bank - Capital Standards*” set forth in Part I, Item I. of this Annual Report.

As of December 31, 2021, the Company and the Bank meet all capital adequacy requirements to which they are subject. Management believes that, under the current regulations, both will continue to meet their minimum capital requirements in the foreseeable future.

Reserve Balances

The Bank is required to maintain average reserve balances with the Federal Reserve Bank.The Bank implemented a deposit reclassification program which allows the Company to reclassify a portion of transaction accounts to non-transaction accounts for reserve purposes. The deposit reclassification program is provided by a third-party vendor and has been approved by the Federal Reserve Bank. At December 31, 2021, the Bank was not subject to a reserve requirement.

Critical Accounting Estimates and Policies

The Company has identified certain accounting estimates which involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact of its financial condition or results of operations. The Company We follow financial accounting and reporting policies that are in accordance with accounting principles generally accepted in the United States. The more significant of these policies are summarized in Note 1 - Operations and Summary of Significant Accounting Policies in the notes to the consolidated financial statements included elsewhere in this report. Not all significant accounting policies require management to make difficult, subjective or complex judgments. However, the policies noted below could be deemed to meet the SEC's definition of a critical accounting policy.

Allowance for Credit Losses

The allowance for credit losses represents management's estimate of probable incurred credit losses inherent in the loan portfolio. Determining the amount of the allowance for credit losses is considered a critical accounting estimate because it requires significant judgment. The use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions may be susceptible to significant variations. The loan portfolio represents the largest asset type on the consolidated balance sheet. Notes 1 and 3 to the consolidated financial statements describe the methodology used to determine the allowance for credit losses. A discussion of the factors driving changes in the amount of the allowance for credit losses is included in the Asset Quality and Allowance for Credit Losses section of this financial review.

Fair Value

Effective January 1, 2007, a fair value option accounting standard was applied to the Company's junior subordinated debt. Concurrently, the accounting standards related to fair value measurements were adopted. The accounting standards related to fair value measurements define how applicable assets and liabilities are to be valued, and requires expanded disclosures in regard to financial instruments carried at fair value. The fair value measurement accounting standard establishes a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring financial instruments at fair value. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices, or whose fair value can be measured from actively quoted prices of related financial instruments, generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments infrequently traded or not quoted in an active market will generally have little or no pricing observability and a higher degree of subjectivity. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market, and the characteristics specific to the transaction. Determining fair values under the accounting standards may include judgments related to measurement factors that may vary from actual transactions executed in the marketplace. For the years ended December 31, 2021 and 2020, fair value adjustments related to the junior subordinated debt resulted in losses of $268,000 and $174,000, respectively. (See Notes 10 and 15 of the *Notes to Consolidated Financial Statements* for additional information about financial instruments carried at fair value.)

Item 8 - Financial Statements and Supplementary Data

Index to Consolidated Financial Statements:

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of United Security Bancshares, including its consolidated subsidiaries (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2021. The Company's internal control over financial reporting is a process designed under the supervision of the Company's management, including the Chief Executive Officer and Chief Financial Officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

The Company's system of internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management recognizes that there are inherent limitations in the effectiveness of any system of internal control, and accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation and fair presentation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company performed an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2021 based upon criteria in *Internal Control — Integrated Framework (2013* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). As a result of this assessment, management has concluded that the Company's internal control over financial reporting is effective as of December 31, 2021.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
United Security Bancshares and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of United Security Bancshares and Subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2021 and 2020, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting in accordance with the standards of the PCAOB. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting in accordance with the standards of the PCAOB. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Credit Losses

As described in Notes 1 and 3 to the consolidated financial statements, the Company's allowance for credit losses balance was $9.3 million at December 31, 2021. The allowance for credit losses is an estimate of probable incurred credit losses inherent in the Company's loan portfolio as of the balance sheet date. The overall allowance consists of three primary components: specific allowance related to impaired loans; formula allowance for inherent losses related to loans that are evaluated on a collective basis, and an unallocated allowance that is based on management's evaluation of various conditions that are not directly measured in the determination of the formula and specific allowances. The determination of the formula allowance for credit loss is calculated by applying loss factors to outstanding loans based on estimates made by management. Loss factors are based on the historical loss experience and on the internal risk grade of those loans and may be adjusted for qualitative factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. Qualitative factors that may affect collectability of the loan portfolio include, consideration of levels of, and trends in delinquencies and nonaccrual loans, trends in volumes and term of loans, effects of any changes in lending policies and procedures including those for underwriting, collection, charge-off, and recovery, experience, ability, and depth of lending management and staff, national and local economic trends and conditions; and concentrations of credit that might affect loss experience across one or more components of the portfolio, including high-balance loan concentrations and participations.

We identified management's use of qualitative factors that affect the collectability of the loan portfolio and internal risk classification of loans as critical audit matters. The Company uses qualitative factors to estimate losses that are not captured in the historical loss rates. The Company assigned loans by internal risk classification categorized as pass, special mention, substandard, doubtful, or loss. Determination of qualitative factors and internal risk classifications involves significant management judgement. Auditing management's judgments regarding the determination of qualitative factors and internal risk classifications involved a high degree of subjectivity and judgement.

The primary procedures we performed to address these critical audit matters included:

- We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's calculation of the allowance for credit losses, including, the determination of the accuracy, appropriateness, approval of the risk classifications and identification and determination of the qualitative assumptions used in the measurement of the qualitative factors, and evaluation of the appropriateness of the changes made to the qualitative factors.

- Testing a risk-based targeted selection of loans to gain substantive evidence that the Company is appropriately rating these loans in accordance with its policies, and that the risk classifications for the loans are reasonable.

- Obtained management's analysis and supporting documentation related to the qualitative factors and evaluated whether the qualitative factors used in the calculation of the allowance for credit losses are reasonable.

- Testing the appropriateness of the methodology and assumptions used in the calculation of the allowance for credit losses, and testing the calculation itself, including completeness and accuracy of the data used in the calculation, application of the loan risk classifications determined by management and used in the calculation, application of the qualitative factors determined by management and used in the calculation, and recalculation of the Allowance for Credit Losses balance.

/s/ Moss Adams LLP

San Francisco, California
March 9, 2022

We have served as the Company's auditor since 1999.

United Security Bancshares and Subsidiaries
Consolidated Balance Sheets
December 31, 2021 and 2020

(In thousands except shares)	December 31, 2021	December 31, 2020
Assets		
Cash and noninterest-bearing deposits in other banks	$ 31,057	$ 29,490
Due from Federal Reserve Bank ("FRB")	188,162	264,579
Cash and cash equivalents	219,219	294,069
Investment securities (at fair value)		
Available-for-sale ("AFS") securities	178,902	82,341
Marketable equity securities	3,744	3,851
Total investment securities	182,646	86,192
Loans	869,314	655,411
Unearned fees and unamortized loan origination costs - net	2,219	(1,064)
Allowance for credit losses	(9,333)	(8,522)
Net loans	862,200	645,825
Premises and equipment - net	8,950	9,110
Accrued interest receivable	7,530	8,164
Other real estate owned ("OREO")	4,582	5,004
Goodwill	4,488	4,488
Deferred tax assets - net	3,615	2,907
Cash surrender value of life insurance	22,338	20,715
Operating lease right-of-use assets	2,594	2,864
Other assets	12,782	13,316
Total assets	$ 1,330,944	$ 1,092,654
Liabilities & Shareholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing	$ 476,749	$ 391,897
Interest-bearing	711,357	560,754
Total deposits	1,188,106	952,651
Operating lease liabilities	2,705	2,967
Other liabilities	8,737	8,305
Junior subordinated debentures (at fair value)	11,189	10,924
Total liabilities	1,210,737	974,847
Commitments and contingencies (Note 14)		
Shareholders' Equity		
Common stock, no par value; 20,000,000 shares authorized; issued and outstanding: 17,028,239 at December 31, 2021 and 17,009,883 at December 31, 2020	59,636	59,397
Retained earnings	61,745	59,138
Accumulated other comprehensive loss	(1,174)	(728)
Total shareholders' equity	120,207	117,807
Total liabilities and shareholders' equity	$ 1,330,944	$ 1,092,654

See accompanying notes to consolidated financial statements

United Security Bancshares and Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2021 and 2020

(In thousands except shares and EPS)	2021	2020
Interest Income:		
Interest and fees on loans	$ 35,154	$ 32,404
Interest on investment securities	2,337	1,433
Interest on deposits in FRB	239	730
Total interest income	37,730	34,567
Interest Expense:		
Interest on deposits	1,899	2,014
Interest on other borrowed funds	180	276
Total interest expense	2,079	2,290
Net Interest Income	35,651	32,277
Provision for Credit Losses	2,107	2,769
Net Interest Income after Provision for Credit Losses	33,544	29,508
Noninterest Income:		
Customer service fees	2,793	2,663
Increase in cash surrender value of bank-owned life insurance	555	504
Unrealized (loss) gain on fair value of marketable equity securities	(106)	74
Gain on proceeds from bank-owned life insurance	—	310
(Loss) gain on fair value of junior subordinated debentures	(660)	970
Gain on sale of assets	8	—
Other	795	653
Total noninterest income	3,385	5,174
Noninterest Expense:		
Salaries and employee benefits	11,713	10,825
Occupancy expense	3,537	3,475
Data processing	565	493
Professional fees	3,572	3,327
Regulatory assessments	743	459
Director fees	385	376
Correspondent bank service charges	88	71
Net cost on operation and sale of OREO	256	972
Other	2,756	2,272
Total noninterest expense	23,615	22,270
Income Before Provision for Taxes	13,314	12,412
Provision for Taxes on Income	3,216	3,451
Net Income	$ 10,098	$ 8,961
Net Income per common share		
Basic	$ 0.59	$ 0.53
Diluted	$ 0.59	$ 0.53
Shares on which net income per common share were based		
Basic	17,011,379	16,976,704
Diluted	17,030,874	16,998,585

See accompanying notes to consolidated financial statements

United Security Bancshares and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2021 and 2020

(In thousands)	**2021**	**2020**
Net Income	$ 10,098	$ 8,961
Unrealized holdings (losses) gains on debt securities	(1,229)	1,143
Unrealized gain (loss) on unrecognized post-retirement costs	203	(135)
Unrealized gain (loss) on junior subordinated debentures	392	(1,144)
Other comprehensive loss, before tax	(634)	(136)
Tax benefit (expense) related to debt securities	363	(338)
Tax (expense) benefit related to unrecognized post-retirement costs	(60)	40
Tax (expense) benefit related to junior subordinated debentures	(115)	338
Total other comprehensive loss	(446)	(96)
Comprehensive Income	$ 9,652	$ 8,865

See accompanying notes to consolidated financial statements

United Security Bancshares and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2021 and 2020

	Common Stock				
(In thousands except shares)	**Number of Shares**	**Amount**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Total**
Balance December 31, 2019 (1)	16,973,885	$ 58,973	$ 57,647	$ (632)	$ 115,988
(1) Excludes 35,575 unvested restricted shares					
Other comprehensive income				(96)	(96)
Dividends on common stock ($0.33 per share)			(5,600)		(5,600)
Dividends payable ($0.11 per share)			(1,870)		(1,870)
Restricted stock units released	35,998				
Tax benefit from restricted stock units released		(1)			(1)
Stock-based compensation expense		425			425
Net Income			8,961		8,961
Balance December 31, 2020 (2)	17,009,883	59,397	59,138	(728)	117,807
(2) Excludes 11,924 unvested restricted shares					
Other comprehensive loss				(446)	(446)
Dividends on common stock ($0.33 per share)			(5,619)		(5,619)
Dividends payable ($0.11 per share)			(1,872)		(1,872)
Restricted stock units released	18,356				
Tax benefit from restricted stock units released		(10)			(10)
Stock-based compensation expense		249			249
Net Income			10,098		10,098
Balance December 31, 2021 (3)	17,028,239	$ 59,636	$ 61,745	$ (1,174)	$ 120,207
(3) Excludes 27,949 unvested restricted shares					

See accompanying notes to consolidated financial statements

United Security Bancshares and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020

(In thousands)	2021	2020
Cash Flows From Operating Activities:		
Net Income	$ 10,098	$ 8,961
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	2,107	2,769
Depreciation and amortization	1,408	1,411
Amortization of operating lease right-of-use assets	(262)	(600)
Amortization of premium/discount on investment securities, net	953	1,073
Decrease in accrued interest receivable	634	44
Decrease in accrued interest payable	(4)	(27)
(Increase) decrease in unearned fees and unamortized loan origination costs, net	(151)	244
(Increase) decrease in income taxes receivable	(73)	367
Stock-based compensation expense and tax benefit	238	425
(Provision) benefit for deferred income taxes	(521)	324
Increase (decrease) in accounts payable and accrued liabilities	623	(160)
Write down on other real estate owned	—	727
Loss on sale of other real estate owned	1	113
Unrealized loss (gain) on marketable equity securities	106	(74)
Loss (gain) on fair value option of junior subordinated debentures	660	(970)
Gain on bank owned life insurance	—	(310)
Increase in cash surrender value of bank-owned life insurance	(555)	(504)
Gain on sale of premises and equipment	(8)	—
Net decrease (increase) in other assets	1,296	(13)
Net cash provided by operating activities	16,550	13,800
Cash Flows From Investing Activities:		
Purchase of correspondent bank stock	(8)	(45)
Principal payments on available-for-sale securities	27,009	23,055
Purchases of available-for-sale securities	(125,749)	(29,016)
Purchase of bank-owned life insurance	(1,140)	(220)
Net increase in loans	(218,331)	(60,192)
Cash proceeds from sales of other real estate owned	251	909
Cash proceeds from sales of premises and equipment	13	—
Proceeds from bank owned life insurance	—	1,243
Capital expenditures of premises and equipment	(1,253)	(1,141)
Investment in limited partnership	(158)	(140)
Net cash used in investing activities	(319,366)	(65,547)
Cash Flows From Financing Activities:		
Net increase in demand deposit and savings accounts	229,389	138,171
Net increase (decrease) in time deposits	6,066	(3,882)
Dividends on common stock	(7,489)	(7,468)
Net cash provided by financing activities	227,966	126,821
Net (decrease) increase in cash and cash equivalents	(74,850)	75,074
Cash and cash equivalents at beginning of year	294,069	218,995
Cash and cash equivalents at end of year	$ 219,219	$ 294,069

See accompanying notes to consolidated statements

Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting and Reporting Policies

Basis of Presentation – The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, with rules and regulations of the Securities and Exchange Commission ("SEC"), and with prevailing practices within the banking industry. The consolidated financial statements include the accounts of United Security Bancshares, and its wholly-owned subsidiaries, United Security Bank and subsidiary (the "Bank") and USB Capital Trust II (the "Trust"). The Trust is deconsolidated pursuant to ASC 810. As a result, the Trust Preferred Securities are not presented on the Company's consolidated financial statements as equity, but instead they are presented as Junior Subordinated Debentures and are presented as a separate liability category (see Note 10 to the Company's consolidated financial statements). Intercompany accounts and transactions have been eliminated in consolidation. In the following notes, references to the Bank are references to United Security Bank. References to the Company are references to United Security Bancshares (including the Bank). United Security Bancshares operates as one business segment providing banking services to commercial establishments and individuals primarily in the San Joaquin Valley of California.

Nature of Operations – United Security Bancshares is a bank holding company, incorporated in the state of California for the purpose of acquiring all the capital stock of the Bank through a holding company reorganization (the "Reorganization") of the Bank. United Security Bancshares has provided the Company greater operating and financial flexibility and has permitted expansion into a broader range of financial services and other business activities.

The Bank was founded in 1987 and currently operates twelve branches, one commercial lending office, one consumer lending office, and one construction lending office in an area from eastern Madera County to western Fresno County, as well as Taft and Bakersfield in Kern County, and Campbell in Santa Clara County. The Bank's primary source of revenue is interest income through providing loans to customers, who are predominantly small and middle-market businesses and individuals. The Bank engages in a full complement of lending activities, including real estate mortgage, commercial and industrial, real estate construction, agricultural and consumer loans, with particular emphasis on short and medium term obligations.

The Bank offers a wide range of deposit instruments. These include personal and business checking accounts and savings accounts, interest-bearing negotiable order of withdrawal (NOW) accounts, money market accounts and time certificates of deposit. Most of the Bank's deposits are attracted from individuals and from small and medium-sized business-related sources.

The Bank also offers a wide range of specialized services designed to attract and service the needs of commercial customers and account holders. These services include cashiers checks, travelers checks, money orders, and foreign drafts. In addition, the Bank offers Internet banking services to its commercial and retail customers. The Bank does not operate a trust department, however it makes arrangements with its correspondent bank to offer trust services to its customers upon request.

York Monterey Properties, Inc. ("YMP") was incorporated in California on April 17, 2019, for the purpose of holding specific parcels of real estate acquired by the Bank through, or in lieu of, loan foreclosures in Monterey County. These properties exceeded the 10-year holding period for other real estate owned, or "OREO." YMP was funded with a $250,000 cash investment and the transfer of those parcels by the Bank to YMP. As of December 31, 2021 and 2020, these properties are included within the consolidated balance sheets as part of "other real estate owned."

Use of Estimates in the Preparation of Financial Statements - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, goodwill, fair value of junior subordinated debt, deferred tax assets and liabilities, and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans.

Subsequent events - The Company has evaluated events and transactions for potential recognition or disclosure through the day the financial statements were issued.

Significant Accounting Policies - The Company follows accounting standards set by the Financial Accounting Standards Board, commonly referred to as "FASB." FASB sets generally accepted accounting principles (GAAP) that the Company follows to ensure the consistent reporting of its consolidated financial condition, consolidated results of operations, and consolidated cash flows. References to GAAP issued by FASB in these footnotes are to *FASB Accounting Standards Codification*, sometimes referred to as the Codification or ASC. The following is a summary of significant policies:

a. *Cash and cash equivalents* – Cash and cash equivalents include cash on hand and amounts due from banks. At times throughout the year, balances can exceed FDIC insurance limits. Generally, federal funds sold and repurchase agreements are sold for one-day periods. The Bank did not have any repurchase agreements during 2021 or 2020. All cash and cash equivalents have maturities when purchased of three months or less.

b. *Securities* - Debt securities classified as available-for-sale are reported at fair value, with unrealized gains and losses excluded from net income and reported, net of tax, as a separate component of comprehensive income and shareholders' equity. Debt securities classified as held to maturity are carried at amortized cost. Gains and losses on disposition are reported using the specific identification method for the adjusted basis of the securities sold. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

The Company classifies its debt securities as available for sale or held to maturity, and periodically reviews its investment portfolio on an individual security basis. Securities that are to be held for indefinite periods of time (including, but not limited to, those that management intends to use as part of its asset/liability management strategy, and those which may be sold in response to changes in interest rates, changes in prepayments or any such other factors) are classified as securities available for sale. Securities which the Company has the ability and intent to hold to maturity are classified as held to maturity.

Debt securities 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. The Company evaluates investment securities for other-than-temporary impairment (OTTI) at least quarterly, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities of high credit quality are generally evaluated for OTTI under ASC Topic 320-10, "*Investments – Debt and Equity Instruments"* and ASC Topic 321, *"Investment – Equity Securities"*.

The Company considers many factors in determining OTTI, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to the Company at the time of the evaluation.

Equity securities are reported at fair value with gains and losses included in non interest income on the Consolidated Statements of Income.

c. *Loans* - Interest income on loans is credited to income as earned and is calculated by using the simple interest method on the daily balance of the principal amounts outstanding. Outside of student loans, loans are typically placed on non-accrual status when principal or interest is past due for 90 days and/or when management believes the collection of amounts due is doubtful. Student loans are typically placed on non-accrual status when principal or interest is past due for 120 days. For loans placed on nonaccrual status, the accrued and unpaid interest receivable may be reversed based upon management's assessment of collectability, and interest is thereafter credited to principal to the extent necessary to eliminate doubt as to the collectability of the net carrying amount of the loan.

Nonrefundable fees and related direct costs associated with the origination or purchase of loans are deferred and netted against outstanding loan balances. The net deferred fees and costs are generally amortized into interest income over the loan term using the interest method. Other credit-related fees, such as standby letter of credit fees and loan placement fees are recognized as noninterest income during the period the related service is performed.

d. *Allowance for Credit Losses and Reserve for Unfunded Loan Commitments* - The allowance for credit losses is maintained to provide for losses that can reasonably be anticipated. The allowance is based on ongoing quarterly assessments of the probable losses inherent in the loan portfolio, and to a lesser extent, unfunded loan commitments. The reserve for unfunded loan commitments is a liability on the Company's consolidated financial statements and is included in other liabilities. The liability is computed using a methodology similar to that used to determine the allowance for credit losses, modified to take into account the probability of a drawdown on the commitment.

The allowance for credit losses is increased by provisions charged to operations during the current period and reduced by negative provisions and loan charge-offs, net of recoveries. Loans are charged against the allowance when management believes that the collection of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb losses inherent in existing loans, based on evaluations of the probability of collection. In evaluating the probability of collection, management is required to make estimates and assumptions that affect the reported amounts of loans, allowance for credit losses and the provision for credit losses charged to operations. Actual results could differ significantly from those estimates. These evaluations take into consideration such factors as the composition of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, and current economic conditions that may affect the borrowers' ability to pay.

The Company's methodology for assessing the adequacy of the allowance for credit losses consists of several key elements, which include:

- The formula allowance
- Specific allowances for problem graded loans identified as impaired; and
- The unallocated allowance

The formula allowance is calculated by applying loss factors to outstanding loans and certain unfunded loan commitments. Loss factors are based on the Company's historical loss experience and on the internal risk grade of those loans, and may be adjusted for significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. Factors that may affect collectability of the loan portfolio include:

- Levels of, and trends in delinquencies and nonaccrual loans;
- Trends in volumes and term of loans;
- Effects of any changes in lending policies and procedures including those for underwriting, collection, charge-off, and recovery;
- Experience, ability, and depth of lending management and staff;
- National and local economic trends and conditions and;
- Concentrations of credit that might affect loss experience across one or more components of the portfolio, including high-balance loan concentrations and participations.

Management determines the loss factors for problem graded loans (substandard, doubtful, and loss), special mention loans, and pass graded loans, based on a loss migration model. The migration analysis incorporates loan losses over the previous quarters as determined by management (time horizons adjusted as business cycles or environment changes) and loss factors are adjusted to recognize and quantify the loss exposure from changes in market conditions and trends in the Company's loan portfolio. For purposes of this analysis, loans are grouped by internal risk classifications and categorized as pass, special mention, substandard, doubtful, or loss. Certain loans are homogeneous in nature and are therefore pooled by risk grade. These homogeneous loans include consumer installment and home equity loans. Special mention loans are currently performing but are potentially weak, as the borrower has begun to exhibit deteriorating trends which, if not corrected, could jeopardize repayment of the loan and result in further downgrades. Substandard loans have well-defined weaknesses which, if not corrected, could jeopardize the full satisfaction of the debt. A loan classified as doubtful has critical weaknesses that make full collection of the obligation improbable.

The student loan portfolio is reviewed for allowance adequacy under the same guidelines as other loans in the Company's portfolio, with additional emphasis for specific risks associated with the portfolio. For student loans, principal amounts outstanding also include interest that has been capitalized. Charge-offs and recoveries of amounts that relate to capitalized interest on student loans are treated as principal charge-offs and recoveries, affecting the allowance for loan losses rather than interest income. Capitalized interest earned in the current year is reversed from interest income. Accrued but unpaid interest related to charged-off student loans is reversed against interest income. In general, the Company reserves for a percentage of loans in forbearance and loans rated substandard.

Loan participations are reviewed for allowance adequacy under the same guidelines as other loans in the Company's portfolio, with an additional participation factor added, if required, for specific risks associated with participations. In general, participations are subject to certain thresholds set by the Company, and are reviewed for geographic location as well as the well-being of the underlying agent bank.

Specific allowances are established based on management's periodic evaluation of loss exposure inherent in impaired loans. For impaired loans, specific allowances are determined based on the net realizable value of the underlying collateral, the net present value of the anticipated cash flows, or the market value of the underlying assets. Formula allowances for classified loans, excluding impaired loans, are determined on the basis of additional risks involved with individual loans that may be in excess of risk factors associated with the loan portfolio as a whole. The specific allowance is different from the formula allowance in that the specific allowance is determined on a loan-by-loan basis based on risk factors directly related to a particular loan, as opposed to the formula allowance which is determined for a pool of loans with similar risk characteristics, based on past historical trends and other risk factors which may be relevant on an ongoing basis.

The unallocated portion of the allowance is based upon management's evaluation of various conditions that are not directly measured in the determination of the formula and specific allowances. The conditions may include, but are not limited to, general economic and business conditions affecting the key lending areas of the Company, credit quality trends, collateral values, loan volumes and concentrations, and other business conditions.

e. *Premises and Equipment* - Premises and equipment are carried at cost less accumulated depreciation. Depreciation expense is computed principally on the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows:

Buildings	31 years	Furniture and equipment	3 -7 years

f. *Other Real Estate Owned* - Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value of the property, less estimated costs to sell. The excess, if any, of the loan amount over the fair value is charged to the allowance for credit losses. Subsequent declines in the fair value of other real estate owned, along with related revenue and expenses from operations, are charged to noninterest expense.

g. *Intangible Assets and Goodwill* - Intangible assets are comprised of core deposit intangibles, other specific identifiable intangibles, and goodwill acquired in certain branch acquisitions where the consideration given exceeded the fair value of the net assets acquired.

Goodwill amounts resulting from acquisitions are considered to have an indefinite life and are not amortized. At December 31, 2021 and 2020, goodwill totaled $4.5 million, held at the Company as the reporting unit. During 2021 and 2020, the Company did not recognize impairment charges on goodwill.

h. *Income Taxes* - Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities using the liability method, and are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. Estimates are based on the enacted tax rate of the applicable period.

i. *Net Income per Share* - Basic income per common share is computed based on the weighted average number of common shares outstanding. Diluted income per share includes the effect of stock options and other potentially dilutive securities using the treasury stock method to the extent they have a dilutive impact. If applicable, net income per share is retroactively adjusted for all stock dividends declared.

j. *Cash Flow Reporting* - For purposes of reporting cash flows, cash and cash equivalents include cash on hand, noninterest-bearing amounts due from banks, federal funds sold and securities purchased under agreements to resell. Federal funds and securities purchased under agreements to resell are generally sold for one-day periods. Net cash flows are reported for interest-bearing deposits with other banks, loans to customers, and deposits held for customers.

k. *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 right (free of conditions that constrain it from taking advantage of that right, beyond a trivial benefit) 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.

l. *Stock Based Compensation* - The Company has a stock-based employee compensation plan, which is described more fully in Note 12. The Company accounts for all share-based payments to employees, including grants of employee stock options and restricted stock units and awards, to be recognized in the consolidated financial statements based on the grant date fair value of the award. The fair value is amortized over the requisite service period (generally the vesting period). Included in salaries and employee benefits for the years ended December 31, 2021 and 2020 are $238,000 and $425,000, respectively, of share-based compensation.

m. *Federal Home Loan Bank Stock and Federal Reserve Stock* **-** As a member of the Federal Home Loan Bank of San Francisco ("FHLB"), the Company is required to maintain an investment in capital stock of the FHLB. In addition, as a member of the Federal Reserve Bank of San Francisco ("FRB"), the Company is required to maintain an investment in capital stock of the FRB. The investments in both the FHLB and the FRB are carried at cost in the accompanying consolidated balance sheets under other assets and are subject to certain redemption requirements by the FHLB and FRB. Stock redemptions are at the discretion of the FHLB and FRB.

While technically these are considered equity securities, there is no market for the FHLB or FRB stock. Therefore, the shares are considered as restricted investment securities. Management periodically evaluates the stock for other-than-temporary impairment. Management's determination of whether these investments are impaired is based on its assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of any decline in net assets of the FHLB or FRB as compared to the capital stock amount of the FHLB or FRB and the length of time this situation has persisted, (2) commitments by the FHLB or FRB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB or FRB, (3) the impact of legislative and regulatory changes on institutions and, accordingly, the customer base of the FHLB or FRB, and (4) the liquidity position of the FHLB or FRB.

n. *Comprehensive Income* - Comprehensive income is comprised of net income and other comprehensive income. Other comprehensive income includes items recorded directly to equity, such as unrealized gains and losses on securities available-for-sale, unrecognized costs of salary continuation defined benefit plans, and unrealized gains and losses on trust preferred securities. Comprehensive income is presented in the Consolidated Statements of Other Comprehensive Income.

o. *Segment Reporting* - The Company's operations are solely in the financial services industry and include providing to its customers traditional banking and other financial services. The Company operates primarily in California's San Joaquin Valley. Management makes operating decisions and assesses performance based on an ongoing review of the Company's consolidated financial results. Therefore, the Company has a single operating segment for financial reporting purposes.

p. *Revenue from Contracts with Customers* - The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("Topic 606"). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation.

The Company's primary sources of revenue are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income is not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. The contracts evaluated that are in scope of Topic 606 are primarily related to service charges and fees on deposit accounts, debit card fees, ATM processing fees, and other service charges, commissions and fees. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

q. *Leases* - The Company recognizes lease assets and lease liabilities on the consolidated balance sheet. Disclosures related to key lease components and leasing arrangements are included within the footnotes. The Company combines lease and associated non-lease components by class of underlying asset in contract that meet certain criteria. The lease and related non-lease components have the same timing and pattern of transfer, and the lease component, when accounted for on a stand-alone basis, is classified as an operating lease.

r. Recent Accounting Standards Not Yet Adopted:

In June 2016, FASB issued *ASU 2016-13, Financial Instruments- Credit Losses (Topic 326)*. The FASB is issuing this Update to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The Update requires enhanced disclosures and judgments in estimating credit losses and also amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. This original amendment was effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. In October 2019 FASB unanimously approved a vote to delay the effective date of this Standard to be effective for fiscal years beginning after December 15, 2022. The

Company has formed a project team that is responsible for oversight of the Company's implementation strategy for compliance with provisions of the new standard. An external provider specializing in community bank loss driver and the Current Expected Credit Loss ("CECL") reserving model design as well as other related consulting services has been retained, and the Company continues to evaluate potential CECL modeling alternatives. As part of this process, the Company has determined potential loan pool segmentation and sub-segmentation under CECL, as well as evaluated the key economic loss drivers for each segment. The Company has begun to generate and evaluate model scenarios under CECL in tandem with its current reserving processes for interim and annual reporting. While the Company is currently unable to reasonably estimate the impact of adopting this new guidance, management expects the impact of adoption will be significantly influenced by the composition and quality of the Company's loan portfolio as well as the economic conditions as of the date of adoption. The Company also anticipates significant changes to the processes and procedures for calculating the reserve for credit losses and continues to evaluate the potential impact on the Company's consolidated financial statements.

In March 2020, FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848).* This ASU provides optional expedients and exceptions for contracts, hedging relationships, and other transactions that reference LIBOR or other reference rates expected to be discontinued because of reference rate reform. The ASU is effective for all entities as of March 12, 2020 through December 31, 2022. The Company is in the process of evaluating the provisions of this ASU and its effects on our consolidated financial statements. The Company anticipates impacts to junior subordinated debt and floating rate loans tied to LIBOR.

s. *Reclassifications* - Certain reclassifications have been made to prior year financial statements to conform to the classifications used in 2021. None of the reclassifications had an impact on equity or net income.

2. *Investment Securities*

Following is a comparison of the amortized cost and approximate fair value of investment securities at December 31, 2021 and December 31, 2020:

(In thousands)

December 31, 2021 Securities available for sale:	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value (Carrying Amount)**
U.S. Government agencies	$ 33,206	$ 260	$ (90)	$ 33,376
U.S. Government sponsored entities & agencies collateralized by mortgage obligations	64,880	184	(329)	64,735
Asset-backed securities	4,092	38	—	4,130
Municipal bonds	50,872	86	(906)	50,052
Corporate bonds	11,000	429	(7)	11,422
U.S. Treasury securities	15,186	1	—	15,187
Total securities available for sale	$ 179,236	$ 998	$ (1,332)	$ 178,902
December 31, 2020				
Securities available for sale:				
U.S. Government agencies	$ 33,800	$ 142	$ (232)	$ 33,710
U.S. Government sponsored entities & agencies collateralized by mortgage obligations	37,732	722	(9)	38,445
Asset-backed securities	3,871	38	—	3,909
Municipal bonds	1,045	13	—	1,058
Corporate bonds	5,000	219	—	5,219
Total securities available for sale	$ 81,448	$ 1,134	$ (241)	$ 82,341

There were no sales of securities and no gross realized losses or gains on available-for-sale securities during the years ended December 31, 2021 and 2020. There were no other-than-temporary impairment losses during the years ended December 31, 2021 and 2020.

The amortized cost and fair value of securities available for sale at December 31, 2021, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties. Contractual maturities on collateralized mortgage obligations cannot be anticipated due to allowed paydowns.

	December 31, 2021	
(In thousands)	**Amortized Cost**	**Fair Value (Carrying Amount)**
Due in one year or less	$ 510	$ 510
Due after one year through five years	15,725	15,721
Due after five years through ten years	52,700	52,481
Due after ten years	45,421	45,456
U.S. Government sponsored entities & agencies collateralized by mortgage obligations	64,880	64,734
	$ 179,236	$ 178,902

At December 31, 2021 and 2020, available-for-sale securities with an amortized cost of approximately $94.9 million and $80.5 million (fair value of $95.2 million and $81.4 million, respectively) were pledged as collateral for FHLB borrowings, securitized deposits, and public funds balances.

The following summarizes temporarily impaired investment securities at December 31, 2021 and 2020:

	Less than 12 Months		**12 Months or More**		**Total**	
(In thousands) **December 31, 2021** Securities available for sale:	**Fair Value (Carrying Amount)**	**Unrealized Losses**	**Fair Value (Carrying Amount)**	**Unrealized Losses**	**Fair Value (Carrying Amount)**	**Unrealized Losses**
U.S. Government agencies	$ —	$ —	$ 9,699	$ (90)	$ 9,699	$ (90)
U.S. Government sponsored entities & agencies collateralized by mortgage obligations	37,258	(329)	23	—	37,281	(329)
Municipal bonds	39,551	(896)	228	(10)	39,779	(906)
Corporate bonds	5,993	(7)	—	—	5,993	(7)
U.S. Treasury securities	7,416	—			7,416	—
Total impaired securities	$ 90,218	$ (1,232)	$ 9,950	$ (100)	$ 100,168	$ (1,332)
December 31, 2020						
Securities available for sale:						
U.S. Government agencies	$ 9,013	$ (73)	$ 16,963	$ (159)	$ 25,976	$ (232)
U.S. Government sponsored entities & agencies collateralized by mortgage obligations	30	(1)	1,684	(8)	1,714	(9)
Total impaired securities	$ 9,043	$ (74)	$ 18,647	$ (167)	$ 27,690	$ (241)

Temporarily impaired securities at December 31, 2021, were comprised of thirty-six municipal bonds, twelve U.S. Government sponsored entities & agencies collateralized by mortgage obligations, six U.S. Government agency securities, two corporate bonds, and one U.S. treasury security. Temporarily impaired securities at December 31, 2020, were comprised of twelve U.S. Government agency securities and three U.S. Government sponsored entities & agencies collateralized by mortgage obligations.

At December 31, 2021, the decline in fair value of the thirty-six municipal bonds, the twelve U.S. Government sponsored entities and agencies collateralized by mortgage obligations securities, the six U.S. Government agency securities, the two corporate bonds, and one U.S. treasury security is attributable to changes in interest rates and not credit quality. Because the Company does not have the intent to sell these impaired securities, and it is more likely than not that it will not be required to sell these securities before its anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2021.

During the year ended December 31, 2021, the Company recognized $106,000 of unrealized losses related to marketable equity securities, related to one mutual fund, held at December 31, 2021 in the consolidated statements of income. During the year ended December 31, 2020, the Company recognized $74,000 of unrealized gains related to marketable equity securities held at December 31, 2020 in the consolidated statements of income.

The Company had no held-to-maturity or trading securities at December 31, 2021 or December 31, 2020.

3. Loans

Loans are comprised of the following:

(In thousands)	December 31, 2021		December 31, 2020	
Commercial and business loans	$	42,194	$	37,349
Government program loans		3,310		10,165
Total commercial and industrial		45,504		47,514
Real estate – mortgage:				
Commercial real estate		331,050		282,951
Residential mortgages		226,926		37,236
Home improvement and home equity loans		80		107
Total real estate mortgage		558,056		320,294
Real estate construction and development		154,270		175,016
Agricultural		60,239		51,079
Installment and student loans		51,245		61,508
Total loans	$	869,314	$	655,411

The Company's loans are predominantly in the San Joaquin Valley, and the greater Oakhurst/East Madera County area, as well as the Campbell area of Santa Clara County. Although the Company does participate in loans with other financial institutions, they are primarily in the state of California.

Commercial and industrial loans represent 5.2% of total loans at December 31, 2021, and are generally made to support the ongoing operations of small-to-medium sized commercial businesses. Commercial and industrial loans have a high degree of industry diversification and provide working capital, financing for the purchase of manufacturing plants and equipment, or funding for growth and general expansion of businesses. A substantial portion of commercial and industrial loans are secured by accounts receivable, inventory, leases, or other collateral including real estate. The remainder are unsecured; however, extensions of credit are predicated upon the financial capacity of the borrower. Repayment of commercial and industrial loans generally comes from the cash flow of the borrower. Included within the balance of Commercial and industrial loans is $1,731,000 in Paycheck Protection Program ("PPP") loans administrated by the Small Business Administration ("SBA"). PPP loans have a two or five years term and earn interest at 1%. In addition to interest, the Company receives a processing fee ranging from 3%-5% of the loan balance for each PPP loan. The fees are recognized as income over the contractual life of the loan. At December 31, 2021, there were $129,000 outstanding in net unearned PPP fees. The Company believes that the majority of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program.

Real estate mortgage loans, representing 64.2% of total loans at December 31, 2021, are secured by trust deeds on primarily commercial property and by trust deeds on single family residences. Repayment of real estate mortgage loans is generally from the cash flow of the borrower.

- Commercial real estate mortgage loans comprise the largest segment of this loan category and are available on all types of income producing and commercial properties, including: office buildings and shopping centers; apartments and motels; owner occupied buildings; manufacturing facilities and more. Commercial real estate mortgage loans can also be used to refinance existing debt. Commercial real estate loans are made under the premise that the loan will be repaid from the borrower's business operations, rental income associated with the real property, or personal assets.
- Residential mortgage loans are provided to individuals to finance or refinance single-family residences. Residential mortgages are not a primary business line offered by the Company, and a majority are conventional mortgages that were purchased as a pool.
- Home improvement and home equity loans comprise a relatively small portion of total real estate mortgage loans. Home equity loans are generally secured by junior trust deeds, but may be secured by 1st trust deeds.

Real estate construction and development loans, representing 17.7% of total loans at December 31, 2021, consist of loans for residential and commercial construction projects, as well as land acquisition and development, or land held for future development. Loans in this category are secured by real estate including improved and unimproved land, as well as single-family residential, multi-family residential, and commercial properties in various stages of completion. All real estate loans have established equity requirements. Repayment on construction loans generally comes from long-term mortgages with other lending institutions obtained at completion of the project or from the sale of the constructed homes to individuals.

Agricultural loans represent 6.9% of total loans at December 31, 2021, and are generally secured by land, equipment, inventory and receivables. Repayment is from the cash flow of the borrower.

Installment loans, including student loans, represent 5.9% of total loans at December 31, 2021 and generally consist of student loans as well as loans to individuals for household, family, and other personal expenditures such as credit cards, automobiles or other consumer items. See Note 4 - Student Loans for specific information on the student loan portfolio.

In the normal course of business, the Company is party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. At December 31, 2021 and 2020, these financial instruments include commitments to extend credit of $239.1 million and $216.8 million, respectively, and standby letters of credit of $1.7 million and $3.7 million, respectively. These instruments involve elements of credit risk in excess of the amount recognized on the consolidated balance sheet. The contract amounts of these instruments reflect the extent of the involvement the Company has in off-balance sheet financial instruments.

The Company’s exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amounts of those instruments. The Company uses the same credit policies as it does for on-balance sheet instruments.

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. Substantially all of these commitments are at floating interest rates based on the Prime rate. Commitments generally have fixed expiration dates. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation. Collateral held varies but includes accounts receivable, inventory, leases, property, plant and equipment, residential real estate, and income-producing properties.

Standby letters of credit are generally unsecured and are issued by the Company to guarantee the performance 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.

Loans to directors, officers, principal shareholders and their affiliates are summarized below:

(In thousands)	2021	2020
Aggregate amount outstanding, beginning of year	$ 1,900	$ 1,093
New loans or advances during year	7,899	4,950
Repayments during year	(198)	(4,143)
Aggregate amount outstanding, end of year	$ 9,601	$ 1,900
Undisbursed commitments, end of year	$ 13,100	$ 21,000

Key terms and conditions for loans to directors, officers, principal shareholders and their affiliates do not differ from that of other borrowers.

Past Due Loans

The Company monitors delinquency and potential problem loans on an ongoing basis through weekly reports to the Loan Committee and monthly reports to the Board of Directors.

The following is a summary of delinquent loans at December 31, 2021 (in thousands:

December 31, 2021	Loans 30-60 Days Past Due	Loans 61-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Commercial and business loans	$ —	$ —	$ —	$ —	42,194	42,194	$ —
Government program loans	—	—	—	—	3,310	3,310	—
Total commercial and industrial	—	—	—	—	45,504	45,504	—
Commercial real estate loans	—	—	—	—	331,050	331,050	—
Residential mortgages	6,745	—	—	6,745	220,181	226,926	—
Home improvement and home equity loans	12	—	—	12	68	80	—
Total real estate mortgage	6,757	—	—	6,757	551,299	558,056	—
Real estate construction and development loans	—	—	9,021	9,021	145,249	154,270	—
Agricultural loans	—	—	209	209	60,030	60,239	—
Installment and student loans	1,628	328	453	2,409	48,836	51,245	453
Total loans	$ 8,385	$ 328	$ 9,683	$ 18,396	$ 850,918	$ 869,314	$ 453

The following is a summary of delinquent loans at December 31, 2020 (in thousands:

December 31, 2020	Loans 30-60 Days Past Due	Loans 61-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Commercial and business loans	$ 184	$ —	$ —	$ 184	$ 37,165	$ 37,349	$ —
Government program loans	—	—	—	—	10,165	10,165	—
Total commercial and industrial	184	—	—	184	47,330	47,514	—
Commercial real estate loans	—	—	—	—	282,951	282,951	—
Residential mortgages	—	—	—	—	37,236	37,236	—
Home improvement and home equity loans	—	—	—	—	107	107	—
Total real estate mortgage	—	—	—	—	320,294	320,294	—
Real estate construction and development loans	—	—	8,605	8,605	166,411	175,016	—
Agricultural loans	—	—	439	439	50,640	51,079	—
Installment and student loans	510	875	513	1,898	59,610	61,508	513
Total loans	$ 694	$ 875	$ 9,557	$ 11,126	$ 644,285	$ 655,411	$ 513

Nonaccrual Loans

Commercial, construction and commercial real estate loans are placed on non-accrual status under the following circumstances:

- When there is doubt regarding the full repayment of interest and principal.
- When principal and/or interest on the loan has been in default for a period of 90-days or more, unless the asset is both well secured and in the process of collection that will result in repayment in the near future.
- When the loan is identified as having loss elements and/or is risk rated "8" Doubtful.

Other circumstances which jeopardize the ultimate collectability of the loan include certain troubled debt restructurings, identified loan impairment, and certain loans to facilitate the sale of OREO.

All loans, outside of student loans, where principal or interest is due and unpaid for 90 days or more are placed on nonaccrual and the accrual of interest for financial statement purposes is discontinued. Previously accrued but unpaid interest is reversed and charged against interest income. See Note 4- Student Loans for specific information on the student loan portfolio.

When a loan is placed on non-accrual status and subsequent payments of interest (and principal) are received, the interest received may be accounted for in two separate ways.

Cost recovery method: If the loan is in doubt as to full collection, the interest received in subsequent payments is diverted from interest income and treated as a reduction of principal for financial reporting purposes.

Cash basis: This method is only used if the recorded investment or total contractual amount is expected to be fully collectible, under which circumstances the subsequent payments of interest is credited to interest income as received.

Loans on non-accrual status are usually not returned to accruing status unless and until all delinquent principal and/or interest has been brought current, there is no identified element of loss, and current and continued satisfactory performance is expected (loss of the contractual amount not the carrying amount of the loan). Repayment ability is generally demonstrated through the timely receipt of at least six monthly payments on a loan with monthly amortization.

There were no remaining undisbursed commitments to extend credit on nonaccrual loans at December 31, 2021 and 2020.

The following is a summary of nonaccrual loan balances at December 31, 2021 and 2020 (in thousands):

	December 31, 2021	December 31, 2020
Commercial and business loans	$ —	$ —
Government program loans	—	—
Total commercial and industrial	—	—
Commercial real estate loans	—	—
Residential mortgages	—	—
Home improvement and home equity loans	—	—
Total real estate mortgage	—	—
Real estate construction and development loans	11,226	11,057
Agricultural loans	212	439
Installment and student loans	—	—
Total loans	$ 11,438	$ 11,496

Impaired Loans

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

The Company applies its normal loan review procedures in making judgments regarding probable losses and loan impairment. The Company evaluates for impairment those loans on nonaccrual status, graded doubtful, graded substandard or those that are troubled debt restructures. The primary basis for inclusion in impaired status under generally accepted accounting pronouncements is that it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement.

A loan is not considered impaired if there is merely an insignificant delay or shortfall in the amounts of payments and the Company expects to collect all amounts due, including interest accrued, at the contractual interest rate for the period of the delay.

Review for impairment does not include large groups of smaller balance homogeneous loans that are collectively evaluated to estimate the allowance for loan losses. The Company's present allowance for loan losses methodology, including migration analysis, captures required reserves for these loans in the formula allowance.

For loans determined to be impaired, the Company evaluates impairment based upon either the fair value of underlying collateral, discounted cash flows of expected payments, or observable market price.

- For loans secured by collateral including real estate and equipment, the fair value of the collateral less selling costs will determine the carrying value of the loan. The difference between the recorded investment in the loan and the fair value, less selling costs, determines the amount of impairment. The Company uses the measurement method based on fair value of collateral when the loan is collateral dependent and foreclosure is probable. For loans that are not considered collateral dependent, a discounted cash flow methodology is used.

- The discounted cash flow method of measuring the impairment of a loan is used for impaired loans that are not considered to be collateral dependent. Under this method, the Company assesses both the amount and timing of cash flows expected from impaired loans. The estimated cash flows are discounted using the loan's effective interest rate. The difference between the amount of the loan on the Bank's books and the discounted cash flow amounts determines the amount of impairment to be provided. This method is used for most of the Company's troubled debt restructurings or other impaired loans where some payment stream is being collected.

- The observable market price method of measuring the impairment of a loan is only used by the Company when the sale of loans or a loan is in process.

The method for recognizing interest income on impaired loans is dependent on whether the loan is on nonaccrual status or is a troubled debt restructure. For income recognition, the existing nonaccrual and troubled debt restructuring policies are applied to impaired loans. Generally, except for certain troubled debt restructurings which are performing under the restructure agreement, the Company does not recognize interest income received on impaired loans, but reduces the carrying amount of the loan for financial reporting purposes.

Loans other than certain homogeneous loan portfolios are reviewed on a quarterly basis for impairment. Impaired loans are written down to estimated realizable values by the establishment of specific reserves for loans utilizing the discounted cash flow method, or charge-offs for collateral-based impaired loans, or those using observable market pricing.

The following is a summary of impaired loans at December 31, 2021 (in thousands:

December 31, 2021	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance (1)	Recorded Investment With Allowance (1)	Total Recorded Investment	Related Allowance	Average Recorded Investment (2)	Interest Recognized (2)
Commercial and business loans	$ —	$ —	$ —	$ —	$ —	$ 156	$ —
Government program loans	—	—	—	—	—	110	—
Total commercial and industrial	—	—	—	—	—	266	—
Commercial real estate loans	—	—	—	—	—	538	—
Residential mortgages	146	—	146	146	3	377	6
Home improvement and home equity loans	—	—	—	—	—	—	—
Total real estate mortgage	146	—	146	146	3	915	6
Real estate construction and development loans	11,226	11,226	—	11,226	—	11,133	272
Agricultural loans	660	453	209	662	127	499	41
Installment and student loans	—	—	—	—	—	—	—
Total impaired loans	$ 12,032	$ 11,679	$ 355	$ 12,034	$ 130	$ 12,813	$ 319

(1) The recorded investment in loans includes accrued interest receivable of $2.

(2) Information is based on the year ended December 31, 2021.

The following is a summary of impaired loans at December 31, 2020 (in thousands.

December 31, 2020	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance (1)	Recorded Investment With Allowance (1)	Total Recorded Investment	Related Allowance	Average Recorded Investment (2)	Interest Recognized (2)
Commercial and business loans	$ 250	$ 251	$ —	$ 251	$ —	$ 551	$ 23
Government program loans	214	215	—	215	—	236	14
Total commercial and industrial	464	466	—	466	—	787	37
Commercial real estate loans	874	878	—	878	—	1,822	54
Residential mortgages	365	—	366	366	13	867	17
Home improvement and home equity loans	—	—	—	—	—	—	—
Total real estate mortgage	1,239	878	366	1,244	13	2,689	71
Real estate construction and development loans	11,057	11,057	—	11,057	—	11,223	252
Agricultural loans	610	293	316	609	196	675	39
Installment and student loans	—	—	—	—	—	—	—
Total impaired loans	$ 13,370	$ 12,694	$ 682	$ 13,376	$ 209	$ 15,374	$ 399

(1) The recorded investment in loans includes accrued interest receivable of $6.
(2) Information is based on the twelve month period ended December 31, 2020.

In most cases, the Company uses the cash basis method of income recognition for impaired loans. In the case of certain troubled debt restructuring for which the loan is performing under the current contractual terms for a reasonable period of time, income is recognized under the accrual method.

<u>*Troubled Debt Restructurings*</u>

Under the circumstances, when the Company grants a concession to a borrower as part of a loan restructuring, the restructuring is accounted for as a troubled debt restructuring (TDR). TDRs are reported as a component of impaired loans.

A TDR is a type of restructuring in which the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession (either imposed by court order, law, or agreement between the borrower and the Bank) to the borrower that it would not otherwise consider. Although the restructuring may take different forms, the Company's objective is to maximize recovery of its investment by granting relief to the borrower.

A TDR may include, but is not limited to, one or more of the following:

- A transfer from the borrower to the Company of receivables from third parties, real estate, other assets, or an equity interest in the borrower is granted to fully or partially satisfy the loan.

- A modification of terms of a debt such as one or a combination of:

    ◦ The reduction (absolute or contingent) of the stated interest rate.

    ◦ The extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk.

- The reduction (absolute or contingent) of the face amount or maturity amount of debt as stated in the instrument or agreement.
- The reduction (absolute or contingent) of accrued interest.

For a restructured loan to return to accrual status there needs to be, among other factors, at least six months successful payment history and continued satisfactory performance is expected. In addition, the Company typically performs a financial analysis of the credit to determine whether the borrower has the ability to continue to meet payments over the remaining life of the loan. This includes, but is not limited to, a review of financial statements and cash flow analysis of the borrower. Only after determination that the borrower has the ability to perform under the terms of the loans will the restructured credit be considered for accrual status. Although the Company does not have a policy which specifically addresses when a loan may be removed from TDR classification, as a matter of practice, loans classified as TDRs generally remain classified as such until the loan either reaches maturity, a conforming loan is renewed at market terms, or its outstanding balance is paid off.

There were no TDR modifications or defaults during year ended December 31, 2021. There was one new TDR and no defaults during the year ended December 31, 2020.

The following tables illustrate TDR modification activity for the year ended December 31, 2020 (in thousands):

	Year ended December 31, 2020				
	Number of Contracts	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Number of Contracts in Default**	**Recorded Investment on Defaulted TDRs**
Troubled Debt Restructurings					
Commercial and business loans	—	$ —	$ —	—	$ —
Government program loans	—	—	—	—	—
Commercial real estate term loans	—	—	—	—	—
Single family residential loans	—	—	—	—	—
Home improvement and home equity loans	—	—	—	—	—
Real estate construction and development loans	—	—	—	—	—
Agricultural loans	1	179	—	—	—
Installment and student loans	—	—	—	—	—
Overdraft protection lines	—	—	—	—	—
Total loans	1	$ 179	$ —	—	$ —

The following tables summarizes all TDR activity by loan category for the years ended December 31, 2021 and 2020 (in thousands.

Year ended December 31, 2021	Commercial and Industrial	Commercial Real Estate	Residential Mortgages	Home Improvement and Home Equity	Real Estate Construction Development	Agricultural	Installment and Student Loans	Total
Beginning balance	$ —	$ —	$ 365	$ —	$ 2,452	$ 609	$ —	$ 3,426
Defaults	—	—	—	—	—	—	—	—
Additions	—	—	—	—	—	—	—	—
Principal reductions	—	—	(219)	—	(246)	(367)	—	(832)
Charge-offs	—	—	—	—	—	—	—	—
Ending balance	$ —	$ —	$ 146	$ —	$ 2,206	$ 242	$ —	$ 2,594
Allowance for loan loss	$ —	$ —	$ 3	$ —	$ —	$ 127	$ —	$ 130

Year ended December 31, 2020	Commercial and Industrial	Commercial Real Estate	Residential Mortgages	Home Improvement and Home Equity	Real Estate Construction Development	Agricultural	Installment and Student Loans	Total
Beginning balance	$ 9	$ 898	$ 1,060	$ —	$ 2,654	$ 566	$ —	$ 5,187
Defaults	—	—	—	—	—	—	—	—
Principal reductions	(9)	(898)	(695)	—	(202)	(136)	—	(1,940)
Charge-offs	—	—		—	—	—	—	—
Ending balance	$ —	$ —	$ 365	$ —	$ 2,452	$ 609	$ —	$ 3,426
Allowance for loan loss	$ —	$ —	$ 13	$ —	$ —	$ 196	$ —	$ 209

The Company makes various types of concessions when structuring TDRs including rate reductions, payment extensions, and forbearance. At December 31, 2021, the Company had 5 restructured loans totaling $2.6 million, as compared to 7 restructured loans totaling $3.4 million at December 31, 2020. The Company had no unfunded commitments outstanding for TDRs at December 31, 2021 and December 31, 2020.

Credit Quality Indicators

As part of its credit monitoring program, the Company utilizes a risk rating system which quantifies the risk the Company estimates it has assumed during the life of a loan. The system rates the strength of the borrower and the facility or transaction, and is designed to provide a program for risk management and early detection of problems.

For each new credit approval, credit extension, renewal, or modification of existing credit facilities, the Company assigns risk ratings utilizing the rating scale identified in this policy. In addition, on an on-going basis, loans and credit facilities are reviewed for internal and external influences impacting the credit facility that would warrant a change in the risk rating. Each loan credit facility is given a risk rating that takes into account factors that materially affect credit quality.

When assigning risk ratings, the Company evaluates two risk rating approaches, a facility rating and a borrower rating as follows:

Facility Rating:

The facility rating is determined by the analysis of positive and negative factors that may indicate that the quality of a particular loan or credit arrangement requires that it be rated differently from the risk rating assigned to the borrower. The Company assesses the risk impact of these factors:

Collateral - The rating may be affected by the type and quality of the collateral, the degree of coverage, the economic life of the collateral, liquidation value, and the Company's ability to dispose of the collateral.

Guarantees - The value of third party support arrangements varies widely. Unconditional guaranties from persons with demonstrable ability to perform are more substantial than that of closely related persons to the borrower who offer only modest support.

Unusual Terms - Credit may be extended on terms that subject the Company to a higher level of risk than indicated in the rating of the borrower.

Borrower Rating:

The borrower rating is a measure of loss possibility based on the historical, current and anticipated financial characteristics of the borrower in the current risk environment. To determine the rating, the Company considers at least the following factors:

- Quality of management
- Liquidity
- Leverage/capitalization
- Profit margins/earnings trend
- Adequacy of financial records
- Alternative funding sources
- Geographic risk
- Industry risk
- Cash flow risk
- Accounting practices
- Asset protection
- Extraordinary risks

The Company assigns risk ratings to loans other than consumer loans and other homogeneous loan pools based on the following scale. The risk ratings are used when determining borrower ratings as well as facility ratings. When the borrower rating and the facility ratings differ, the lowest rating applied is:

- *Grades 1 and 2 –* These grades include loans which are given to high quality borrowers with high credit quality and sound financial strength. Key financial ratios are generally above industry averages and the borrower’s strong earnings history or net worth. These may be secured by deposit accounts or high-grade investment securities.

- *Grade 3 –* This grade includes loans to borrowers with solid credit quality with minimal risk. The borrower’s balance sheet and financial ratios are generally in line with industry averages, and the borrower has historically demonstrated the ability to manage economic adversity. Real estate and asset-based loans assigned this risk rating must have characteristics which place them well above the minimum underwriting requirements for those departments. Asset-based borrowers assigned this rating must exhibit extremely favorable leverage and cash flow characteristics, and consistently demonstrate a high level of unused borrowing capacity.

- *Grades 4 and 5 –* These include “pass” grade loans to borrowers of acceptable credit quality and risk. The borrower’s balance sheet and financial ratios may be below industry averages, but above the lowest industry quartile. Leverage is above and liquidity is below industry averages. Inadequacies evident in financial performance and/or management sufficiency are offset by readily available features of support, such as adequate collateral, or good guarantors having the liquid assets and/or cash flow capacity to repay the debt. While the borrower may have recognized a loss over three or four years, recent earnings trends, while perhaps somewhat cyclical, are improving and cash flows are adequate to cover debt service and fixed obligations. Real estate and asset-borrowers fully complying with all underwriting standards and performing according to projections would be assigned this rating. These also include grade 5 loans which are “leveraged” or on management’s “watch list.” While still considered pass loans (loans given a grade 5), the borrower’s financial condition, cash flow, or operations evidence more than average risk and short term weaknesses.

These loans warrant a higher than average level of monitoring, supervision, and attention from the Company, but do not reflect credit weakness trends that weaken or inadequately protect the Company's credit position. Loans with a grade rating of 5 are not normally acceptable as new credits unless they are adequately secured or carry substantial endorsers/guarantors.

- *Grade 6* – This grade includes "special mention" loans which are loans that are currently protected but are potentially weak. This generally is an interim grade classification and these loans will usually be upgraded to an "acceptable" rating or downgraded to a "substandard" rating within a reasonable time period. Weaknesses in special mention loans may, if not checked or corrected, weaken the asset or inadequately protect the Company's credit position at some future date. Special mention loans are often loans with weaknesses inherent in the loan origination and loan servicing, and may have some technical deficiencies. The main theme in special mention credits is the distinct probability that the classification will deteriorate to a more adverse class if the noted deficiencies are not addressed by the loan officer or loan management.

- *Grade 7* – This grade includes "substandard" loans which are inadequately supported by the current sound net worth and paying capacity of the borrower or of the collateral pledged, if any. Substandard loans have a well-defined weakness or weaknesses that may impair the regular liquidation of the debt. When a loan has been downgraded to "substandard," there exists a distinct possibility that the Company will sustain a loss if the deficiencies are not corrected. Substandard loans also include impaired loans.

- *Grade 8* – This grade includes "doubtful" loans which exhibit the same characteristics as the "substandard" loans. Additionally, loan weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include a proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

- *Grade 9* – This grade includes loans classified "loss" which are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off the asset even though partial recovery may be achieved in the future.

The following tables summarize the credit risk ratings for commercial, construction, and other non-consumer related loans for December 31, 2021 and 2020. The Company did not carry any loans graded as loss at December 31, 2021 or December 31, 2020:

December 31, 2021 *(In thousands)*	**Commercial and Industrial**	**Commercial Real Estate**	**Real Estate Construction and Development**	**Agricultural**	**Total**
Grades 1 and 2	$ 3,447	$ —	$ —	$ —	$ 3,447
Grade 3	—	92	—	—	92
Grades 4 and 5 – pass	42,054	301,866	143,044	46,739	533,703
Grade 6 – special mention	—	29,092	—	11,197	40,289
Grade 7 – substandard	3	—	11,226	2,303	13,532
Grade 8 – doubtful	—	—	—	—	—
Total	$ 45,504	$ 331,050	$ 154,270	$ 60,239	$ 591,063

December 31, 2020 (In thousands)	Commercial and Industrial	Commercial Real Estate	Real Estate Construction and Development	Agricultural	Total
Grades 1 and 2	$ 9,811	$ —	$ —	$ 30	$ 9,841
Grade 3	—	519	—	—	519
Grades 4 and 5 – pass	35,919	267,215	163,959	49,006	516,099
Grade 6 – special mention	1,307	14,343	—	1,434	17,084
Grade 7 – substandard	477	874	11,057	609	13,017
Grade 8 – doubtful	—	—	—	—	—
Total	$ 47,514	$ 282,951	$ 175,016	$ 51,079	$ 556,560

The Company follows consistent underwriting standards outlined in its loan policy for consumer and other homogeneous loans but does not specifically assign a risk rating when these loans are originated. Consumer loans are monitored for credit risk and are considered "pass" loans until some issue or event requires that the credit be downgraded to special mention or worse. Within the student loan portfolio, the Company does not grade these loans individually, but monitors credit quality indicators such as delinquency and program defined status codes such as forbearance.

The following table summarizes the credit risk ratings for consumer related loans and other homogeneous loans for December 31, 2021 and 2020 (in thousands):

	December 31, 2021				December 31, 2020			
	Residential Mortgages	Home Improvement and Home Equity	Installment and Student Loans	Total	Residential Mortgages	Home Improvement and Home Equity	Installment and Student Loans	Total
Not graded	$ 211,622	$ 68	$ 50,421	$ 262,111	$ 27,484	$ 92	$ 60,414	$ 87,990
Pass	15,304	12	371	15,687	9,752	15	570	10,337
Special Mention	—	—	—	—	—	—	11	11
Substandard	—	—	453	453	—	—	513	513
Doubtful	—	—	—	—	—	—	—	—
Total	$ 226,926	$ 80	$ 51,245	$ 278,251	$ 37,236	$ 107	$ 61,508	$ 98,851

<u>Allowance for Loan Losses</u>

The Company analyzes risk characteristics inherent in each loan portfolio segment as part of the quarterly review of the adequacy of the allowance for loan losses. The following summarizes some of the key risk characteristics for the ten segments of the loan portfolio (Consumer loans include three segments):

<u>Commercial and industrial loans</u> – Commercial loans are subject to the effects of economic cycles and tend to exhibit increased risk as economic conditions deteriorate, or if the economic downturn is prolonged. The Company considers this segment to be one of higher risk given the size of individual loans and the balances in the overall portfolio.

<u>Government program loans</u> – This is a relatively a small part of the Company's loan portfolio, but has historically had a high percentage of loans that have migrated from pass to substandard given their vulnerability to economic cycles.

<u>Commercial real estate loans</u> – This segment is considered to have more risk in part because of the vulnerability of commercial businesses to economic cycles as well as the exposure to fluctuations in real estate prices because most of these loans are secured by real estate. Losses in this segment have however been historically low because most of the loans are real estate secured, and the bank maintains appropriate loan-to-value ratios.

<u>Residential mortgages</u> – This segment is considered to have low risk factors both from the Company and peer statistics. These loans are secured by first deeds of trust.

Home improvement and home equity loans – Because of their junior lien position, these loans have an inherently higher risk level.

Real estate construction and development loans – This segment of loans is considered to have a higher risk profile due to construction and market value issues in conjunction with normal credit risks.

Agricultural loans – This segment is considered to have risks associated with weather, insects, and marketing issues. In addition, concentrations in certain crops or certain agricultural areas can increase risk. Additionally, from time to time, California experiences severe droughts, which can significantly harm the business of customers and the credit quality of the loans to those customers. Water resources and related issues affecting customers are closely monitored. Signs of deterioration within the loan portfolio are also monitored in an effort to manage credit quality and work with borrowers where possible to mitigate any losses.

Installment and student loans (Includes consumer loans, student loans, overdrafts, and overdraft protection lines) – This segment is higher risk because many of the loans are unsecured. Additionally, in the case of student loans, there are increased risks associated with liquidity as there is a significant time lag between funding of a student loan and eventual repayment.

COVID-19 – The Company has engaged in more frequent communication with borrowers to better understand their situation and the challenges faced as a result of COVID-19 and its variants. Outside of the student loan portfolio, the Company has not experienced any direct charge-offs related to COVID-19. The allowance for credit loss calculation, and the resulting provision for credit losses, are impacted by changes in economic conditions. Although economic conditions have improved since the pandemic was declared in March 2020, the credit risk in the loan portfolio remains heightened.

The following summarizes the activity in the allowance for credit losses by loan category for the years ended December 31, 2021 and 2020 (in thousands.

December 31, 2021	**Commercial and Industrial**	**Real Estate Mortgage**	**Real Estate Construction Development**	**Agricultural**	**Installment & Student Loans**	**Unallocated**	**Total**
Beginning balance	$ 625	$ 575	$ 3,722	$ 711	$ 2,614	$ 275	$ 8,522
(Recovery of provision) provision for credit losses	(119)	581	(882)	522	1,511	494	2,107
Charge-offs	—	—	—	—	(1,543)	—	(1,543)
Recoveries	91	18	—	—	138	—	247
Net recoveries (charge-offs)	91	18	—	—	(1,405)	—	(1,296)
Ending balance	$ 597	$ 1,174	$ 2,840	$ 1,233	$ 2,720	$ 769	$ 9,333
Period-end amount allocated to:							
Loans individually evaluated for impairment	—	3	—	127	—	—	130
Loans collectively evaluated for impairment	597	1,171	2,840	1,106	2,720	769	9,203
Ending balance	$ 597	$ 1,174	$ 2,840	$ 1,233	$ 2,720	$ 769	$ 9,333

December 31, 2020	Commercial and Industrial	Real Estate Mortgage	Real Estate Construction and Development	Agricultural	Installment	Unallocated	Total
Beginning balance	$ 1,322	$ 712	$ 2,808	$ 761	$ 2,132	$ 173	$ 7,908
Provision (recovery of provision) for credit losses	(726)	(227)	1,235	(50)	2,435	102	2,769
Charge-offs	—	(1)	(358)	—	(1,961)	—	(2,320)
Recoveries	29	91	37	0	8	—	165
Net recoveries (charge-offs)	29	90	(321)	0	(1,953)	—	(2,155)
Ending balance	$ 625	$ 575	$ 3,722	$ 711	$ 2,614	$ 275	$ 8,522
Period-end amount allocated to:							
Loans individually evaluated for impairment	—	13	—	196	—	—	209
Loans collectively evaluated for impairment	625	562	3,722	515	2,614	275	8,313
Ending balance	$ 625	$ 575	$ 3,722	$ 711	$ 2,614	$ 275	$ 8,522

The following summarizes information with respect to the loan balances at December 31, 2021 and 2020.

	December 31, 2021		
(In thousands)	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total Loans
Commercial and business loans	$ —	$ 42,194	$ 42,194
Government program loans	—	3,310	3,310
Total commercial and industrial	—	45,504	45,504
Commercial real estate loans	—	331,050	331,050
Residential mortgage loans	146	226,780	226,926
Home improvement and home equity loans	—	80	80
Total real estate mortgage	146	557,910	558,056
Real estate construction and development loans	11,226	143,044	154,270
Agricultural loans	662	59,577	60,239
Installment and student loans	—	51,245	51,245
Total loans	$ 12,034	$ 857,280	$ 869,314

	December 31, 2020		
(In thousands)	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total Loans
Commercial and business loans	$ 251	$ 37,098	$ 37,349
Government program loans	215	9,950	10,165
Total commercial and industrial	466	47,048	47,514
Commercial real estate loans	878	282,073	282,951
Residential mortgage loans	366	36,870	37,236
Home improvement and home equity loans	—	107	107
Total real estate mortgage	1,244	319,050	320,294
Real estate construction and development loans	11,057	163,959	175,016
Agricultural loans	609	50,470	51,079
Installment and student loans	—	61,508	61,508
Total loans	$ 13,376	$ 642,035	$ 655,411

4. Student Loans

Included in installment loans are $48.5 million and $57.4 million in student loans at December 31, 2021 and 2020 made to medical and pharmacy school students. Upon graduation the loan is automatically placed on deferment for six months. This may be extended up to 48 months for graduates enrolling in internship, medical residency, or fellowship. As approved, the student may receive additional deferment for hardship or administrative reasons in the form of forbearance for a maximum of 24 months throughout the life of the loan. Accrued interest on loans that had not entered repayment status totaled $2.0 million at December 31, 2021 and $3.2 million at December 31, 2020. At December 31, 2021 there were 901 loans within repayment, deferment, and forbearance which represented $23.8 million, $9.0 million, and $8.2 million, respectively. At December 31, 2020, there were 944 loans within repayment, deferment, and forbearance which represented $28.9 million, $7.4 million and $7.2 million, respectively. No new student loans were originated during the years ended December 31, 2021 and 2020.
As of December 31, 2021 and December 31, 2020, the reserve against the student loan portfolio was $2.6 million and $2.5 million, respectively. There were no TDRs within the portfolio as of December 31, 2021 or December 31, 2020. At December 31, 2021 and December 31, 2020, student loans totaling $453,000 and $513,000 were included in the substandard category, respectively.

ZuntaFi is the third-party servicer for the student loan portfolio. ZuntaFi's services include application administration, processing, approval, documenting, funding, and collection of current and charged off balances. They also provide file custodial responsibilities. Except in cases where applicants/loans do not meet program requirements, or extreme delinquency, ZuntaFi provides complete program management. ZuntaFi is paid a monthly servicing fee based on the principal balance outstanding. This servicing fee is presented as part of professional fees within noninterest expense.

The following tables summarize the credit quality indicators for outstanding student loans as of December 31, 2021 and December 31, 2020 (in 000's, except for number of loans:

	December 31, 2021			December 31, 2020		
	Number of Loans	Amount	Accrued Interest	Number of Loans	Amount	Accrued Interest
School	185	$ 6,555	$ 2,021	319	$ 12,905	$ 3,201
Grace	28	912	317	34	988	719
Repayment	500	23,834	715	623	28,906	292
Deferment	224	8,984	508	187	7,407	209
Forbearance	177	8,172	1,077	134	7,179	553
Total	1,114	$ 48,457	$ 4,638	1,297	$ 57,385	$ 4,974

School - The time in which the borrower is still actively in school at least half time. No payments are expected during this stage, though the borrower may begin immediate payments.

Grace - A six month period of time granted to the borrower immediately upon graduation, or if deemed no longer an active student. Interest continues to accrue. Upon completion of the six month grace period the loan is transferred to repayment status. Additionally, if applicable, this status may represent a borrower activated to military duty while in their in-school period, they will be allowed to return to that status once their active duty has expired. The borrower must return to an at least half time status within six months of the active duty end date in order to return to an in-school status.

Repayment - The time in which the borrower is no longer actively in school at least half time, and has not received an approved grace, deferment, or forbearance. Regular payment is expected from these borrowers under an allotted payment plan.

Deferment - May be granted up to 48 months for borrowers who have begun the repayment period on their loans but are (1) actively enrolled in an eligible school at least half time, or (2) are actively enrolled in an approved and verifiable medical residency, internship, or fellowship program.

Forbearance - The period of time during which the borrower may postpone making principal and interest payments, which may be granted for either hardship or administrative reasons. Interest will continue to accrue on loans during periods of authorized forbearance. If the borrower is delinquent at the time the forbearance is granted, the delinquency will be covered by the forbearance and all accrued and unpaid interest from the date of delinquency or if none, from the date of beginning of the forbearance period, will be capitalized at the end of each forbearance period. The term of the loan will not change and payments may be increased to allow the loan to pay off in the required time frame. A forbearance that results in only a delay in payment considered insignificant, is not a concessionary change in terms, provided the borrower affirms the obligation. Forbearance is not an uncommon status designation, this designation is standard industry practice, and is consistent with the succession of students migrating to employed medical professionals. However, additional risk is associated with this designation.

Student Loan Aging

Student loans are generally charged off at the end of the month during which an account becomes 120 days contractually past due. Accrued but unpaid interest related to charged off student loans is reversed and charged against interest income. For the year ended December 31, 2021, $122,000 in accrued interest receivable was reversed due to charge-offs of $1.4 million within the student loan portfolio. For the year ended December 31, 2020, $125,000 in accrued interest receivable was reversed due to charge-offs of $1.9 million within the student loan portfolio.

The following tables summarize the student loan aging for loans in repayment and forbearance as of December 31, 2021 and December 31, 2020 *(in 000's, except for number of borrowers:*

	December 31, 2021			December 31, 2020		
	Number of Borrowers		Amount	Number of Borrowers		Amount
Current or less than 31 days	272	$	29,596	304	$	34,188
31 - 60 days	10		1,628	4		510
61 - 90 days	3		328	10		875
Greater than 90 days	5		453	5		512
Total	290	$	32,005	323	$	36,085

5. *Premises and Equipment*

The components of premises and equipment are as follows:

(In thousands)		December 31, 2021		December 31, 2020
Land	$	968	$	968
Buildings and improvements		16,391		16,111
Furniture and equipment		10,068		9,921
		27,427		27,000
Less accumulated depreciation		(18,477)		(17,890)
Total premises and equipment	$	8,950	$	9,110

The depreciation expense on Company premises and equipment totaled $1,408,000 and $1,411,000, for the years ended December 31, 2021 and 2020, respectively, and is included in occupancy expense in the accompanying consolidated statements of operations.

6. *Investment in Limited Partnership*

The Bank owns a 2.22% interest in a limited partnership which provides private capital for small to mid-sized businesses used to finance later stage growth, strategic acquisitions, ownership transitions, and recapitalizations, or mezzanine capital. At December 31, 2021 and December 31, 2020, the total investment in this limited partnership was $2,480,000, and $2,322,000, respectively. The investment is accounted for under the cost method. During the year ended December 31, 2021, $303,000 in income related to the limited partnership was recognized and is reflected in other non-interest income on the Consolidated Statement of Income. No income was recognized for the year ended December 31, 2020. Remaining unfunded commitments as of December 31, 2021 and 2020 totaled $1,879,000 and $2,239,000, respectively.

7. *Deposits*

Deposits include the following:

(In thousands)		December 31, 2021		December 31, 2020
Noninterest-bearing deposits	$	476,749	$	391,897
Interest-bearing deposits:				
NOW and money market accounts		529,841		402,566
Savings accounts		113,930		96,669
Time deposits:				
Under $250,000		46,631		40,302
$250,000 and over		20,955		21,217
Total interest-bearing deposits		711,357		560,754
Total deposits	$	1,188,106	$	952,651

At December 31, 2021, the scheduled maturities of all certificates of deposit and other time deposits are as follows:

(In thousands)	December 31, 2021	December 31, 2020
One year or less	$ 58,685	$ 49,253
More than one year, but less than or equal to two years	7,335	10,577
More than two years, but less than or equal to three years	573	1,021
More than three years, but less than or equal to four years	390	184
More than four years, but less than or equal to five years	603	385
Greater than five years	—	100
	$ 67,586	$ 61,520

Deposit balances representing overdrafts reclassified as loan balances totaled $102,000 and $506,000 as of December 31, 2021 and 2020, respectively.

Deposits of directors, officers and other related parties to the Bank totaled $18.4 million and $11.2 million at December 31, 2021 and 2020, respectively. The rates paid on these deposits were similar to those customarily paid to the Bank's customers in the normal course of business.

8. Short-term Borrowings/Other Borrowings

At December 31, 2021, the Company had collateralized lines of credit with the Federal Reserve Bank of San Francisco totaling $320.6 million, as well as Federal Home Loan Bank (FHLB) lines of credit totaling $3.1 million. At December 31, 2021, the Company had uncollateralized lines of credit with PNC of $40 million, Pacific Coast Bankers Bank (PCBB) totaling $50 million, $20 million with Zions First National Bank, and $10 million with Union Bank. All lines of credit are on an "as available" basis and can be revoked by the grantor at any time. These lines of credit have interest rates that are generally tied to the Federal Funds rate or are indexed to short-term U.S. Treasury rates or LIBOR. FHLB advances are collateralized by the Company's stock in the FHLB, investment securities, and certain qualifying mortgage loans.

As of December 31, 2021, $3.4 million in investment securities at FHLB were pledged as collateral for FHLB advances. Additionally, $490.5 million in real-estate secured loans were pledged at December 31, 2021 as collateral for used and unused borrowing lines with the Federal Reserve Bank. At December 31, 2021, the Company had no outstanding borrowing balances.

The Company had collateralized lines of credit with the Federal Reserve Bank of San Francisco totaling $336.8 million, as well as Federal Home Loan Bank (FHLB) lines of credit totaling $4.9 million at December 31, 2020. At December 31, 2020, the Company had uncollateralized lines of credit with Pacific Coast Bankers Bank (PCBB) and Union Bank totaling $10 million each and a Fed Funds line of $20 million with Zions First National Bank. All lines of credit are on an "as available" basis and can be revoked by the grantor at any time. These lines of credit have interest rates that are generally tied to the Federal Funds rate or are indexed to short-term U.S. Treasury rates or LIBOR. FHLB advances are collateralized by the Company's stock in the FHLB, investment securities, and certain qualifying mortgage loans.

As of December 31, 2020, $5.3 million in investment securities at FHLB were pledged as collateral for FHLB advances. Additionally, $517.5 million in real-estate secured loans were pledged at December 31, 2020, as collateral for used and unused borrowing lines with the Federal Reserve Bank. At December 31, 2020, the Company had no outstanding borrowing balances.

9. Leases

The Company leases land and premises for its branch banking offices, administration facilities, and ATMs. The initial terms of these leases expire at various dates through 2032. Under the provisions of most of these leases, the Company has the option to extend the leases beyond their original terms at rental rates adjusted for changes reported in certain economic indices or as reflected by market conditions. Lease terms may include options to extend or terminate the lease when it is reasonably certain the Company will exercise that option. As of December 31, 2021, the Company had 13 operating leases and no financing leases.

The components of lease expense were as follows:

(in 000's)	Year Ended December 31, 2021	Year Ended December 31, 2020
Operating lease expense	$ 704	$ 764
Short-term lease expense	—	—
Variable lease expense	283	249
Sublease income	—	—
Total	$ 987	$ 1,013

Supplemental balance sheet information related to leases was as follows:

(in 000's)	December 31, 2021	December 31, 2020
Operating cash flows used in operating leases (years ended)	$ 691	$ 764
ROU assets obtained in exchange for new operating lease liabilities	$ 285	$ 104
Weighted-average remaining lease terms in years for operating leases	5.06	5.85
Weighted-average discount rate for operating leases	5.13 %	5.16 %

Maturities of lease liabilities were as follows:

(in 000's)	Year Ended December 31, 2021
2021	$ 739
2022	738
2023	580
2024	402
2025	183
Thereafter	432
Total undiscounted cash flows	3,074
Less: present value discount	(369)
Present value of net future minimum lease payments	$ 2,705

(in 000's)	Year Ended December 31, 2020
2020	$ 665
2021	675
2022	674
2023	513
2024	333
Thereafter	580
Total undiscounted cash flows	3,440
Less: present value discount	(473)
Present value of net future minimum lease payments	$ 2,967

10. Junior Subordinated Debt/Trust Preferred Securities

The contractual principal balance of the Company's debentures relating to its trust preferred securities is $12 million as of December 31, 2021. The Company may redeem the junior subordinated debentures at any time at par.

The Company accounts for its junior subordinated debt issued under USB Capital Trust II at fair value. The Company believes the election of fair value accounting for the junior subordinated debentures better reflects the true economic value of the debt instrument on the consolidated balance sheet. As of December 31, 2021, the rate paid on the junior subordinated debt issued under USB Capital Trust II is 3-month LIBOR plus 129 basis points, and is adjusted quarterly.

At December 31, 2021, the Company performed a fair value measurement analysis on its junior subordinated debt using a cash flow model approach to determine the present value of those cash flows. The cash flow model utilizes the forward 3-month LIBOR curve to estimate future quarterly interest payments due over remaining life of the debt instrument. These cash flows are discounted at a rate which incorporates a current market rate for similar-term debt instruments, adjusted for additional credit and liquidity risks associated with junior subordinated debt. The 3.90% discount rate used represents what a market participant would consider under the circumstances based on current market assumptions. At December 31, 2021, the total cumulative gain recorded on the debt was $1.3 million.

The net fair value calculation performed as of December 31, 2021 resulted in a pretax loss adjustment of $268,000 for the year ended December 31, 2021, compared to a pretax loss adjustment of $174,000 for the year ended December 31, 2020.

For the year ended December 31, 2021, the $268,000 fair value loss adjustment was separately presented as a $660,000 loss recognized on the consolidated statements of income, and a $392,000 gain associated with the instrument-specific credit risk recognized in other comprehensive income. For the year ended December 31, 2020, the $174,000 fair value loss adjustment was separately presented as a $970,000 gain recognized on the consolidated statements of income, and a $1,144,000 loss associated with the instrument-specific credit risk recognized in other comprehensive income. The Company calculated the change in the discounted cash flows based on updated market credit spreads for the periods ended.

11. Taxes on Income

The tax effects of significant items comprising the Company's net deferred tax assets (liabilities are as follows:

(In thousands)	December 31, 2021	December 31, 2020
Deferred tax assets:		
Credit losses not currently deductible	$ 2,173	$ 2,906
Deferred compensation	1,230	1,506
Depreciation	311	256
Accrued reserves	75	109
Write-down on other real estate owned	291	291
Unrealized gain on retirement obligation	265	325
Unrealized gain on TRUPs	131	246
Unrealized gain (loss) on available for sale securities	99	(265)
Interest on nonaccrual loans	653	443
Lease liability	798	875
Other	1,528	467
Total deferred tax assets	7,554	7,159
Deferred tax liabilities:		
State Tax	(243)	(211)
FHLB dividend	(46)	(46)
Loss on limited partnership investment	(524)	(1,353)
Deferred gain ASC 825 – fair value option	(561)	(771)
Fair value adjustments for purchase accounting	(98)	(98)
Deferred loan costs	(1,553)	(689)
Prepaid expenses	(149)	(239)
Right-of-use asset	(765)	(845)
Total deferred tax liabilities	(3,939)	(4,252)
Net deferred tax assets	$ 3,615	$ 2,907

The Company periodically evaluates its deferred tax assets to determine whether a valuation allowance is required based upon a determination that some or all of the deferred assets may not be ultimately realized. The Company did not record a valuation allowance at December 31, 2021 or December 31, 2020.

Income tax expense for the years ended December 31, consist of the following:

(In thousands)			
2021	**Federal**	**State**	**Total**
Current	$ 2,407	$ 1,330	$ 3,737
Deferred	(370)	(151)	(521)
	$ 2,037	$ 1,179	$ 3,216
2020			
Current	$ 1,871	$ 1,256	$ 3,127
Deferred	399	(75)	324
	$ 2,270	$ 1,181	$ 3,451

A reconciliation of the statutory federal income tax rate to the effective income tax rate is as follows:

	Year Ended December 31,	
	2021	2020
Statutory federal income tax rate	21.0 %	21.0 %
State franchise tax, net of federal income tax benefit	7.1	8.2
Other	(3.9)	(1.4)
	24.2 %	27.8 %

The Company periodically reviews its tax positions under the accounting standards related to uncertainty in income taxes, which defines the criteria that an individual tax position would have to meet for some or all of the income tax benefit to be recognized in a taxable entity's financial statements. Under the guidelines, an entity should recognize the financial statement benefit of a tax position if it determines that it is *more likely than not* that the position will be sustained on examination. The term, "more likely than not," means a likelihood of more than 50 percent. In assessing whether the more-likely-than-not criterion is met, the entity should assume that the tax position will be reviewed by the applicable taxing authority and all available information is known to the taxing authority. As of December 31, 2021 and 2020, the Company has no uncertain tax positions.

The Company and its subsidiary file income tax returns in the U.S federal jurisdiction and California. There are no filings in foreign jurisdictions. The Company is no longer subject to income tax examinations by taxing authorities for years before 2018 and 2017 for Federal and California jurisdictions, respectively.

The Company's policy is to recognize any interest or penalties related to uncertain tax positions in income tax expense. Interest and penalties recognized during the periods ended December 31, 2021 and December 31, 2020 were insignificant.

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 carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021.

12. Stock Based Compensation

Options and restricted stock units and awards have been granted to officers and key employees at an exercise price equal to estimated fair value at the date of grant as determined by the Board of Directors. All options, units, and awards granted are service awards, and are based solely upon fulfilling a requisite service period (the vesting period). At December 31, 2021, the Company had two stock based compensation plans.

In May 2005, the Company adopted the United Security Bancshares 2005 Stock Option Plan (2005 Plan) for which 34,601 shares remain reserved for issuance for options already granted to employees and directors under incentive and nonstatutory agreements. The 2005 plan expired in May 2015. While outstanding arrangements to issue shares under this plan, including options, continue in force until their expiration, no new options will be granted under this plan.

In May 2015, the Company adopted the United Security Bancshares 2015 Equity Incentive Award Plan (2015 Plan). The 2015 Plan provides for the granting of up to 758,000 shares of authorized and unissued shares of common stock in the form of stock options, restricted stock units, and restricted stock awards. The 2015 Plan requires that the exercise price may not be less than the fair value of the stock at the date the option is granted, and that the option price must be paid in full at the time it is exercised.

The options granted (incentive stock options for employees and non-qualified stock options for Directors) have an exercise price at the prevailing market price on the date of grant. All options granted are exercisable 20% each year commencing one year after the date of grant and expire ten years after the date of grant. Restricted stock awards are granted at the prevailing market price of the Company's stock, subject to time based vesting. Restricted stock awards are subject to forfeiture if employment terminates prior to vesting. The cost of these awards is recognized over the vesting period of the awards based on the fair value of the common stock on the date of the grant.

Under the 2005 Plan, 34,601 granted options are outstanding and vested (34,601 incentive stock options and zero nonqualified stock options) as of December 31, 2021 and 2020. No options were granted under this plan during the year ended December 31, 2021 and 2020.

Under the 2015 Plan, 87,949 granted stock instruments are outstanding as of December 31, 2021, of which 48,000 are exercisable. Of the 87,949 granted stock instruments, 27,949 are restricted stock units and 60,000 are nonqualified stock options.

A summary of the status of the Company's stock option plan and changes during the year are presented below:

	Shares	Weighted Average Exercise Price
Options outstanding December 31, 2020	94,601	$ 7.87
Granted during the year	—	—
Exercised during the year	—	—
Forfeited during the year	—	—
Options outstanding December 31, 2021	94,601	$ 7.87

A summary of the status of the Company's restricted stock and changes during the year are presented below:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested units at December 31, 2020	11,924	$ 10.85
Granted during the year	35,739	7.53
Vested during the year	19,714	8.24
Forfeited during the year	—	—
Non-vested units at December 31, 2021	27,949	$ 8.45

Included in total outstanding options at December 31, 2021, are 82,601 exercisable shares at a weighted average price of $7.54, a weighted average remaining contract term of 4.03 years and intrinsic value of $145,031.

Included in salaries and employee benefits for the years ended December 31, 2021 and 2020 is $238,000 and $425,000 of share-based compensation, respectively. The related tax benefit on share-based compensation recorded in the provision for income taxes was not material to any year.

As of December 31, 2021 and 2020 there was $61,000 and $147,000, respectively, of total unrecognized compensation expense related to non-vested stock options. This cost is expected to be recognized over a weighted average period of approximately 0.97 years.

A summary of the status of the Company's stock option values and activity is presented below:

	December 31, 2021	December 31, 2020
Weighted average grant-date fair value per share of stock options granted	$ —	$ —
Weighted average fair value of stock options vested	$ 86,000	$ 86,000
Total intrinsic value of stock options exercised	$ —	$ —

As of December 31, 2021 and 2020 there was $218,000 and $106,000, respectively, of total unrecognized compensation expense related to restricted stock. This cost is expected to be recognized over a weighted-average period of approximately 2.00 years.

The Bank determines fair value of stock options at grant date using the Black-Scholes-Merton pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock and the expected dividend yield and the risk-free interest rate over the expected life of the option. The Bank determines fair value of restricted stock based on the quoted stock price as of the grant date.

The expected term of options granted is derived from management's experience, which is based upon historical data on employee exercise and post-vesting behavior. The risk free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. Expected volatility is based on the historical volatility of the

Bank's stock over a period commensurate with the expected term of the options. The Company believes that historical volatility is indicative of expectations about its future volatility over the expected term of the options.

The Bank expenses the fair value of the option on a straight-line basis over the vesting period for each separate service period portion of the award. The Bank estimates forfeitures and only recognizes expense for those shares expected to vest. Based upon historical evidence, the Company has determined that because options are granted to a limited number of key employees rather than a broad segment of the employee base, expected forfeitures, if any, are not material.

The Black-Scholes-Merton option valuation model requires the input of highly subjective assumptions, including the expected life of the stock based award and stock price volatility. The assumptions listed above represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, the Bank's recorded stock-based compensation expense could have been materially different from that previously reported in proforma disclosures. In addition, the Bank is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If the Bank's actual forfeiture rate is materially different from the estimate, the share-based compensation expense could be materially different.

13. Employee Benefit Plans

401K Plan

The Company has a Cash or Deferred 401(k) Stock Ownership Plan (the "401(k) Plan") organized under Section 401(k) of the Code. All employees of the Company are initially eligible to participate in the 401(k) Plan upon the first day of the month after date of hire. Under the terms of the plan, the participants may elect to make contributions to the 401(k) Plan as determined by the Board of Directors. Participants are automatically vested 100% in all employee contributions. Participants may direct the investment of their contributions to the 401(k) Plan in any of several authorized investment vehicles. The Company contributes funds to the Plan up to 4% of the employees' eligible annual compensation. Company contributions are immediately 100% vested at the time of contribution. The Company made matching contributions of $262,000 and $250,000 to the 401(k) Plan for the years ended December 31, 2021 and 2020, respectively.

Salary Continuation Plan

The Company has an unfunded, non-qualified Salary Continuation Plan for senior executive officers and certain other key officers of the Company, which provides additional compensation benefits upon retirement for a period of at least 15 years. Future compensation under the Plan is earned by the employees for services rendered through retirement and vests over a period of 12 to 32 years. As of December 31, 2021, the Company maintains a total of twelve Salary Continuation agreements.

The Company's current benefit liability is determined based upon vesting and the present value of the benefits at a corresponding discount rate. The discount rate used is an equivalent rate for high-quality investment-grade bonds with lives matching those of the service periods remaining for the salary continuation contracts, which averages approximately 20 years. At December 31, 2021 and 2020, $4,753,000 and $4,731,000, respectively, had been accrued to date, based on a discounted cash flow using an average discount rate of 1.91% and 1.36%, respectively, and is included in other liabilities on the consolidated balance sheets. Salary continuation expense is included in salaries and benefits expense, and totaled $430,000 and $284,000 for the years ended December 31, 2021 and 2020, respectively.

Included within the twelve total Salary Continuation agreements, the Company has four separate agreements with officers of the Bank and accrues for this salary continuation liability based on anticipated years of service and vesting schedules provided under the individual agreements. The four policies are considered individual contracts, and the Company applies guidance contained in ASC Topic 710. Additionally, the Company purchased company owned life insurance (COLI) and bank owned life insurance policies (BOLI) on the life of the officers in connection with the salary continuation agreements. The COLI policy premiums are paid over a seven year period and the BOLI policy premiums were paid in whole upon purchase of the policies. Life insurance premium expense totaled $42,000 and $30,000 for the years ended December 31, 2021 and 2020.

For the other eight Salary Continuation agreements in place prior to 2015, the Company recognizes in accumulated other comprehensive (loss) income, the amounts that have not yet been recognized as components of net periodic benefit costs, per the guidance contained in ASC Topic 715 "*Compensation*". These unrecognized costs arise from changes in estimated interest rates used in the calculation of net liabilities under the Plan. As of December 31, 2021 and 2020, the Company had approximately $627,000 and $770,000, respectively in unrecognized net periodic benefit costs arising from changes in interest rates used in calculating the current post-retirement liability required under the Plan. This amount represents the difference between the plan liabilities calculated under net present value calculations, and the net plan liabilities actually recorded on the Company's books at December 31, 2021 and 2020.

Officer Supplemental Life Insurance Plan

The Company owns Bank-owned life insurance policies (BOLI) and Company-owned life insurance policies (COLI) on certain officers, including those covered under the Salary Continuation Plan above, with a portion of the post-retirement benefit available to the officers' beneficiaries. The BOLI and COLI initial net cash surrender value is equivalent to the premium paid, and it adds income through non-taxable increases in its cash surrender value, net of the cost of insurance, plus any death benefits ultimately received by the Company. The cash surrender value of these insurance policies totaled $22.3 million and $20.7 million at December 31, 2021 and 2020, and is included on the consolidated balance sheet in cash surrender value of life insurance. These policies resulted in income, net of expense, of approximately $513,000 and $474,000 for the years ended December 31, 2021 and 2020, respectively. Although the Salary Continuation Plan remains unfunded, the Company intends to utilize the proceeds of such policies to settle the Plan obligations. Under Internal Revenue Service regulations, the life insurance policies are the property of the Company and are available to satisfy the Company's general creditors.

14. Commitments and Contingent Liabilities

Financial Instruments with Off-Balance Sheet Risk: The Company is party to financial instruments with off-balance sheet risk which arise in the normal course of business. These instruments may contain elements of credit risk, interest rate risk and liquidity risk, and include commitments to extend credit and standby letters of credit. The credit risk associated with these instruments is essentially the same as that involved in extending credit to customers and is represented by the contractual amount indicated in the table below:

	Contractual amount – December 31,	
(In thousands)	**2021**	**2020**
Commitments to extend credit	$ 239,095	$ 216,799
Standby letters of credit	1,719	3,668

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. Substantially all of these commitments are at floating interest rates based on the Prime rate, and most have fixed expiration dates. The Company evaluates each customer's creditworthiness on a case-by-case basis, and the amount of collateral obtained, if deemed necessary, is based on management's credit evaluation. Collateral held varies but includes accounts receivable, inventory, leases, property, plant and equipment, residential real estate, and income-producing properties. Many of the commitments are expected to expire without being drawn upon and, as a result, the total commitment amounts do not necessarily represent future cash requirements of the Company.

Standby letters of credit are generally unsecured and are issued by the Company to guarantee the performance 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. The Company's letters of credit are short-term guarantees and generally have terms from less than one month to approximately 3 years. At December 31, 2021, the maximum potential amount of future undiscounted payments the Company could be required to make under outstanding standby letters of credit totaled $1.7 million.

During the fourth quarter of 2021, the Company entered into a firm commitment to purchase $15.8 million in 30 year residential mortgage loans with an expected close of first quarter of 2022. The credit metrics for the pool is consistent with pools purchased by the Company during 2021.

In the ordinary course of business, the Company becomes involved in litigation arising out of its normal business activities. Management, after consultation with legal counsel, believes that the ultimate liability, if any, resulting from the disposition of such claims would not be material to the financial position of the Company.

15. Fair Value Measurements and Disclosure

The following summary disclosures are made in accordance with the guidance provided by ASC Topic 825 "*Fair Value Measurements and Disclosures*" which requires the disclosure of fair value information for both on- and off-balance sheet financial instruments where it is practicable to estimate that value.

GAAP guidance clarifies the definition of fair value, describes methods used to appropriately measure fair value in accordance with generally accepted accounting principles and expands fair value disclosure requirements. This guidance applies whenever other accounting pronouncements require or permit fair value measurements.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, Level 2, and Level 3). Level 1 inputs are unadjusted quoted prices in active markets (as defined) for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability, and reflect the reporting entity's assumptions regarding the pricing of an asset or liability by a market participant (including assumptions about risk).

The table below is a summary of fair value estimates for financial instruments and the level of the fair value hierarchy within which the fair value measurements are categorized at the periods indicated:

	December 31, 2021				
(In thousands)	**Carrying Amount**	**Estimated Fair Value**	**Quoted Prices In Active Markets for Identical Assets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Financial Assets:					
Investment securities	$ 182,646	$ 182,645	$ 3,744	$ 178,901	$ —
Loans	862,200	854,697	—	—	854,697
Accrued interest receivable	7,530	7,530	—	7,530	—
Financial Liabilities:					
Deposits:					
Noninterest-bearing	476,749	476,749	476,749	—	—
NOW and money market	529,841	529,841	529,841	—	—
Savings	113,930	113,930	113,930	—	—
Time deposits	67,586	67,922	—	—	67,922
Total deposits	1,188,106	1,188,442	1,120,520	—	67,922
Junior subordinated debt	11,189	11,189	—	—	11,189
Accrued interest payable	—	—	—	—	—

December 31, 2020					
(In thousands)	**Carrying Amount**	**Estimated Fair Value**	**Quoted Prices In Active Markets for Identical Assets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Financial Assets:					
Investment securities	$ 86,192	$ 86,192	$ 3,851	$ 82,341	$ —
Loans	645,825	636,470	—	—	636,470
Accrued interest receivable	8,164	8,164	—	8,164	—
Financial Liabilities:					
Deposits:					
Noninterest-bearing	391,897	430,210	430,210	—	—
NOW and money market	402,566	406,707	406,707	—	—
Savings	96,669	94,467	94,467	—	—
Time deposits	61,519	61,806	—	—	61,806
Total deposits	952,651	993,190	931,384	—	61,806
Junior subordinated debt	10,924	10,924	—	—	10,924
Accrued interest payable	—	—	—	—	—

The Company performs fair value measurements on certain assets and liabilities as the result of the application of current accounting guidelines. Some fair value measurements, such as investment securities and junior subordinated debt are performed on a recurring basis, while others, such as impairment of loans, other real estate owned, goodwill and other intangibles, are performed on a nonrecurring basis.

The Company's Level 1 financial assets consist of money market funds and highly liquid mutual funds for which fair values are based on quoted market prices. The Company's Level 2 financial assets include highly liquid debt instruments of U.S. Government agencies, collateralized mortgage obligations, corporate debt instruments, and debt obligations of states and political subdivisions, whose fair values are obtained from readily-available pricing sources for the identical or similar underlying security that may, or may not, be actively traded. The Company's Level 3 assets include certain impaired loans, other real estate owned, and goodwill where the assumptions may be made by us or third parties about assumptions that market participants would use in pricing the asset or liability. From time to time, the Company recognizes transfers between Level 1, 2, and 3 when a change in circumstances warrants a transfer. There were no transfers in or out of Level 1 and Level 2 fair value measurements during the year ended December 31, 2021.

The following methods and assumptions were used in estimating the fair values of financial instruments measured at fair value on a recurring and non-recurring basis:

Investments Available for sale and marketable securities are valued based upon open-market price quotes obtained from reputable third-party brokers that actively make a market in those securities. Market pricing is based upon specific CUSIP identification for each individual security. To the extent there are observable prices in the market, the mid-point of the bid/ask price is used to determine fair value of individual securities. If that data is not available for the last 30 days, a Level 2-type matrix pricing approach based on comparable securities in the market is utilized. Level-2 pricing may include using a forward spread from the last observable trade or may use a proxy bond such as a TBA mortgage to determine a price for the security being valued. Changes in fair market value are recorded through other comprehensive income as the securities are available for sale.

Impaired Loans – Fair value measurements for collateral dependent impaired loans are performed pursuant to authoritative accounting guidance and are based upon either collateral values supported by appraisals and observed market prices. Collateral dependent loans are measured for impairment using the fair value of the collateral. Changes are recorded directly as an adjustment to current earnings.

Other Real Estate Owned – Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned (OREO) are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Junior Subordinated Debt – The fair value of the junior subordinated debt was determined based upon a discounted cash flows model utilizing observable market rates and credit characteristics for similar debt instruments. In its analysis, the Company used characteristics that market participants generally use, and considered factors specific to (a) the liability, (b) the principal (or most advantageous) market for the liability, and (c) market participants with whom the reporting entity would transact in that market. Cash flows are discounted at a rate which incorporates a current market rate for similar-term debt instruments, adjusted for credit and liquidity risks associated with similar junior subordinated debt and circumstances unique to the Company. The Company believes that the subjective nature of these inputs, and credit concerns in the capital markets and inactivity in the trust preferred markets that have limited the observability of the market spreads, require the junior subordinated debt to be classified as a Level 3 fair value.

The following table provides a description of the valuation technique, unobservable input, and qualitative information about the unobservable inputs for the Company's liabilities classified as Level 3 and measured at fair value on a recurring basis at December 31, 2021 and 2020:

December 31, 2021			
Financial Instrument	Valuation Technique	Unobservable Input	Weighted Average
Junior Subordinated Debt	Discounted cash flow	Market credit risk adjusted spreads	3.90%

December 31, 2020			
Financial Instrument	Valuation Technique	Unobservable Input	Weighted Average
Junior Subordinated Debt	Discounted cash flow	Market credit risk adjusted spreads	3.57%

Management believes that the credit risk adjusted spread utilized in the fair value measurement of the junior subordinated debentures carried at fair value is indicative of the nonperformance risk premium a willing market participant would require under current market conditions, that is, the inactive market. Management attributes the change in fair value of the junior subordinated debentures during the period to market changes in the nonperformance expectations and pricing of this type of debt, and not as a result of changes to the entity-specific credit risk. Generally, an increase in the credit risk adjusted spread and/or a decrease in the three month LIBOR swap curve will result in positive fair value adjustments (and decrease the fair value measurement). Conversely, a decrease in the credit risk adjusted spread and/or an increase in the three month LIBOR swap curve will result in negative fair value adjustments (and increase the fair value measurement).

The following tables summarize the Company's assets and liabilities that were measured at fair value on a recurring and non-recurring basis as of December 31, 2021 (in 000's:

Description of Assets	December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
AFS Securities (2):				
U.S. Government agencies	$ 33,376	$ —	$ 33,376	$ —
U.S Govt collateralized mortgage obligations	64,735	—	64,735	—
Asset-backed securities	4,130	—	4,130	—
Municipal bonds	50,052	—	50,052	—
Treasury securities	15,187	—	15,187	—
Corporate bonds	11,422	—	11,422	—
Total AFS securities	178,902	—	178,902	—
Marketable equity securities (2)	3,744	3,744	—	—
Total	$ 182,646	$ 3,744	$ 178,902	$ —

Description of Liabilities	December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Junior subordinated debt (2)	$ 11,189	$ —	$ —	$ 11,189
Total	$ 11,189	$ —	$ —	$ 11,189

(1) Nonrecurring
(2) Recurring

There were no non-recurring fair value adjustments at December 31, 2021.

The following tables summarize the Company's assets and liabilities that were measured at fair value on a recurring and non-recurring basis as of December 31, 2020 (in 000's):

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)
AFS Securities (2):				
U.S. Government agencies	$ 33,710	$ —	$ 33,710	$ —
U.S Govt collateralized mortgage obligations	38,445	—	38,445	—
Total AFS securities	72,155	—	72,155	—
Marketable equity securities (2)	3,851	3,851		—
Impaired Loans (1):				
Commercial and industrial	—	—	—	—
Real estate mortgage	3,364	—	—	3,364
Total impaired loans	3,364	—	—	3,364
Other real estate owned (1)	5,004	—	—	5,004
Total	$ 84,374	$ 3,851	$ 72,155	$ 8,368

Description of Liabilities	December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Junior subordinated debt (2)	$ 10,924	$ —	$ —	$ 10,924
Total	$ 10,924	$ —	$ —	$ 10,924

(1) Nonrecurring
(2) Recurring

The following table presents quantitative information about Level 3 fair value measurements for the Company's assets measured at fair value on a non-recurring basis at December 31, 2020 (in 000's).

December 31, 2020				
Financial Instrument	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Adjustment Percentage**
Impaired Loans:				
Real estate mortgage	$3,364	Fair Value of Collateral Method for Collateral Dependent Loans	Adjustment for difference between appraised value and net realizable value	6.00%
Other real estate owned	$5,004	Fair Value of Collateral Method for Collateral Dependent Loans	Adjustment for difference between appraised value and net realizable value	13.69%

The following tables provide a reconciliation of liabilities at fair value using significant unobservable inputs (Level 3 on a recurring basis during the years ended (in 000's:

Reconciliation of Liabilities:	December 31, 2021 Junior Subordinated Debt	December 31, 2020 Junior Subordinated Debt
Beginning balance	$ 10,924	$ 10,808
Total losses (gains) included in earnings	660	(970)
Total (gains) losses included in OCI	(392)	1,144
Capitalized interest	(3)	(58)
Ending balance	$ 11,189	$ 10,924
The amount of total losses (gains) for the period included in earnings attributable to the change in unrealized gains or losses relating to liabilities still held at the reporting date	$ 660	$ (970)

16. Supplemental Cash Flow Disclosures

	Year Ended December 31,	
(In thousands)	2021	2020
Cash paid during the period for:		
Interest	$ 2,083	$ 2,316
Income Taxes	3,030	3,443
Noncash activities:		
Unrealized losses on junior subordinated debentures	392	(1,144)
Unrealized gains on available for sale securities	(1,229)	1,143
Unrealized losses on unrecognized post-retirement costs	203	(135)
Cash dividend declared	1,872	1,870

17. Net Income Per Share

The following table provides a reconciliation of the numerator and the denominator of the basic net income per share computation with the numerator and the denominator of the diluted net income per share computation.

	Year Ended December 31,	
(In thousands, except earnings per share data)	2021	2020
Net income available to common shareholders	$ 10,098	$ 8,961
Weighted average shares outstanding	17,011,379	16,976,704
Add: dilutive effect of stock options	19,495	21,881
Weighted average shares outstanding adjusted for potential dilution	17,030,874	16,998,585
Basic earnings per share	$ 0.59	$ 0.53
Diluted earnings per share	$ 0.59	$ 0.53
Anti-dilutive shares excluded from earnings per share calculation	67,000	72,000

Dilutive income per share includes the effect of stock options, unvested restricted stock awards, and other potentially dilutive securities using the treasury stock method. There is only one form of outstanding common stock. Holders of unvested restricted stock awards do not receive dividends.

18. Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income, included in shareholders' equity, are as follows:

	Year ended December 31, 2021			Year ended December 31, 2020		
(in 000's)	Net unrealized loss on available for sale securities	Unfunded status of the supplemental retirement plans	Net unrealized gain on junior subordinated debentures	Net unrealized loss on available for sale securities	Unfunded status of the supplemental retirement plans	Net unrealized gain on junior subordinated debentures
Beginning balance	$ 630	$ (770)	$ (588)	$ (175)	$ (675)	$ 218
Current period comprehensive (loss) income, net of tax	(866)	143	277	805	(95)	(806)
Ending balance	$ (236)	$ (627)	$ (311)	$ 630	$ (770)	$ (588)
Accumulated other comprehensive loss			$ (1,174)			$ (728)

19. Investment in York Monterey Properties

The Bank wholly-owns the subsidiary York Monterey Properties Inc., organized as a California corporation. The Bank capitalized the subsidiary through a transfer of eight unimproved lots at a historical cost of $5.3 million comprised of approximately 186.97 acres in the York Highlands subdivision of the Monterra Ranch residential development in Monterey County, California ("Properties") together with cash contributions. The Bank transferred the Properties to York Monterey Properties Inc, in order to maintain ownership beyond the ten year regulatory holding period applicable to a national bank. The Bank acquired five of the lots through a non-judicial foreclosure on or about May 29, 2009. In addition, the Bank purchased three of the lots from another bank. The Bank had continuously held the Properties since the date of foreclosure and acquisition. At the time of transfer, the Properties had reached the end of the ten year regulatory holding period limit.

As of December 31, 2021, the Bank's investment in York Monterey Properties Inc. totaled $5.2 million. York Monterey Properties Inc. is included within the consolidated financial statements of the Company, with $4.6 million of the total investment recognized within the balance of other real estate owned on the consolidated balance sheets.

As of December 31, 2020, the Bank's investment in York Monterey Properties Inc. totaled $4.7 million. York Monterey Properties Inc. is included within the consolidated financial statements of the Company, with $4.6 million of the total investment recognized within the balance of other real estate owned on the consolidated balance sheets.

20. Parent Company Only Financial Statements

The following are the condensed financial statements of United Security Bancshares and should be read in conjunction with the consolidated financial statements:

United Security Bancshares – (parent only)
Balance Sheets - December 31, 2021 and 2020

(In thousands)	2021	2020
Assets		
Cash and equivalents	$ 2,813	$ 2,810
Investment in bank subsidiary	129,042	126,459
Other assets	1,413	1,332
Total assets	133,268	130,601
Liabilities & Shareholders' Equity		
Liabilities:		
Junior subordinated debt securities (at fair value)	11,189	10,924
Accrued interest payable	—	—
Dividends declared	1,872	1,870
Other liabilities	—	—
Total liabilities	13,061	12,794
Shareholders' Equity:		
Common stock, no par value; 20,000,000 shares authorized; issued and outstanding: 17,028,239 at December 31, 2021 and 17,009,883 at December 31, 2020	59,636	59,397
Retained earnings	61,745	59,138
Accumulated other comprehensive (loss) income	(1,174)	(728)
Total shareholders' equity	120,207	117,807
Total liabilities and shareholders' equity	$ 133,268	$ 130,601

United Security Bancshares – (parent only)
Income Statements

	Year ended December 31,	
(In thousands)	2021	2020
Income		
Gain (loss) on fair value of junior subordinated debentures	$ (660)	$ 970
Gain on redemption of JR subordinated debentures	—	—
Dividends from subsidiary	7,889	8,025
Total income	7,229	8,995
Expense		
Interest expense	179	276
Other expense	217	305
Total expense	396	581
Income before taxes and equity in undistributed income of subsidiary	6,833	8,414
Income tax expense	(199)	115
Equity in undistributed income of subsidiary	3,066	662
Net Income	$ 10,098	$ 8,961

United Security Bancshares – (parent only)

Statement of Cash Flows	**Year ended December 31,**	
(In thousands)	**2021**	**2020**
Cash Flows From Operating Activities		
Net income	$ 10,098	$ 8,961
Adjustments to reconcile net income to cash provided by operating activities:		
Equity in undistributed income of subsidiary	(3,066)	(662)
Provision for deferred income taxes	80	54
(Gain) loss on fair value of junior subordinated debentures	660	(970)
Decrease in income tax receivable	15	51
Net change in other assets	(295)	185
Net cash provided by operating activities	7,492	7,619
Cash Flows From Financing Activities		
Dividends paid	(7,489)	(7,468)
Net cash used in by financing activities	(7,489)	(7,468)
Net increase in cash and cash equivalents	3	151
Cash and cash equivalents at beginning of year	2,810	2,659
Cash and cash equivalents at end of year	$ 2,813	$ 2,810

21. Regulatory Matters

Capital Adequacy

The Company and Bank are subject to various regulatory capital requirements adopted by the Board of Governors of the Federal Reserve System and the FDIC. Failure to meet minimum capital requirements can initiate certain mandates and possible 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, the consolidated 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 classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

The Basel III Capital Rules, a comprehensive capital framework for U.S. banking organizations, includes quantitative measures designed to ensure capital adequacy. The Basel III Rules require the Company and the Bank to maintain (i) a minimum common equity Tier 1 ratio minimum of 4.50 percent plus a 2.50 percent "capital conservation buffer" , (ii) Tier 1 risk-based capital minimum of 6.00 percent plus the capital conservation buffer, (iii) total risk-based capital ratio minimum of 8.00 percent plus the capital conservation buffer and (iv) Tier 1 leverage capital ratio minimum of 4.00 percent. The capital conservation buffer is designed to absorb losses during periods of economic stress and effectively increases the minimum required risk-weighted capital ratios. Failure to meet minimum capital requirements may result in certain actions by regulators that could have a direct material effect on the consolidated financial statements.

The federal banking agencies published a final rule on November 13, 2019, that provided a simplified measure of capital adequacy for qualifying community banking organizations. A qualifying community banking organization that opts into the community bank leverage ratio framework and maintains a leverage ratio greater than 9 percent will be considered to have met the minimum capital requirements, the capital ratio requirements for the well capitalized category under the Prompt Corrective Action framework, and any other capital or leverage requirements to which the qualifying banking organization is subject. A qualifying community banking organization with a leverage ratio of greater than 9 percent may opt into the community bank leverage ratio framework if it has average consolidated total assets of less than $10 billion, has off-balance-sheet exposures of 25% or less of total consolidated assets, and has total trading assets and trading liabilities of 5 percent or less of total consolidated assets. Further, the bank must not be an advance approaches banking organization.

The final rule became effective January 1, 2020 and banks that meet the qualifying criteria can elect to use the community bank leverage framework starting with the quarter ended March 31, 2020. The Company and the Bank meet the qualifying criteria and adopted the community bank leverage ratio framework in the third quarter 2020. The CARES Act reduced the required community bank leverage ratio to 8% until December 31, 2020 and 8.5% through December 31, 2021. As of December 31, 2021, the Company and Bank met all capital adequacy requirements to which they were subject.

The following table shows the Company's and the Bank's regulatory capital and regulatory capital ratios at December 31, 2021 and 2020 as compared to the applicable capital adequacy guidelines:

	Actual		**Minimum requirement for Community Bank Leverage Ratio (1) (2)**	
	Amount	**Ratio**	**Amount**	**Ratio**
As of December 31, 2021 (Company):				
Tier 1 Leverage (to Average Assets)	$127,618	9.79%	$110,748	8.50%
As of December 31, 2021 (Bank):				
Tier 1 Leverage (to Average Assets)	125,416	9.64%	$110,624	8.50%
As of December 31, 2020 (Company):				
Tier 1 Leverage (to Average Assets)	124,507	11.37%	$87,577	8.00%
As of December 31, 2020 (Bank):				
Tier 1 Leverage (to Average Assets)	122,112	11.17%	$87,491	8.00%

(1) The minimum required Community Bank Leverage Ratio is 9.00%, but the CARES Act temporarily lowers this to 8.0% through December 31, 2020 and 8.5% through December 31, 2021.
(2) If the subsidiary bank’s Leverage Ratio exceeds the minimum ratio under the Community Bank Leverage Ratio Framework, it is deemed to be “well capitalized” under all other regulatory capital requirements. The Company may revert back to the regulatory framework for Prompt Corrective Action if the subsidiary bank’s Leverage Ratio falls below the minimum under the Community Bank Leverage Ratio Framework

Dividends

Dividends paid to shareholders are subject to restrictions set forth in the California General Corporation Law. The California General Corporation Law provides that distributions may be made to shareholders if retained earnings immediately prior to the dividend payment are at least equal to the amount of the proposed distribution or if, immediately after the distribution, the value of assets equals the sum of total liabilities. The primary source of funds with which dividends will be paid to shareholders come from cash dividends received by the Holding Company from the Bank. During the year ended December 31, 2021, the Holding Company paid $7,486,000 in cash dividends to shareholders.

The Bank is subject to dividend restrictions set forth in California state banking law and administered by the DFPI. Under such restrictions, the Bank may not pay cash dividends in an amount which exceeds the lesser of the retained earnings of the Bank or the Bank’s net income for the last three fiscal years (less the amount of distributions to shareholders during that period of time). If the above test is not met, cash dividends may only be paid with the prior approval of the DFPI, in an amount not exceeding the Bank’s net income for its last fiscal year or the amount of its net income for the current fiscal year. Such restrictions do not apply to stock dividends, which generally require neither the satisfaction of any tests nor the approval of the DFPI. Notwithstanding the foregoing, if the DFPI finds that the shareholders’ equity is not adequate or that the declarations of a dividend would be unsafe or unsound, the DFPI may prevent the bank from paying a dividend. The FRB may also limit dividends paid by the Bank. During the year ended December 31, 2021, the Bank paid cash dividends of $7,889,000 to the Holding Company in order to fund the Holding Company's operating costs, payments of interest on junior subordinated debentures, estimated tax payments, and cash dividends paid to shareholders.

22. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through the date the financial statements were issued and no subsequent events occurred requiring accrual or disclosure.

Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

CONCLUSION REGARDING THE EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

The Company’s management, with the participation of the President and Chief Executive Officer and the Chief Financial Officer, has conducted an evaluation of the effectiveness of the Company’s disclosure controls and procedures as of December 31, 2021 based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this evaluation, the Company’s management has determined that the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits is accumulated and communicated to management, including the President and Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company’s management conducted an evaluation of the effectiveness of the Company’s internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission as of December 31, 2021. Based on this evaluation, the Company’s management concluded that the Company’s internal control over financial reporting is effective as of December 31, 2021.

There were no changes in the Company’s internal control over financial reporting that occurred during the fourth quarter of 2021 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10 - Directors, Executive Officers, and Corporate Governance

Pursuant to Instruction G, the information required by this item is hereby incorporated herein by reference from the captions entitled "Election of Directors and Executive Officers" and “Corporate Governance Principles and Board Matters” set forth in the Company's definitive Proxy Statement for its 2022 Annual Meeting of Shareholders ("Proxy Statement").

Item 11 - Executive Compensation

Pursuant to General Instruction G, the information required by this item is hereby incorporated herein by reference from the captions entitled "Executive Compensation" and “Director Compensation” set forth in the Company's definitive Proxy Statement.

Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Pursuant to General Instruction G, the information required by this item is hereby incorporated herein by reference from the caption entitled "Shareholdings of Certain Beneficial Owners and Management" set forth in the Company's definitive Proxy Statement.

Item 13 - Certain Relationships and Related Transactions, and Director Independence

Pursuant to General Instruction G, the information required by this item is hereby incorporated herein by reference from the captions entitled "Certain Transactions" and “Corporate Governance Principles” set forth in the Company's definitive Proxy Statement.

Item 14 - Principal Accounting Fees and Services

Pursuant to General Instruction G, the information required by this item is hereby incorporated herein by reference from the caption entitled "Independent Accountant Fees and Services" set forth in the Company's definitive Proxy Statement.

PART IV

Item 15 - Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

The following Consolidated Financial Statements are set forth in "Item 8. Financial Statements and Supplementary Data" of this Report.

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets - December 31, 2021 and 2020

Consolidated Statements of Income - Years Ended December 31, 2021 and 2020

Consolidated Statements of Comprehensive Income - Years Ended December 31, 2021 and 2020

Consolidated Statements of Changes in Shareholders' Equity - Years Ended December 31, 2021 and 2020

Consolidated Statements of Cash Flows - Years Ended December 31, 2021 and 2020

Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules

All financial statement schedules are omitted because they are not applicable or not required or because the information is included in the financial statements or notes thereto or is not material.

(a)(3) Exhibits

3.1	Articles of Incorporation of Registrant (1)
3.2	Bylaws of Registrant (1)
4.1	Specimen common stock certificate of United Security Bancshares (1)
10.1	Amended and Restated Executive Salary Continuation Agreement for Dennis Woods (2)
10.2	Amended and Restated Employment Agreement for Dennis R. Woods (5)
10.3	Amended and Restated Executive Salary Continuation Agreement for David Eytcheson (2)
10.4	Amended and Restated Change in Control Agreement for David Eytcheson (5)
10.5	USB 2005 Stock Option Plan (3)
10.6	United Security Bancshares 2015 Equity Incentive Award Plan (4)
10.7	Executive Salary Continuation Agreement for Bhavneet Gill (5)
10.8	Change in Control Agreement for Bhavneet Gill (5)
10.9	Executive Salary Continuation Agreement for William Yarbenet (5)
10.10	Change in Control Agreement for William Yarbenet (5)
10.11	Employment Agreement for William Yarbenet (5)
10.12	Change in Control Agreement for Robert Oberg (6)
10.13	Executive Salary Continuation Agreement for Robert Oberg (filed herewith)
11.1	Computation of earnings per share

	See Note 19 to Consolidated Financial Statements set forth in "Item 8. Financial Statements and Supplementary Data" of this Report.
21.1	Subsidiaries of the Company (filed herewith)
23.1	Consent of Moss Adams LLP, Independent Registered Public Accounting Firm (filed herewith)
31.1	Certification of the Chief Executive Officer of United Security Bancshares pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of the Chief Financial Officer of United Security Bancshares pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of the Chief Executive Officer of United Security Bancshares pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.2	Certification of the Chief Financial Officer of United Security Bancshares pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of December 31, 2021 and 2020, (ii) the Consolidated Statements of Income for the years ended December 31, 2021 and 2020, (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2021 and 2020, (iv) the Consolidated Statement of Changes in Shareholders' Equity for the years ended December 31, 2021 and 2020, (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2021 and 2020, and (vi) the Notes to Consolidated Financial Statements. (Pursuant to Rule 406T of Regulation S-T, this information is deemed furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.) (Filed herewith).

(1) Previously filed on April 4, 2001 as an exhibit to the Company's filing on Form S-4 (file number 333-58256).
(2) Previously filed on March 17, 2008 as an exhibit to the Company's filing on Form 10-K for the year ended December 31, 2007 (file number 000-32897).
(3) Previously filed on April 18, 2005 as Exhibit B to the Company's 2005 Schedule 14A Definitive Proxy (file number 000-32897).
(4) Previously filed on April 13, 2015 as Appendix A to the Company's 2015 Schedule 14A Definitive Proxy (file number 000-32897).
(5) Previously filed on March 2, 2018 as an exhibit to the Company's filing on Form 10-K for the year ended December 31, 2017 (file number 000-32897).
(6) Previously filed on March 1, 2019 as an exhibit to the Company's filing on Form 10-K for the year ended December 31, 2018 (file number 000-32897).

(b) Exhibits filed:

See Exhibit Index under Item 15(a)(3) above for the list of exhibits required to be filed by Item 601 of Regulation S-K with this Report.

(c) Financial statement schedules filed:

See Item 15(a)(2) above.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

United Security Bancshares

March 9, 2022	/S/ Dennis R. Woods
	Dennis R. Woods President and Chief Executive Officer
March 9, 2022	/S/ Bhavneet Gill
	Bhavneet Gill Senior Vice President and Chief Financial Officer

POWERS OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Dennis R. Woods and Bhavneet Gill, and each of them severally, his or her true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his or her name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with this Annual Report on Form 10-K and any and all amendments hereto, as fully for all intents and purposes as he or she might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities on the date indicated:

Date:	March 9, 2022	/s/ Stanley J. Cavalla Director
Date:	March 9, 2022	/s/ Tom Ellithorpe Director
Date:	March 9, 2022	/s/ Heather Hammack Director
Date:	March 9, 2022	/s/ Benjamin Mackovak Director
Date:	March 9, 2022	/s/ Nabeel Mahmood Director
Date:	March 9, 2022	/s/ Kenneth D. Newby Director
Date:	March 9, 2022	/s/ Sue Quigley Director
Date:	March 9, 2022	/s/ Brian Tkacz Director
Date:	March 4, 2022	/s/ Dora Westerlund Director
Date:	March 4, 2022	/s/ Mike Woolf Director

CORPORATE DATA

BOARD OF DIRECTORS

Dennis R. Woods
Chairman of the Board

Benjamin Mackovak
Lead Director

Susan Quigley, CPA
Secretary of the Board

Stanley J. Cavalla
Director

Heather Hammack
Director

Tom Ellithorpe
Director

Nabeel Mahmood
Director

Kenneth Newby, CPA
Director

Brian Tkacz
Director

Dora Westerlund
Director

Michael T. Woolf, DDS
Director

MANAGEMENT

Dennis R. Woods
President and
Chief Executive Officer

David L. Eytcheson
Senior Vice President
and Chief Operating Officer

Bhavneet Gill
Senior Vice President
and Chief Financial Officer

Robert Oberg
Senior Vice President
and Chief Risk Officer

William M. Yarbenet
Senior Vice President
and Chief Credit Officer

Porsche A. Saunders
First Vice President and
RE Construction Loan
Manager

Paul N. Thaxter
First Vice President and
Commerical Banking Center
Manager

Evette Bertsche
Vice President and Operations
Assistant and Training Officer

Sukhvir Bhangoo
Vice President and
RE Construction Loan Officer

Joseph Carnevali, CISSP
Vice President and
IT Manager

John Elliott
Vice President and
Credit Administrator

Bart Hill
Vice President and
Area Manager, Bakersfield

Michael Ossanna
Vice President and
Commercial Loan Officer

Dana C. Paull, CRCM
Vice President and
Compliance Manager

Debbie Reasch
Vice President and
Deposit Services Manager

Susan J. Robertson
Vice President and
Data Processing Manager

Ellie M. Rosenberg
Vice President and
Human Resources Director

DIRECTORS EMERITI

William J. Asbury, DDS, MS

W. Gerald Flanagan

Robert Bitter, PHARM. D.

Jerry Greer

R. Kent Kunz

Gerald McIntyre

Ronnie Miller

Robert M. Mochizuki, MD

Joseph Petkewish

Martha Sanford

O'Neal Sutton, III

John Terzian

Bobbi Thomason

Les Workman

Samson Zarnegar

William H. Ziering, MD

STOCK INFORMATION

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United Security Bancshares