FARMERS & MERCHANTS BANCORP
Form 10-Q
May 08, 2015

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

FORM 10-Q

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

For the quarterly period ended March 31, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from ________ to ________

Commission File Number: 000-26099

FARMERS & MERCHANTS BANCORP
(Exact name of registrant as specified in its charter)

Delaware	94-3327828
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
111 W. Pine Street, Lodi, California	95240
(Address of principal Executive offices)	(Zip Code)

Registrant's telephone number, including area code (209) 367-2300

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company
(Do not check if a smaller reporting company)

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

Number of shares of common stock of the registrant: 785,782 outstanding as of April 30, 2015.

FARMERS & MERCHANTS BANCORP

FORM 10-Q
TABLE OF CONTENTS

31(a) Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31(b) Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents
PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FARMERS & MERCHANTS BANCORP
Consolidated Balance Sheets
(in thousands)

Assets	March 31, 2015 (Unaudited)	December 31, 2014	March 31, 2014 (Unaudited)
Cash and Cash Equivalents:			
Cash and Due from Banks	$33,746	$42,375	$39,042
Interest Bearing Deposits with Banks	110,190	34,750	134,685
Total Cash and Cash Equivalents	143,936	77,125	173,727
Investment Securities:			
Available-for-Sale	365,184	366,542	399,743
Held-to-Maturity	63,463	63,863	65,655
Total Investment Securities	428,647	430,405	465,398
Loans & Leases:	1,705,320	1,712,244	1,363,030
Less: Allowance for Credit Losses	38,940	35,401	34,277
Loans & Leases, Net	1,666,380	1,676,843	1,328,753
Premises and Equipment, Net	26,693	25,821	22,692
Bank Owned Life Insurance	54,454	53,990	52,564
Interest Receivable and Other Assets	93,925	96,367	84,167
Total Assets	$2,414,035	$2,360,551	$2,127,301
Liabilities			
Deposits:			
Demand	$578,820	$610,133	$489,786
Interest Bearing Transaction	340,045	341,397	287,174
Savings and Money Market	699,308	644,260	639,370
Time	493,600	468,283	424,284
Total Deposits	2,111,773	2,064,073	1,840,614
Subordinated Debentures	10,310	10,310	10,310
Interest Payable and Other Liabilities	50,664	52,990	58,426
Total Liabilities	2,172,747	2,127,373	1,909,350
Shareholders' Equity			
Preferred Stock: No Par Value, 1,000,000 Shares Authorized, None Issued or Outstanding	-	-	-
Common Stock: Par Value $0.01, 7,500,000 Shares Authorized, 785,782, 784,082 and 777,88 2Shares Issued and Outstanding at March 31, 2015, December 31, 2014 and March 31, 2014, Respectively	8	8	8
Additional Paid-In Capital	78,569	77,804	75,014
Retained Earnings	159,236	152,833	143,632

Accumulated Other Comprehensive Income (Loss)	3,475	2,533	(703)
Total Shareholders' Equity	241,288	233,178	217,951
Total Liabilities and Shareholders' Equity	$2,414,035	$2,360,551	$2,127,301

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

Table of Contents

FARMERS & MERCHANTS BANCORP

Consolidated Statements of Income (Unaudited)

(in thousands except per share data)	Three Months Ended March 31, 2015	2014
Interest Income		
Interest and Fees on Loans & Leases	$19,127	$16,271
Interest on Deposits with Banks	58	64
Interest on Investment Securities:		
Taxable	1,586	2,115
Exempt from Federal Tax	522	597
Total Interest Income	21,293	19,047
Interest Expense		
Deposits	712	600
Subordinated Debentures	80	80
Total Interest Expense	792	680
Net Interest Income	20,501	18,367
Provision for Credit Losses	600	-
Net Interest Income After Provision for Credit Losses	19,901	18,367
Non-Interest Income		
Service Charges on Deposit Accounts	898	938
Net Gain on Sale of Investment Securities	1	3
Increase in Cash Surrender Value of Life Insurance	464	455
Debit Card and ATM Fees	777	735
Net Gain on Deferred Compensation Investments	765	443
Other	1,759	588
Total Non-Interest Income	4,664	3,162
Non-Interest Expense		
Salaries and Employee Benefits	10,099	8,237
Net Gain on Deferred Compensation Investments	765	443
Occupancy	639	622
Equipment	732	703
Legal Fees	109	47
FDIC Insurance	284	252
Other	1,590	1,336
Total Non-Interest Expense	14,218	11,640
Income Before Income Taxes	10,347	9,889
Provision for Income Taxes	3,944	3,607
Net Income	$6,403	$6,282
Basic Earnings Per Common Share	$8.15	$8.08

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

Table of Contents

FARMERS & MERCHANTS BANCORP
Consolidated Statements of Comprehensive Income (Unaudited)
(in thousands)

	Three Months Ended March 31,	
	2015	2014
Net Income	$6,403	$6,282
Other Comprehensive Income		
Increase in Net Unrealized Gain on Available-for-Sale Securities	1,627	3,048
Deferred Tax Expense Related to Unrealized Gains	(684)	(1,282)
Reclassification Adjustment for Realized Gains on Available-for-Sale Securities Included in Net Income	(1)	(3)
Deferred Tax Benefit Related to Reclassification Adjustment	-	2
Change in Net Unrealized Gain on Available-for-Sale Securities, Net of Tax	942	1,765
Total Other Comprehensive Income	942	1,765
Comprehensive Income	$7,345	$8,047

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

Table of Contents

FARMERS & MERCHANTS BANCORP

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

(in thousands except share data)	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Total Shareholders' Equity
Balance, January 1, 2014	777,882	$ 8	$ 75,014	$ 137,350	$ (2,468)	$ 209,904
Net Income		-	-	6,282	-	6,282
Change in Net Unrealized Gains on Securities Available-for-Sale, net of tax		-	-	-	1,765	1,765
Balance, March 31, 2014	777,882	$ 8	$ 75,014	$ 143,632	$ (703)	$ 217,951
Balance, January 1, 2015	784,082	$ 8	$ 77,804	$ 152,833	$ 2,533	$ 233,178
Net Income		-	-	6,403	-	6,403
Issuance of Common Stock	1,700	-	765	-	-	765
Change in Net Unrealized Gains on Securities Available-for-Sale, net of tax		-	-	-	942	942
Balance, March 31, 2015	785,782	$ 8	$ 78,569	$ 159,236	$ 3,475	$ 241,288

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

Table of Contents

FARMERS & MERCHANTS BANCORP

Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended	
	March 31,	March 31,
(in thousands)	2015	2014
Operating Activities:		
Net Income	$6,403	$6,282
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	600	-
Depreciation and Amortization	363	340
Net Amortization of Investment Security Premiums & Discounts	375	404
Net Gain on Sale of Investment Securities	(1)	(3)
Net Change in Operating Assets & Liabilities:		
Net Decrease in Interest Receivable and Other Assets	1,872	4,360
Net (Decrease) Increase in Interest Payable and Other Liabilities	(2,326)	10,258
Net Cash Provided by Operating Activities	7,286	21,641
Investing Activities:		
Purchase of Investment Securities Available-for-Sale	(19,814)	(14,636)
Proceeds from Sold, Matured or Called Securities Available-for-Sale	22,629	22,208
Purchase of Investment Securities Held-to-Maturity	(205)	(565)
Proceeds from Matured or Called Securities Held-to-Maturity	587	3,415
Net Loans & Leases Paid, Originated or Acquired	6,895	25,176
Principal Collected on Loans & Leases Previously Charged Off	2,968	33
Additions to Premises and Equipment	(1,235)	(145)
Net Cash Provided by Investing Activities	11,825	35,486
Financing Activities:		
Net Increase in Deposits	47,700	32,923
Net Cash Provided by Financing Activities	47,700	32,923
Increase in Cash and Cash Equivalents	66,811	90,050
Cash and Cash Equivalents at Beginning of Period	77,125	83,677
Cash and Cash Equivalents at End of Period	$143,936	$173,727
Supplementary Data		
Cash Payments Made for Income Taxes	$85	$-
Issuance of Common Stock	$765	$-
Interest Paid	$737	$687

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

Table of Contents

FARMERS & MERCHANTS BANCORP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Significant Accounting Policies

Farmers & Merchants Bancorp (the "Company") was organized March 10, 1999. Primary operations are related to traditional banking activities through its subsidiary Farmers & Merchants Bank of Central California (the "Bank") which was established in 1916. The Bank's wholly owned subsidiaries include Farmers & Merchants Investment Corporation and Farmers/Merchants Corp. Farmers & Merchants Investment Corporation has been dormant since 1991. Farmers/Merchants Corp. acts as trustee on deeds of trust originated by the Bank.

The Company's other subsidiaries include F & M Bancorp, Inc. and FMCB Statutory Trust I. F & M Bancorp, Inc. was created in March 2002 to protect the name F & M Bank. During 2002, the Company completed a fictitious name filing in California to begin using the streamlined name "F & M Bank" as part of a larger effort to enhance the Company's image and build brand name recognition. In December 2003, the Company formed a wholly owned subsidiary, FMCB Statutory Trust I. FMCB Statutory Trust I is a non-consolidated subsidiary per Generally Accepted Accounting Principles in the United States of America ("U.S. GAAP") and was formed for the sole purpose of issuing Trust Preferred Securities and related subordinated debentures.

The accounting and reporting policies of the Company conform to U.S. GAAP and prevailing practice within the banking industry. The following is a summary of the significant accounting and reporting policies used in preparing the consolidated financial statements.

Basis of Presentation

The accompanying consolidated financial statements and notes thereto have been prepared in accordance with accounting principles generally accepted in the United States of America for financial information.

These statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim reporting on Form 10-Q. Accordingly, certain disclosures normally presented in the notes to the annual consolidated financial statements prepared in accordance with U.S. GAAP have been omitted. The Company believes that the disclosures are adequate to make the information not misleading. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. The results of operations for the three-month period ended March 31, 2015 may not necessarily be indicative of future operating results.

The accompanying consolidated financial statements include the accounts of the Company and the Company's wholly owned subsidiaries, F & M Bancorp, Inc. and the Bank, along with the Bank's wholly owned subsidiaries, Farmers & Merchants Investment Corporation and Farmers/Merchants Corp. Significant inter-company transactions have been eliminated in consolidation.

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

Certain amounts in the prior years' financial statements and related footnote disclosures have been reclassified to conform to the current-year presentation. These reclassifications had no effect on previously reported net income or total shareholders' equity. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair presentation of financial results for the periods presented.

Table of Contents

Cash and Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, the Company has defined cash and cash equivalents as those amounts included in the balance sheet captions Cash and Due from Banks, Interest Bearing Deposits with Banks, Federal Funds Sold and Securities Purchased Under Agreements to Resell. For these instruments, the carrying amount is a reasonable estimate of fair value.

Investment Securities

Investment securities are classified at the time of purchase as held-to-maturity ("HTM") if it is management's intent and the Company has the ability to hold the securities until maturity. These securities are carried at cost, adjusted for amortization of premium and accretion of discount using a level yield of interest over the estimated remaining period until maturity. Losses, reflecting a decline in value judged by the Company to be other than temporary, are recognized in the period in which they occur.

Securities are classified as available-for-sale ("AFS") if it is management's intent, at the time of purchase, to hold the securities for an indefinite period of time and/or to use the securities as part of the Company's asset/liability management strategy. These securities are reported at fair value with aggregate unrealized gains or losses excluded from income and included as a separate component of shareholders' equity, net of related income taxes. Fair values are based on quoted market prices or broker/dealer price quotations on a specific identification basis. Gains or losses on the sale of these securities are computed using the specific identification method.

Trading securities, if any, are acquired for short-term appreciation and are recorded in a trading portfolio and are carried at fair value, with unrealized gains and losses recorded in non-interest income.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: (1) OTTI related to credit loss, which must be recognized in the income statement; and (2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

In order to determine OTTI for purchased beneficial interests that, on the purchase date, were not highly rated, the Company compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

Loans & Leases

Loans & leases are reported at the principal amount outstanding net of unearned discounts and deferred loan & lease fees and costs. Interest income on loans & leases is accrued daily on the outstanding balances using the simple interest method. Loan & lease origination fees are deferred and recognized over the contractual life of the loan or lease as an adjustment to the yield. Loans & leases are placed on non-accrual status when the collection of principal or interest is in doubt or when they become past due for 90 days or more unless they are both well-secured and in the process of collection. For this purpose, a loan or lease is considered well-secured if it is collateralized by property having a net realizable value in excess of the amount of the loan or lease or is guaranteed by a financially capable party. When a loan or lease is placed on non-accrual status, the accrued and unpaid interest receivable is reversed and charged against current income; thereafter, interest income is recognized only as it is collected in cash. Additionally, cash would be applied to principal if all principal was not expected to be collected. Loans & leases placed on non-accrual status are returned to accrual status when the loans or leases are paid current as to principal and interest and future payments are expected to be made in accordance with the contractual terms of the loan or lease.

Table of Contents

A loan or lease is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the original agreement. Impaired loans & leases are either: (1) non-accrual loans & leases; or (2) restructured loans & leases that are still accruing interest. Loans or leases determined to be impaired are individually evaluated for impairment. When a loan or lease is impaired, the Company measures impairment based on the present value of expected future cash flows discounted at the loan or lease's effective interest rate, except that as a practical expedient, it may measure impairment based on a loan or lease's observable market price, or the fair value of the collateral if the loan or lease is collateral dependent. A loan or lease is collateral dependent if the repayment of the loan or lease is expected to be provided solely by the underlying collateral.

A restructuring of a loan or lease constitutes a troubled debt restructuring ("TDR") if the Company for economic or legal reasons related to the borrower's (the term "borrower" is used herein to describe a customer who has entered into either a loan or lease transaction) financial difficulties grants a concession to the borrower that it would not otherwise consider. Restructured loans & leases typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. If the restructured loan or lease was current on all payments at the time of restructure and management reasonably expects the borrower will continue to perform after the restructure, management may keep the loan or lease on accrual. Loans & leases that are on nonaccrual status at the time they become TDR, remain on nonaccrual status until the borrower demonstrates a sustained period of performance, which the Company generally believes to be six consecutive months of payments, or equivalent. A loan or lease can be removed from TDR status if it was restructured at a market rate in a prior calendar year and is currently in compliance with its modified terms. However, these loans or leases continue to be classified as impaired and are individually evaluated for impairment as described above.

Generally, the Company will not restructure loans or leases for borrowers unless: (1) the existing loan or lease is brought current as to principal and interest payments; and (2) the restructured loan or lease can be underwritten to reasonable underwriting standards. If these standards are not met other actions will be pursued (e.g., foreclosure) to collect outstanding loan or lease amounts. After restructure a determination is made whether the loan or lease will be kept on accrual status based upon the underwriting and historical performance of the restructured credit.

Allowance for Credit Losses

The allowance for credit losses is an estimate of probable incurred credit losses inherent in the Company's loan & lease portfolio as of the balance sheet date. The allowance is established through a provision for credit losses, which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan & lease growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance. The overall allowance consists of three primary components: specific reserves related to impaired loans & leases; general reserves for inherent losses related to loans & leases that are not impaired; and an unallocated component that takes into account the imprecision in estimating and allocating allowance balances associated with macro factors.

The determination of the general reserve for loans & leases that are collectively evaluated for impairment is based on estimates made by management, to include, but not limited to, consideration of historical losses by portfolio segment, internal asset classifications, qualitative factors that include economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan & lease portfolio, and probable losses inherent in the portfolio taken as a whole.

The Company maintains a separate allowance for each portfolio segment (loan & lease type). These portfolio segments include: (1) commercial real estate; (2) agricultural real estate; (3) real estate construction (including land and development loans); (4) residential 1st mortgages; (5) home equity lines and loans; (6) agricultural; (7) commercial; (8) consumer and other; and (9) equipment leases. The allowance for credit losses attributable to each portfolio segment, which includes both individually evaluated impaired loans & leases and loans & leases that are collectively evaluated for impairment, is combined to determine the Company's overall allowance, which is included on the consolidated balance sheet.

Table of Contents

The Company assigns a risk rating to all loans & leases and periodically performs detailed reviews of all such loans & leases over a certain threshold to identify credit risks and assess overall collectability. For smaller balance loans & leases, such as consumer and residential real estate, a credit grade is established at inception, and then updated only when the loan or lease becomes contractually delinquent or when the borrower requests a modification. For larger balance loans, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate and the fair values of collateral securing these loans & leases. These credit quality indicators are used to assign a risk rating to each individual loan or lease. These risk ratings are also subject to examination by independent specialists engaged by the Company. The risk ratings can be grouped into five major categories, defined as follows:

Pass – A pass loan or lease is a strong credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention – A special mention loan or lease has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or lease or in the Company's credit position at some future date. Special mention loans & leases are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard – A substandard loan or lease is not adequately protected by the current financial condition and paying capacity of the borrower or the value of the collateral pledged, if any. Loans or leases classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well defined weaknesses include a project's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time or the project's failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans or leases classified doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, based on currently known facts, conditions and values, highly questionable or improbable.

Loss – Loans or leases classified as loss are considered uncollectible. Once a loan or lease becomes delinquent and repayment becomes questionable, the Company will address collateral shortfalls with the borrower and attempt to obtain additional collateral. If this is not forthcoming and payment in full is unlikely, the Company will estimate its probable loss and immediately charge-off some or all of the balance.

The general reserve component of the allowance for credit losses also consists of reserve factors that are based on management's assessment of the following for each portfolio segment: (1) inherent credit risk; (2) historical losses; and (3) other qualitative factors. These reserve factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment described below:

Commercial Real Estate – Commercial real estate mortgage loans are generally considered to possess a higher inherent risk of loss than the Company’s commercial, agricultural and consumer loan types. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for properties to produce sufficient cash flow to service debt obligations.

Real Estate Construction – Real estate construction loans, including land loans, are generally considered to possess a higher inherent risk of loss than the Company’s commercial, agricultural and consumer loan types. A major risk arises from the necessity to complete projects within specified cost and time lines. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

Commercial – These loans are generally considered to possess a moderate inherent risk of loss because they are shorter-term; typically made to relationship customers; generally underwritten to existing cash flows of operating businesses; and may be collateralized by fixed assets, inventory and/or accounts receivable. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Table of Contents

Agricultural Real Estate and Agricultural – These loans are generally considered to possess a moderate inherent risk of loss since they are typically made to relationship customers and are secured by crop production, livestock and related real estate. These loans are vulnerable to two risk factors that are largely outside the control of Company and borrowers: commodity prices and weather conditions.

Leases – Equipment leases are generally considered to possess a moderate inherent risk of loss. As Lessor, the Company is subject to both the credit risk of the borrower and the residual value risk of the equipment. Credit risks are underwritten using the same credit criteria the Company would use when making an equipment term loan. Residual value risk is managed through the use of qualified, independent appraisers that establish the residual values the Company uses in structuring a lease.

Residential 1st Mortgages and Home Equity Lines and Loans – These loans are generally considered to possess a low inherent risk of loss, although this is not always true as evidenced by the weakness in residential real estate values over the past five years. The degree of risk in residential real estate lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Consumer & Other – A consumer installment loan portfolio is usually comprised of a large number of small loans scheduled to be amortized over a specific period. Most installment loans are made for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

At least quarterly, the Board of Directors reviews the adequacy of the allowance, including consideration of the relative risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Company's and Bank's regulators, including the Federal Reserve Bank (“FRB”), the California Department of Business Oversight (“DBO”) and the Federal Deposit Insurance Corporation (“FDIC”), as an integral part of their examination process, review the adequacy of the allowance. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

Allowance for Credit Losses on Off-Balance-Sheet Credit Exposures

The Company also maintains a separate allowance for off-balance-sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for off-balance-sheet commitments is included in Interest Payable and Other Liabilities on the Company’s Consolidated Balance Sheet.

Premises and Equipment

Premises, equipment, and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation is computed principally by the straight line method over the estimated useful lives of the assets. Estimated useful lives of buildings range from 30 to 40 years, and for furniture and equipment from 3 to 7 years. Leasehold improvements are amortized over the lesser of the terms of the respective leases, or their useful lives, which are generally 5 to 10 years. Remodeling and capital improvements are capitalized while maintenance and repairs are charged directly to occupancy expense.

Other Real Estate

Other real estate, which is included in other assets, is expected to be sold and is comprised of properties no longer utilized for business operations and property acquired through foreclosure in satisfaction of indebtedness. These properties are recorded at fair value less estimated selling costs upon acquisition. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Initial losses on properties acquired through full or partial satisfaction of debt are treated as credit losses and charged to the allowance for credit losses at the time of acquisition. Subsequent declines in value from the recorded amounts, routine holding costs, and gains or losses upon disposition, if any, are included in non-interest expense as incurred.

Table of Contents

Income Taxes

The Company uses the liability method of accounting for income taxes. This method results in the recognition of deferred tax assets and liabilities that 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. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The deferred provision for income taxes is the result of the net change in the deferred tax asset and deferred tax liability balances during the year. This amount combined with the current taxes payable or refundable results in the income tax expense for the current year.

The Company follows the standards set forth in the “Income Taxes” topic of the Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements. This standard prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest expense and penalties associated with unrecognized tax benefits, if any, are included in the provision for income taxes in the Unaudited Consolidated Statements of Income.

Dividends and Basic Earnings Per Common Share

The Company’s common stock is not traded on any exchange. The shares are primarily held by local residents and are not actively traded. Basic earnings per common share amounts are computed by dividing net income by the weighted average number of common shares outstanding for the period. There are no common stock equivalent shares. Therefore, there is no presentation of diluted basic earnings per common share. See Note 6.

Segment Reporting

The “Segment Reporting” topic of the FASB ASC requires that public companies report certain information about operating segments. It also requires that public companies report certain information about their products and services, the geographic areas in which they operate, and their major customers. The Company is a holding company for a community bank, which offers a wide array of products and services to its customers. Pursuant to its banking strategy, emphasis is placed on building relationships with its customers, as opposed to building specific lines of business. As a result, the Company is not organized around discernible lines of business and prefers to work as an integrated unit to customize solutions for its customers, with business line emphasis and product offerings changing over time as needs and demands change. Therefore, the Company only reports one segment.

Derivative Instruments and Hedging Activities

The “Derivatives and Hedging” topic of the FASB ASC establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. Changes in the fair value of those derivatives are accounted for depending on the intended use of the derivative and the resulting designation under specified criteria. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, designed to minimize interest rate risk, the effective portions of the change in the fair value of the derivative are recorded in other comprehensive income (loss), net of related income taxes. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings.

Table of Contents

From time to time, the Company utilizes derivative financial instruments such as interest rate caps, floors, swaps, and collars. These instruments are purchased and/or sold to reduce the Company's exposure to changing interest rates. The Company marks to market the value of its derivative financial instruments and reflects gain or loss in earnings in the period of change or in other comprehensive income (loss). The Company was not utilizing any derivative instruments as of or for the periods ended March 31, 2015, December 31, 2014 or March 31, 3014.

Comprehensive Income

The "Comprehensive Income" topic of the FASB ASC establishes standards for the reporting and display of comprehensive income and its components in the financial statements. Other comprehensive income (loss) refers to revenues, expenses, gains, and losses that U.S. GAAP recognize as changes in value to an enterprise but are excluded from net income. For the Company, comprehensive income includes net income and changes in fair value of its available-for-sale investment securities.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

2. Investment Securities

The amortized cost, fair values, and unrealized gains and losses of the securities available-for-sale are as follows (in thousands):

		Gross		
	Amortized	Unrealized		Fair/Book
March 31, 2015	Cost	Gains	Losses	Value
Government Agency & Government-Sponsored Entities	$ 68,064	$ 69	$ 1	$ 68,132
US Treasury Notes	19,818	148	-	19,966
Mortgage Backed Securities (1)	270,820	5,977	196	276,601
Other	485	-	-	485
Total	$ 359,187	$ 6,194	$ 197	$ 365,184

		Gross		
	Amortized	Unrealized		Fair/Book
December 31, 2014	Cost	Gains	Losses	Value
Government Agency & Government-Sponsored Entities	$ 78,051	$ 61	$ 3	$ 78,109
Mortgage Backed Securities (1)	283,636	4,969	657	287,948
Other	485	-	-	485
Total	$ 362,172	$ 5,030	$ 660	$ 366,542

		Gross		
	Amortized	Unrealized		Fair/Book
March 31, 2014	Cost	Gains	Losses	Value
Government Agency & Government-Sponsored Entities	$ 18,242	$ 184	$ -	$ 18,426
Mortgage Backed Securities (1)	331,434	3,674	5,378	329,730
Corporate Securities	49,045	370	63	49,352
Other	2,235	-	-	2,235
Total	$ 400,956	$ 4,228	$ 5,441	$ 399,743

[1] All Mortgage Backed Securities consist of securities collateralized by residential real estate and were issued by an agency or government sponsored entity of the U.S. government.

Table of Contents

The book values, estimated fair values and unrealized gains and losses of investments classified as held-to-maturity are as follows (in thousands):

March 31, 2015	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of States and Political Subdivisions	$61,324	$766	$ 11	$62,079
Other	2,139	-	-	2,139
Total	$63,463	$766	$ 11	$64,218

December 31, 2014	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of States and Political Subdivisions	$61,716	$782	$ 10	$62,488
Other	2,147	-	-	2,147
Total	$63,863	$782	$ 10	$64,635

March 31, 2014	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of States and Political Subdivisions	$62,890	$711	$ 257	$63,344
Mortgage Backed Securities (1)	4	-	-	4
Other	2,761	-	-	2,761
Total	$65,655	$711	$ 257	$66,109

(1) All Mortgage Backed Securities consist of securities collateralized by residential real estate and were issued by an agency or government sponsored entity of the U.S. government.

Fair values are based on quoted market prices or dealer quotes. If a quoted market price or dealer quote is not available, fair value is estimated using quoted market prices for similar securities.

The amortized cost and estimated fair values of investment securities at March 31, 2015 by contractual maturity are shown in the following table (in thousands):

March 31, 2015	Available-for-Sale Amortized Cost	Available-for-Sale Fair/Book Value	Held-to-Maturity Book Value	Held-to-Maturity Fair Value
Within one year	$67,480	$67,483	$2,739	$2,740
After one year through five years	20,887	21,100	16,132	16,294
After five years through ten years	-	-	10,313	10,423
After ten years	-	-	34,279	34,761
	88,367	88,583	63,463	64,218
Investment securities not due at a single maturity date:				
Mortgage-backed securities	270,820	276,601	-	-
Total	$359,187	$365,184	$63,463	$64,218

Expected maturities of mortgage-backed securities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

15

Table of Contents

The following tables show those investments with gross unrealized losses and their market value aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at the dates indicated (in thousands):

	Less Than 12 Months		12 Months or More		Total	
March 31, 2015	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities Available-for-Sale						
Government Agency & Government-Sponsored Entities	$24,998	$ 1	$-	$ -	$24,998	$ 1
Mortgage Backed Securities	13,033	28	25,942	168	38,975	196
Total	$38,031	$ 29	$25,942	$ 168	$63,973	$ 197
Securities Held-to-Maturity						
Obligations of States and Political Subdivisions	$1,340	$ 11	$-	$ -	$1,340	$ 11
Total	$1,340	$ 11	$-	$ -	$1,340	$ 11

	Less Than 12 Months		12 Months or More		Total	
December 31, 2014	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities Available-for-Sale						
Government Agency & Government-Sponsored Entities	$66,980	$ 3	$-	$ -	$66,980	$ 3
Mortgage Backed Securities	14,487	151	33,574	506	48,061	657
Total	$81,467	$ 154	$33,574	$ 506	$115,041	$ 660
Securities Held-to-Maturity						
Obligations of States and Political Subdivisions	$849	$ 5	$876	$ 5	$1,725	$ 10
Total	$849	$ 5	$876	$ 5	$1,725	$ 10

	Less Than 12 Months		12 Months or More		Total	
March 31, 2014	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities Available-for-Sale						
Mortgage Backed Securities	$123,313	$ 4,506	$15,981	$ 872	139,294	$ 5,378
Corporate Securities	3,794	39	2,474	24	6,268	63
Total	$127,107	$ 4,545	$18,455	$ 896	$145,562	$ 5,441
Securities Held-to-Maturity						
Obligations of States and Political Subdivisions	$9,038	$ 257	$-	$ -	$9,038	$ 257
Total	$9,038	$ 257	$-	$ -	$9,038	$ 257

As of March 31, 2015, the Company held 275 investment securities of which six were in a loss position for less than twelve months. Three securities were in a loss position for twelve months or more. Management periodically evaluates each investment security for other-than-temporary impairment relying primarily on industry analyst reports and observations of market conditions and interest rate fluctuations. Management believes it will be able to collect all amounts due according to the contractual terms of the underlying investment securities.

Securities of Government Agency and Government Sponsored Entities – At March 31, 2015, one security of government agency and government sponsored entities was in a loss position for less than 12 months. None were in a loss position for 12 months or more. The unrealized losses on the Company's investments in securities of government agency and government sponsored entities were $1,000 at March 31, 2015, $3,000 at December 31, 2014 and $0 at March 31, 2014. The unrealized loss was caused by interest rate fluctuations. Repayment of these investments is guaranteed by an agency or government sponsored entity of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the securities and it is more likely than not that the Company will not have to sell the securities before recovery of their cost basis, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2015 and December 31, 2014.

Table of Contents

Mortgage Backed Securities – At March 31, 2015, two mortgage backed security investments were in a loss position for less than 12 months and three were in a loss position for 12 months or more. The unrealized losses on the Company's investment in mortgage backed securities were $196,000, $657,000, and $5.4 million at March 31, 2015, December 31, 2014, and March 31, 2014, respectively. The unrealized losses on the Company’s investment in mortgage backed securities were caused by interest rate fluctuations. The contractual cash flows of these investments are guaranteed by an agency or government sponsored entity of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the securities and it is more likely than not that the Company will not have to sell the securities before recovery of their cost basis, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2015, December 31, 2014 and March 31, 2014, respectively.

Obligations of States and Political Subdivisions - At March 31, 2015, three obligations of states and political subdivisions were in a loss position for less than 12 months. None were in a loss position for 12 months or more. As of March 31, 2015, over ninety-seven percent of the Company’s bank-qualified municipal bond portfolio is rated at either the issue or issuer level, and all of these ratings are “investment grade.” The Company monitors the status of the three percent of the portfolio that is not rated and at the current time does not believe any of them to be exhibiting financial problems that could result in a loss in any individual security.

The unrealized losses on the Company’s investment in obligations of states and political subdivisions were $11,000, $10,000, and $257,000 at March 31, 2015, December 31, 2014 and March 31, 2014, respectively. Management believes that any unrealized losses on the Company's investments in obligations of states and political subdivisions were primarily caused by interest rate fluctuations. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Company does not intend to sell the securities and it is more likely than not that the Company will not have to sell the securities before recovery of their cost basis, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2015, December 31, 2014 and March 31, 2014, respectively.

Corporate Securities - The Company did not hold any corporate securities at March 31, 2015 or December 31, 2014. The unrealized losses on the Company’s investment in corporate securities at March 31, 2014 were $63,000. Changes in the prices of corporate securities are primarily influenced by: (1) changes in market interest rates; (2) changes in perceived credit risk in the general economy or in particular industries; (3) changes in the perceived credit risk of a particular company; and (4) day to day trading supply, demand and liquidity.

Proceeds from sales and calls of securities were as follows:

(in thousands)	Proceeds	Gains	Losses
Three Months Ended March 31, 2015	$ 475	$ 1	$ -
Three Months Ended March 31, 2014	$ 2,988	$ 3	$ -

Pledged Securities

As of March 31, 2015, securities carried at $196.4 million were pledged to secure public deposits, Federal Home Loan Bank (“FHLB”) borrowings, and other government agency deposits as required by law. This amount was $178.8 million at December 31, 2014, and $332.0 million at March 31, 2014.

The decrease in pledged securities since March 31, 2014 was due to the Company’s use of a $165 million standby Letter of Credit (“LC”) issued by the FHLB as collateral for Public Deposits. The LC was issued December 4, 2014, and matures December 2, 2016, with a maintenance fee of 10 basis points per annum.

Table of Contents

3. Loans & Leases and Allowance for Credit Losses

The following tables show the allocation of the allowance for credit losses by portfolio segment and by impairment methodology at the dates indicated (in thousands):

March 31, 2015	Commercial Real Estate	Agricultural Real Estate	Real Estate Construction	Residential 1st Mortgages	Home Equity Lines & Loans	Agricultural	Commercial	Consumer & Other	Leases	Unallocated	Tota
Year-To-Date Allowance for Credit Losses:											
Beginning Balance- January 1, 2015	$7,842	$4,185	$1,669	$1,022	$2,426	$6,104	$8,195	$218	$2,211	$1,529	$35
Charge-Offs	-	-	-	-	-	-	(12)	(17)	-	-	(2
Recoveries	2,938	-	-	-	5	1	2	22	-	-	2,
Provision	(2,826)	2,716	247	(349)	(335)	(1,503)	756	(11)	288	1,617	60
Ending Balance- March 31, 2015	$7,954	$6,901	$1,916	$673	$2,096	$4,602	$8,941	$212	$2,499	$3,146	$38
Ending Balance Individually Evaluated for Impairment	61	-	-	72	53	129	1,118	37	-	-	1,
Ending Balance Collectively Evaluated for Impairment	7,893	6,901	1,916	601	2,043	4,473	7,823	175	2,499	3,146	37
Loans:											
Ending Balance	$529,550	$351,866	$101,616	$182,431	$31,724	$216,231	$236,141	$4,915	$50,846	$-	$1,
Ending Balance Individually Evaluated for Impairment	3,573	-	4,363	2,080	1,668	457	4,840	44	-	-	17
Ending Balance Collectively Evaluated for Impairment	$525,977	$351,866	$97,253	$180,351	$30,056	$215,774	$231,301	$4,871	$50,846	$-	$1,

December 31, 2014	Commercial Real Estate	Agricultural Real Estate	Real Estate Construction	Residential 1st Mortgages	Home Equity Lines & Loans	Agricultural	Commercial	Consumer & Other	Leases	Unallocated	Tota
Year-To-Date Allowance for Credit Losses:											
Beginning Balance- January 1, 2014	$5,178	$3,576	$654	$1,108	$2,767	$12,205	$5,697	$176	$639	$2,274	$34
Charge-Offs	-	-	-	(73)	(70)	-	(1)	(132)	-	-	(2
Recoveries	11	-	-	-	58	8	86	65	-	-	22
Provision	2,653	609	1,015	(13)	(329)	(6,109)	2,413	109	1,572	(745)	1,
Ending Balance- December 31, 2014	$7,842	$4,185	$1,669	$1,022	$2,426	$6,104	$8,195	$218	$2,211	$1,529	$35
Ending Balance Individually Evaluated for Impairment	377	-	-	422	329	114	914	41	-	-	2,
Ending Balance Collectively Evaluated for Impairment	7,465	4,185	1,669	600	2,097	5,990	7,281	177	2,211	1,529	33
Loans & Leases:											
Ending Balance	$491,903	$357,207	$96,519	$171,880	$33,017	$281,963	$230,819	$4,719	$44,217	$-	$1,
Ending Balance Individually Evaluated for Impairment	20,066	-	4,386	2,108	1,643	461	4,874	46	-	-	33
Ending Balance Collectively Evaluated for Impairment	$471,837	$357,207	$92,133	$169,772	$31,374	$281,502	$225,945	$4,673	$44,217	$-	$1,

18

Table of Contents

March 31, 2014	Commercial Real Estate	Agricultural Real Estate	Real Estate Construction	Residential 1st Mortgages	Home Equity Lines & Loans	Agricultural	Commercial	Consumer & Other	Leases	Unallocated	Total
Year-To-Date Allowance for Credit Losses:											
Beginning Balance- January 1, 2014	$5,178	$3,576	$654	$1,108	$2,767	$12,205	$5,697	$176	$639	$2,274	$34,2
Charge-Offs	-	-	-	(3)	-	-	-	(27)	-	-	(30
Recoveries	-	-	-	-	12	1	5	15	-	-	33
Provision	1,248	(189)	423	(5)	(131)	(2,605)	724	7	282	246	-
Ending Balance- March 31, 2014	$6,426	$3,387	$1,077	$1,100	$2,648	$9,601	$6,426	$171	$921	$2,520	$34,2
Ending Balance Individually Evaluated for Impairment	245	-	226	340	313	118	814	48	-	-	2,10
Ending Balance Collectively Evaluated for Impairment	6,181	3,387	851	760	2,335	9,483	5,612	123	921	2,520	32,1
Loans:											
Ending Balance	$402,865	$326,112	$55,751	$156,094	$34,289	$209,228	$155,802	$4,721	$18,168	$-	$1,36
Ending Balance Individually Evaluated for Impairment	22,046	-	4,473	1,701	2,055	587	5,100	48	-	-	36,0
Ending Balance Collectively Evaluated for Impairment	$380,819	$326,112	$51,278	$154,393	$32,234	$208,641	$150,702	$4,673	$18,168	$-	$1,32

The ending balance of loans individually evaluated for impairment includes restructured loans in the amount of $9.8 million at March 31, 2015, $26.4 million at December 31, 2014 and $28.9 million at March 31, 2014, which are no longer disclosed or classified as TDRs.

Table of Contents

The following tables show the loan & lease portfolio allocated by management's internal risk ratings at the dates indicated (in thousands):

March 31, 2015	Pass	Special Mention	Substandard	Total Loans & Leases
Loans & Leases:				
Commercial Real Estate	$520,613	$8,834	$ 103	$529,550
Agricultural Real Estate	351,866	-	-	351,866
Real Estate Construction	99,920	1,696	-	101,616
Residential 1st Mortgages	181,021	744	666	182,431
Home Equity Lines & Loans	30,772	83	869	31,724
Agricultural	215,507	453	271	216,231
Commercial	220,491	12,086	3,564	236,141
Consumer & Other	4,687	-	228	4,915
Leases	50,846			50,846
Total	$1,675,723	$23,896	$ 5,701	$1,705,320

December 31, 2014	Pass	Special Mention	Substandard	Total Loans
Loans & Leases:				
Commercial Real Estate	$483,146	$8,651	$ 106	$491,903
Agricultural Real Estate	357,207	-	-	357,207
Real Estate Construction	94,887	1,632	-	96,519
Residential 1st Mortgages	170,462	744	674	171,880
Home Equity Lines and Loans	32,054	85	878	33,017
Agricultural	281,232	679	52	281,963
Commercial	211,036	18,143	1,640	230,819
Consumer & Other	4,449	-	270	4,719
Leases	44,217	-	-	44,217
Total	$1,678,690	$29,934	$ 3,620	$1,712,244

March 31, 2014	Pass	Special Mention	Substandard	Total Loans & Leases
Loans & Leases:				
Commercial Real Estate	$389,366	$13,126	$ 373	$402,865
Agricultural Real Estate	326,112	-	-	326,112
Real Estate Construction	54,120	1,631	-	55,751
Residential 1st Mortgages	154,743	767	584	156,094
Home Equity Lines & Loans	33,196	-	1,093	34,289
Agricultural	208,308	843	77	209,228
Commercial	137,125	16,928	1,749	155,802
Consumer & Other	4,529	-	192	4,721
Leases	18,168			18,168
Total	$1,325,667	$33,295	$ 4,068	$1,363,030

See "Note 1. Significant Accounting Policies - Allowance for Credit Losses" for a description of the internal risk ratings used by the Company. There were no loans or leases outstanding at March 31, 2015, December 31, 2014, and March 31, 2014, rated doubtful or loss.

20

Table of Contents

The following tables show an aging analysis of the loan & lease portfolio by the time past due at the dates indicated (in thousands):

March 31, 2015	30-59 Days Past Due	60-89 Days Past Due	90 Days and Still Accruing	Nonaccrual	Total Past Due	Current	Total Loans & Leases
Loans & Leases:							
Commercial Real Estate	$719	$ -	$ -	$ 103	$822	$528,728	$529,550
Agricultural Real Estate	-	-	-	-	-	351,866	351,866
Real Estate Construction	-	-	-	-	-	101,616	101,616
Residential 1st Mortgages	99	-	-	74	173	182,258	182,431
Home Equity Lines & Loans	-	-	-	616	616	31,108	31,724
Agricultural	-	-	-	14	14	216,217	216,231
Commercial	-	-	-	1,573	1,573	234,568	236,141
Consumer & Other	9	-	-	13	22	4,893	4,915
Leases	-	-	-	-	-	50,846	50,846
Total	$827		$ -	$ 2,393	$3,220	$1,702,100	$1,705,320

December 31, 2014	30-59 Days Past Due	60-89 Days Past Due	90 Days and Still Accruing	Nonaccrual	Total Past Due	Current	Total Loans & Leases
Loans & Leases:							
Commercial Real Estate	$-	$ -	$ -	$ -	$-	$491,903	$491,903
Agricultural Real Estate	-	-	-	-	-	357,207	357,207
Real Estate Construction	-	-	-	-	-	96,519	96,519
Residential 1st Mortgages	-	-	-	77	77	171,803	171,880
Home Equity Lines and Loans	79	-	-	576	655	32,362	33,017
Agricultural	-	-	-	18	18	281,945	281,963
Commercial	-	-	-	1,586	1,586	229,233	230,819
Consumer & Other	10	-	-	13	23	4,696	4,719
Leases	-	-	-	-	-	44,217	44,217
Total	$89	$ -	$ -	$ 2,270	$2,359	$1,709,885	$1,712,244

March 31, 2014	30-59 Days Past Due	60-89 Days Past Due	90 Days and Still Accruing	Nonaccrual	Total Past Due	Current	Total Loans & Leases
Loans & Leases:							
Commercial Real Estate	$-	$ -	$ -	$ -	$-	$402,865	$402,865
Agricultural Real Estate	-	-	-	-	-	326,112	326,112
Real Estate Construction	-	-	-	-	-	55,751	55,751
Residential 1st Mortgages	-	-	-	316	316	155,778	156,094
Home Equity Lines & Loans	30	-	-	969	999	33,290	34,289
Agricultural	-	25	-	32	57	209,171	209,228
Commercial	-	-	-	1,801	1,801	154,001	155,802
Consumer & Other	5	-	-	15	20	4,701	4,721
Leases	-	-	-	-	-	18,168	18,168
Total	$35	$ 25	$ -	$ 3,133	$3,193	$1,359,837	$1,363,030

Table of Contents

The following tables show information related to impaired loans & leases for the periods indicated (in thousands):

March 31, 2015	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial Real Estate	$ 192	$ 192	$ -	$ 96	$ 2
Residential 1st Mortgages	569	632	-	285	4
Home Equity Lines & Loans	661	701	-	331	1
Agricultural	14	27	-	7	-
Commercial	48	48	-	24	1
	$ 1,484	$ 1,600	$ -	$ 743	$ 8
With an allowance recorded:					
Residential 1st Mortgages	$ 359	$ 429	$ 18	$ 648	$ 4
Home Equity Lines & Loans	138	156	7	545	1
Agricultural	443	443	129	452	7
Commercial	4,793	4,889	1,118	4,768	25
Consumer & Other	43	49	37	45	1
	$ 5,776	$ 5,966	$ 1,309	$ 6,458	$ 38
Total	$ 7,260	$ 7,566	$ 1,309	$ 7,201	$ 46

December 31, 2014	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial Real Estate	$ -	$ -	$ -	$ 49	$ 4
Home Equity Lines and Loans	-	-	-	169	-
Agricultural	-	-	-	15	-
Commercial	-	-	-	1,620	54
	$ -	$ -	$ -	$ 1,853	$ 58
With an allowance recorded:					
Commercial Real Estate	$ 92	$ 92	$ 2	$ 47	$ 4
Residential 1st Mortgages	937	1,069	187	612	9
Home Equity Lines and Loans	951	1,020	190	803	10
Agricultural	461	473	114	473	28
Commercial	4,742	4,813	910	3,182	54
Consumer & Other	46	51	41	46	2
	$ 7,229	$ 7,518	$ 1,444	$ 5,163	$ 107
Total	$ 7,229	$			