CENTRAL VALLEY COMMUNITY BANCORP
Form 10-Q
November 06, 2014
Table of Contents

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

FORM 10-Q
(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED September 30, 2014

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 000—31977

CENTRAL VALLEY COMMUNITY BANCORP
(Exact name of registrant as specified in its charter)

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

Registrant’s telephone number (559) 298-1775

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 past 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 ý No o

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 ý No o

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

Large accelerated filer o	Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

As of November 1, 2014 there were 10,979,790 shares of the registrant's common stock outstanding.

1

Table of Contents

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

2014 QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

Table of Contents

PART 1: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Cash and due from banks	$28,059	$25,878
Interest-earning deposits in other banks	26,658	85,956
Federal funds sold	331	218
Total cash and cash equivalents	55,048	112,052
Available-for-sale investment securities (Amortized cost of $439,576 at September 30, 2014 and $447,108 at December 31, 2013)	447,016	443,224
Held-to-maturity investment securities (Fair value of $34,523 at September 30, 2014)	31,837	—
Loans, less allowance for credit losses of $7,489 at September 30, 2014 and $9,208 at December 31, 2013	547,247	503,149
Bank premises and equipment, net	10,443	10,541
Other real estate owned	—	190
Bank owned life insurance	20,802	19,443
Federal Home Loan Bank stock	4,791	4,499
Goodwill	29,917	29,917
Core deposit intangibles	1,428	1,680
Accrued interest receivable and other assets	15,590	20,940
Total assets	$1,164,119	$1,145,635
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$345,003	$356,392
Interest bearing	663,860	647,751
Total deposits	1,008,863	1,004,143
Junior subordinated deferrable interest debentures	5,155	5,155
Accrued interest payable and other liabilities	17,088	16,294
Total liabilities	1,031,106	1,025,592
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred stock, no par value, $1,000 per share liquidation preference; 10,000,000 shares authorized, none issued and outstanding	—	—
Common stock, no par value; 80,000,000 shares authorized; issued and outstanding: 10,979,370 at September 30, 2014 and 10,914,680 at December 31, 2013	54,125	53,981
Retained earnings	74,367	68,348
Accumulated other comprehensive income (loss), net of tax	4,521	(2,286)
Total shareholders' equity	133,013	120,043

Total liabilities and shareholders' equity	$1,164,119	$1,145,635

See notes to unaudited consolidated financial statements.

Table of Contents

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(In thousands, except share and per share amounts)	2014	2013	2014	2013
INTEREST INCOME:				
Interest and fees on loans	$7,301	$8,677	$22,197	$19,523
Interest on deposits in other banks	37	45	134	104
Interest on Federal funds sold	—	—	1	—
Interest and dividends on investment securities:				
Taxable	1,341	588	4,127	1,341
Exempt from Federal income taxes	1,469	1,593	4,305	4,329
Total interest income	10,148	10,903	30,764	25,297
INTEREST EXPENSE:				
Interest on deposits	249	342	813	947
Interest on junior subordinated deferrable interest debentures	23	25	72	74
Other	—	—	—	17
Total interest expense	272	367	885	1,038
Net interest income before provision for credit losses	9,876	10,536	29,879	24,259
PROVISION FOR CREDIT LOSSES	—	—	(400)	—
Net interest income after provision for credit losses	9,876	10,536	30,279	24,259
NON-INTEREST INCOME:				
Service charges	811	911	2,441	2,282
Appreciation in cash surrender value of bank owned life insurance	156	149	459	342
Interchange fees	295	268	924	678
Net gain on disposal of other real estate owned	—	—	63	—
Net realized gains on sales of investment securities	240	—	573	1,133
Federal Home Loan Bank dividends	86	59	237	113
Loan placement fees	212	128	401	507
Other income	261	298	983	811
Total non-interest income	2,061	1,813	6,081	5,866
NON-INTEREST EXPENSES:				
Salaries and employee benefits	5,076	5,048	14,833	12,916
Occupancy and equipment	1,222	1,134	3,671	2,936
Data processing	448	357	1,362	949
Regulatory assessments	177	220	569	517
ATM/Debit card expenses	166	170	476	388
License and maintenance contracts	128	139	384	338
Advertising	155	124	462	346
Audit and accounting fees	185	135	492	406
Internet banking expense	134	109	359	257
Acquisition and integration	—	271	—	784
Amortization of core deposit intangibles	84	84	252	184
Other	1,276	1,200	3,660	3,126
Total non-interest expenses	9,051	8,991	26,520	23,147

Income before provision for income taxes	2,886	3,358	9,840	6,978
Provision for income taxes	535	389	2,180	939
Net income	$2,351	$2,969	$7,660	$6,039
Preferred stock dividends and accretion	—	87	—	262
Net income available to common shareholders	$2,351	$2,882	$7,660	$5,777
Earnings per common share:				
Basic earnings per share	$0.22	$0.26	$0.70	$0.58
Weighted average common shares used in basic computation	10,919,630	10,899,086	10,917,892	10,020,057
Diluted earnings per share	$0.21	$0.26	$0.70	$0.57
Weighted average common shares used in diluted computation	11,014,907	10,958,811	11,005,553	10,080,034
Cash dividend per common share	$0.05	$0.05	$0.15	$0.15

See notes to unaudited consolidated financial statements.

Table of Contents

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(In thousands)	2014	2013	2014	2013
Net income	$2,351	$2,969	$7,660	$6,039
Other Comprehensive Income (Loss):				
Unrealized gains (losses) on securities:				
Unrealized holdings gains (losses) arising and transferred during the period	619	797	12,060	(13,195)
Less: reclassification for net gains included in net income	240	—	573	1,133
Amortization of net unrealized gains transferred during the period	(2)		(20)	
Other comprehensive income (loss), before tax	377	797	11,467	(14,328)
Tax (expense) benefit related to items of other comprehensive income	(156)	(328)	(4,660)	5,896
Total other comprehensive income (loss)	221	469	6,807	(8,432)
Comprehensive income (loss)	$2,572	$3,438	$14,467	$(2,393)

See notes to unaudited consolidated financial statements.

Table of Contents

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	For the Nine Months Ended September 30, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$7,660	$6,039
Adjustments to reconcile net income to net cash provided by operating activities:		
Net decrease in deferred loan fees	(336)	(217)
Depreciation	1,019	801
Accretion	(730)	(614)
Amortization	5,841	7,031
Stock-based compensation	93	73
Tax benefit from exercise of stock options	(6)	(16)
Provision for credit losses	(400)	—
Net realized gains on sales of available-for-sale investment securities	(573)	(1,133)
Net gain (loss) on disposal of premises and equipment	191	(1)
Net gain on sale of other real estate owned	(63)	—
Increase in bank owned life insurance, net of expenses	(459)	(342)
Net (increase) decrease in accrued interest receivable and other assets	(505)	873
Net decrease in prepaid FDIC assessments	—	1,542
Net increase in accrued interest payable and other liabilities	(409)	(1,741)
Provision for (benefit from) deferred income taxes	1,201	(1,191)
Net cash provided by operating activities	12,524	11,104
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net cash and cash equivalents acquired in acquisition	—	40,729
Purchases of available-for-sale investment securities	(137,360)	(129,572)
Proceeds from sales or calls of available-for-sale investment securities	73,982	37,428
Proceeds from maturity and principal repayments of available-for-sale investment securities	36,133	63,666
Net increase in loans	(43,598)	(6,633)
Proceeds from sale of other real estate owned	488	139
Purchases of premises and equipment	(1,112)	(852)
Purchases of bank owned life insurance	(900)	—
FHLB stock (purchased) redeemed	(292)	48
Proceeds from sale of premises and equipment	1	1
Net cash (used in) provided by investing activities	(72,658)	4,954
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand, interest bearing and savings deposits	12,745	11,334
Net (decrease) increase in time deposits	(8,025)	6,816
Repayments of short-term borrowings to Federal Home Loan Bank	—	(4,000)
Proceeds from exercise of stock options	45	782
Excess tax benefit from exercise of stock options	6	16
Cash dividend payments on common stock	(1,641)	(1,502)
Cash dividend payments on preferred stock	—	(262)
Net cash provided by financing activities	3,130	13,184
(Decrease) increase in cash and cash equivalents	(57,004)	29,242

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	112,052	52,956
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$55,048	$82,198

6

Table of Contents

(In thousands)	For the Nine Months Ended September 30, 2014	2013
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid during the period for:		
Interest	$904	$1,078
Income taxes	$1,030	$1,340
Non-cash investing and financing activities:		
Foreclosure of loan collateral and recognition of other real estate owned	$235	$—
Transfer of securities from available-for-sale to held-to-maturity	$31,346	
Unrealized gain on transfer of securities from available-for-sale to held-to-maturity	$163	
Accrued preferred stock dividends	$—	$87
Purchases of available-for-sale investment securities, not yet settled	$1,203	$—
Common stock issued in Visalia Community Bank acquisition	$—	$12,494

See notes to unaudited consolidated financial statements.

Table of Contents

Note 1. Basis of Presentation

The interim unaudited condensed consolidated financial statements of Central Valley Community Bancorp and subsidiary have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). These interim condensed consolidated financial statements include the accounts of Central Valley Community Bancorp and its wholly owned subsidiary Central Valley Community Bank (the Bank) (collectively, the Company). All significant intercompany accounts and transactions have been eliminated in consolidation. As discussed in Note 2, on July 1, 2013, the Company completed an acquisition under which Visalia Community Bank merged with and into Central Valley Community Bancorp's subsidiary, Central Valley Community Bank. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been omitted. The Company believes that the disclosures are adequate to make the information presented not misleading. These interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 2013 Annual Report to Shareholders on Form 10-K. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position at September 30, 2014, and the results of its operations and its cash flows for the three and nine month interim periods ended September 30, 2014 and 2013 have been included. Certain reclassifications have been made to prior year amounts to conform to the 2014 presentation. Reclassifications had no effect on prior period net income or shareholders' equity. The results of operations for interim periods are not necessarily indicative of results for the full year.

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 those estimates.

Management has determined that since all of the banking products and services offered by the Company are available in each branch of the Bank, all branches are located within the same economic environment, and management does not allocate resources based on the performance of different lending or transaction activities, it is appropriate to aggregate the Bank branches and report them as a single operating segment. No customer accounts for more than 10 percent of revenues for the Company or the Bank.

Note 2. Acquisition of Visalia Community Bank

Effective July 1, 2013, the Company acquired Visalia Community Bank, headquartered in Visalia, California, wherein Visalia Community Bank, with three full-service offices in Visalia and one in Exeter, merged with and into Central Valley Community Bancorp's subsidiary, Central Valley Community Bank. Visalia Community Bank's assets (unaudited) as of July 1, 2013 totaled approximately $197 million. The acquired assets and liabilities were recorded at fair value at the date of acquisition.

Under the terms of the merger agreement, the Company issued an aggregate of approximately 1.263 million shares of its common stock and cash totaling approximately $11.05 million to the former shareholders of Visalia Community Bank. Each Visalia Community Bank common shareholder of record at the effective time of the merger became entitled to receive 2.971 shares of common stock of the Company for each of their former shares of Visalia Community Bank common stock.

The Company recorded $6.2 million of goodwill and $1.4 million of other intangible assets at the date of acquisition. The other intangible assets are primarily related to core deposits and are being amortized using a straight-line method over a period of ten years with no significant residual value. For tax purposes purchase accounting adjustments, including goodwill are all non-taxable and/or non-deductible.

The acquisition was consistent with the Company's strategy to build a regional presence in Central California. The acquisition offers the Company the opportunity to increase profitability by introducing existing products and services to the acquired customer base as well as add new customers in the expanded region.

Pro Forma Results of Operations

The following table presents pro forma results of operations information for the periods presented as if the acquisition had occurred as of January 1, 2013. The pro forma results of operations for the nine months ended September 30, 2013 include the historical accounts of the Company and Visalia Community Bank and pro forma adjustments as may be required, including the amortization of intangibles with definite lives and the amortization or accretion of any premiums or discounts arising from fair

Table of Contents

value adjustments for assets acquired and liabilities assumed. The pro forma information is intended for informational purposes only and is not necessarily indicative of the Company's future operating results or operating results that would have occurred had the acquisition been completed at the beginning of 2013. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions.

Pro Forma Results of Operations	For the Nine Months Ended September 30,
(In thousands, except per share amounts)	2013
Net interest income	$27,581
Provision for credit losses	298
Non-interest income	6,611
Non-interest expense	28,619
Income before provision for income taxes	5,275
Provision for income taxes	375
Net income	$4,900
Basic earnings per share	$0.46
Diluted earnings per share	$0.46

Note 3. Fair Value Measurements

Fair Value Hierarchy

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In accordance with applicable guidance, the Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1 — Quoted market prices (unadjusted) for identical instruments traded in active exchange markets that the Company has the ability to access as of the measurement date.

Level 2 — Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 — Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Company's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, we report the transfer at the beginning of the reporting period. The estimated carrying and fair values of the Company's financial instruments are as follows (in thousands):

Table of Contents

	September 30, 2014				
	Carrying	Fair Value			
(In thousands)	Amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$28,059	$28,059	$—	$—	$28,059
Interest-earning deposits in other banks	26,658	26,658	—	—	26,658
Federal funds sold	331	331	—	—	331
Available-for-sale investment securities	447,016	7,529	439,487	—	447,016
Held-to-maturity investment securities	31,837	—	34,523	—	34,523
Loans, net	547,247	—	—	550,002	550,002
Federal Home Loan Bank stock	4,791	N/A	N/A	N/A	N/A
Accrued interest receivable	5,223	22	2,819	2,382	5,223
Financial liabilities:					
Deposits	1,008,863	847,644	161,213	—	1,008,857
Junior subordinated deferrable interest debentures	5,155	—	—	3,175	3,175
Accrued interest payable	110	—	86	24	110

	December 31, 2013				
	Carrying	Fair Value			
(In thousands)	Amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$25,878	$25,878	$—	$—	$25,878
Interest-earning deposits in other banks	85,956	85,956	—	—	85,956
Federal funds sold	218	218	—	—	218
Available-for-sale investment securities	443,224	7,514	435,710	—	443,224
Loans, net	503,149	—	—	507,361	507,361
Federal Home Loan Bank stock	4,499	N/A	N/A	N/A	N/A
Accrued interest receivable	5,026	21	2,976	2,029	5,026
Financial liabilities:					
Deposits	1,004,143	834,864	169,065	—	1,003,929
Junior subordinated deferrable interest debentures	5,155	—	—	2,750	2,750
Accrued interest payable	129	—	105	24	129

These estimates do not reflect any premium or discount that could result from offering the Company’s entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. Because no market exists for a significant portion of the Company’s financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.
The methods and assumptions used to estimate fair values are described as follows:

(a) Cash and Cash Equivalents — The carrying amounts of cash and due from banks, interest-earning deposits in other banks, and Federal funds sold approximate fair values and are classified as Level 1.

(b) Investment Securities — Investment securities in Level 1 are mutual funds and fair values are based on quoted market prices for identical instruments traded in active markets. Fair values for investment securities classified in Level 2 are based on quoted market prices for similar securities in active markets. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators.

Table of Contents

(c) Loans — Fair values of loans are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Purchased credit impaired (PCI) loans are measured at estimated fair value on the date of acquisition. Carrying value is calculated as the present value of expected cash flows and approximates fair value. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are initially valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for credit losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

(d) FHLB Stock — It is not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability.

(e) Other real estate owned — OREO is measured at fair value less estimated costs to sell when acquired, establishing a new cost basis. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process to adjust for differences between the comparable sales and income data available. The Company records OREO as non-recurring with level 3 measurement inputs.

(f) Deposits — Fair value of demand deposit, savings, and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount), resulting in a Level 1 classification. Fair value for fixed and variable rate certificates of deposit are estimated using discounted cash flow analyses using interest rates offered at each reporting date by the Company for certificates with similar remaining maturities resulting in a Level 2 classification.

(g) Short-Term Borrowings — The fair values of the Company's federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings, generally maturing within ninety days, are based on the market rates for similar types of borrowing arrangements resulting in a Level 2 classification.

(h) Other Borrowings — The fair values of the Company's long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

The fair values of the Company's Subordinated Debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

(i) Accrued Interest Receivable/Payable — The fair value of accrued interest receivable and payable is based on the fair value hierarchy of the related asset or liability.

(j) Off-Balance Sheet Instruments — Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

Assets Recorded at Fair Value

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of September 30, 2014:

Recurring Basis

The Company is required or permitted to record the following assets at fair value on a recurring basis as of September 30, 2014 (in thousands).

Table of Contents

Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities				
Debt Securities:				
U.S. Government agencies	$33,742	$—	$33,742	$—
Obligations of states and political subdivisions	148,150	—	148,150	—
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	252,778	—	252,778	—
Private label residential mortgage backed securities	4,817	—	4,817	—
Other equity securities	7,529	7,529	—	—
Total assets measured at fair value on a recurring basis	$447,016	$7,529	$439,487	$—

Securities in Level 1 are mutual funds and fair values are based on quoted market prices for identical instruments traded in active markets. Fair values for available-for-sale investment securities in Level 2 are based on quoted market prices for similar securities in active markets. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators. Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings. During the nine months ended September 30, 2014, no transfers between levels occurred.
There were no Level 3 assets measured at fair value on a recurring basis at or during the nine month period ended September 30, 2014. Also there were no liabilities measured at fair value on a recurring basis at September 30, 2014.

Non-recurring Basis

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a non-recurring basis. These include assets and liabilities that are measured at the lower of cost or fair value that were recognized at fair value which was below cost at September 30, 2014 (in thousands).

Description	Fair Value	Level 1	Level 2	Level 3
Assets:				
Impaired loans:				
Consumer:				
Equity loans and lines of credit	$145	$—	$—	$145
Total assets measured at fair value on a non-recurring basis	$145	$—	$—	$145

At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for credit losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. The fair value of impaired loans is based on the fair value of the collateral. Impaired loans were determined to be collateral dependent and categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements. Impaired loans evaluated under the discounted cash flow method are excluded from the table above. The discounted cash flow methods as prescribed by ASC Topic 310 is not a fair value measurement since the discount rate utilized is the loan's effective interest rate which is not a market rate. There were no changes in valuation techniques used during the nine month period ended September 30, 2014.

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value is compared with independent data sources such as recent market data or industry-wide statistics.

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $174,000 with a valuation allowance of $29,000 at September 30, 2014, resulting in fair value of $145,000. The valuation allowance represents specific allocations for the allowance for credit losses for impaired loans.

Table of Contents

During the three and nine months ended September 30, 2014, there was no provision for credit losses recorded related to loans carried at fair value. During the three months ended September 30, 2014, there was a net recovery of $131,000, and for the nine months then ended, there were net charge-offs of $177,000 related to loans carried at fair value.

During the three and nine months ended September 30, 2013, there was no provision for credit losses recorded related to loans carried at fair value. During the three and nine months ended September 30, 2013, there were no charge-offs related to loans carried at fair value.

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2013:

Recurring Basis

The Company is required or permitted to record the following assets at fair value on a recurring basis as of December 31, 2013 (in thousands).

Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities				
Debt Securities:				
U.S. Government agencies	$18,203	$—	$18,203	$—
Obligations of states and political subdivisions	158,407	—	158,407	—
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	253,709	—	253,709	—
Private label residential mortgage backed securities	5,391	—	5,391	—
Other equity securities	7,514	7,514	—	—
Total assets measured at fair value on a recurring basis	$443,224	$7,514	$435,710	$—

Securities in Level 1 are mutual funds and fair values are based on quoted market prices for identical instruments traded in active markets. Fair values for available-for-sale investment securities in Level 2 are based on quoted market prices for similar securities in active markets. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings. During the year ended December 31, 2013, no transfers between levels occurred.

There were no Level 3 assets measured at fair value on a recurring basis at or during the year ended December 31, 2013. Also there were no liabilities measured at fair value on a recurring basis at December 31, 2013.

Non-recurring Basis

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a non-recurring basis. These include assets and liabilities that are measured at the lower of cost or fair value that were recognized at fair value which was below cost at December 31, 2013 (in thousands).

Description	Fair Value	Level 1	Level 2	Level 3
Impaired loans:				
Consumer:				
Equity loans and lines of credit	$133	$—	$—	$133
Total assets measured at fair value on a non-recurring basis	$133	$—	$—	$133

At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for credit losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower’s financial statements, or aging reports, adjusted or discounted based on management’s historical knowledge, changes in market conditions from the time of the valuation, and

Table of Contents

management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. The fair value of impaired loans is based on the fair value of the collateral. Impaired loans were determined to be collateral dependent and categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements. Impaired loans were determined to be collateral dependent and categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements. Impaired loans evaluated under the discounted cash flow method are excluded from the table above. The discounted cash flow method as prescribed by ASC Topic 310 is not a fair value measurement since the discount rate utilized is the loan's effective interest rate which is not a market rate. There were no changes in valuation techniques used during the year ended December 31, 2013.

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value is compared with independent data sources such as recent market data or industry-wide statistics.

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $194,000 with a valuation allowance of $61,000 at December 31, 2013, resulting in fair value of $133,000. The valuation allowance represents specific allocations for the allowance for credit losses for impaired loans.

Table of Contents

Note 4. Investments

The investment portfolio consists primarily of U.S. Government sponsored entity and agency securities collateralized by residential mortgage obligations, private label residential mortgage backed securities (PLRMBS), and obligations of states and political subdivisions securities. As of September 30, 2014, $102,793,000 of these securities were held as collateral for borrowing arrangements, public funds, and for other purposes.

The fair value of the available-for-sale investment portfolio reflected a net unrealized gain of $7,440,000 at September 30, 2014 compared to an unrealized loss of $3,884,000 at December 31, 2013.

The following table sets forth the carrying values and estimated fair values of our investment securities portfolio at the dates indicated (in thousands):

	September 30, 2014			
Available-for-Sale Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	$33,827	$154	$(239)	$33,742
Obligations of states and political subdivisions	143,027	5,581	(458)	148,150
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	251,870	2,023	(1,115)	252,778
Private label residential mortgage backed securities	3,352	1,465	—	4,817
Other equity securities	7,500	29	—	7,529
Total available-for-sale	$439,576	$9,252	$(1,812)	$447,016

	September 30, 2014			
Held-to-Maturity Securities	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value
Debt securities:				
Obligations of states and political subdivisions	$31,837	$2,701	$(15)	$34,523

	December 31, 2013			
Available-for-Sale Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	$18,172	$115	$(84)	$18,203
Obligations of states and political subdivisions	162,018	2,906	(6,517)	158,407
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	254,978	1,075	(2,344)	253,709
Private label residential mortgage backed securities	4,344	1,047	—	5,391
Other equity securities	7,596	2	(84)	7,514
Total available-for-sale	$447,108	$5,145	$(9,029)	$443,224

Proceeds and gross realized gains (losses) from the sales or calls of investment securities for the periods ended September 30, 2014 and 2013 are shown below (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Available-for-Sale Securities	2014	2013	2014	2013
Proceeds from sales or calls	$21,741	$1,575	$73,982	$37,428
Gross realized gains from sales or calls	271	—	1,423	1,401

Gross realized losses from sales or calls	(31)	—	(850)	(268)

15

Table of Contents

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

The provision for income taxes includes $236,000 and $466,000 income tax impact from the reclassification of unrealized net gains on available-for-sale securities to realized net gains on available-for-sale securities for the nine months ended September 30, 2014 and 2013, respectively. The provision for income taxes includes $99,000 and $0 income tax impact from the reclassification of unrealized net gains on available-for-sale securities to realized net gains on available-for-sale securities for the three months ended September 30, 2014 and 2013, respectively.

Investment securities, aggregated by investment category, with unrealized losses as of the dates indicated are summarized and classified according to the duration of the loss period as follows (in thousands):

	September 30, 2014					
	Less than 12 Months		12 Months or More		Total	
Available-for-Sale Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government agencies	$13,082	$(197)	$1,778	$(42)	$14,860	$(239)
Obligations of states and political subdivisions	13,140	(63)	26,483	(395)	39,623	(458)
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	72,844	(610)	30,588	(505)	103,432	(1,115)
Total available-for-sale	$99,066	$(870)	$58,849	$(942)	$157,915	$(1,812)

	September 30, 2014					
	Less than 12 Months		12 Months or More		Total	
Held-to-Maturity Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
Obligations of states and political subdivisions	$1,064	$(15)	$—	$—	$1,064	$(15)

	December 31, 2013					
	Less than 12 Months		12 Months or More		Total	
Available-for-Sale Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government agencies	$4,132	$(75)	$968	$(9)	$5,100	$(84)
Obligations of states and political subdivisions	89,556	(5,007)	15,015	(1,510)	104,571	(6,517)
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	148,853	(2,070)	19,199	(274)	168,052	(2,344)
Other equity securities	7,416	(84)	—	—	7,416	(84)
Total available-for-sale	$249,957	$(7,236)	$35,182	$(1,793)	$285,139	$(9,029)

We periodically evaluate each investment security for other-than-temporary impairment, relying primarily on industry analyst reports, observation of market conditions and interest rate fluctuations. The portion of the impairment that is attributable to a shortage in the present value of expected future cash flows relative to the amortized cost should be recorded as a current period charge to earnings. The discount rate in this analysis is the original yield expected at time of purchase.

As of September 30, 2014, the Company performed an analysis of the investment portfolio to determine whether any of the investments held in the portfolio had an other-than-temporary impairment (OTTI). Management evaluated all available-for-sale investment securities with an unrealized loss at September 30, 2014 and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at September 30, 2014 greater than 10% of the recorded

book value on that date, or which had an unrealized loss of more than $10,000. Management also analyzed any securities that may have been downgraded by credit rating agencies.
For those bonds that met the evaluation criteria, management obtained and reviewed the most recently published national credit ratings for those bonds. For those bonds that were municipal debt securities with an investment grade rating by the rating agencies, management also evaluated the financial condition of the municipality and any applicable municipal bond insurance provider and concluded that no credit related impairment existed.

U.S. Government Agencies

At September 30, 2014, the Company held ten U.S. Government agency securities, of which three were in a loss position for less than 12 months and one was in a loss position and had been in a loss position for 12 months or more. The unrealized losses on the Company's investments in direct obligations of U.S. government agencies were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized costs of the investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold, and it is more likely than not that it will not be required to sell, those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2014.

Obligations of States and Political Subdivisions

At September 30, 2014, the Company held 146 obligations of states and political subdivision securities of which six were in a loss position for less than 12 months and 19 were in a loss position and had been in a loss position for 12 months or more. The unrealized losses on the Company's investments in obligations of states and political subdivision securities were caused by interest rate changes. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability to hold and does not intend to sell, and it is more likely than not that it will not be required to sell those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2014.

U.S. Government Sponsored Entities and Agencies Collateralized by Residential Mortgage Obligations

At September 30, 2014, the Company held 204 U.S. Government sponsored entity and agency securities collateralized by residential mortgage obligations of which 34 were in a loss position for less than 12 months and 16 have been in a loss position for more than 12 months. The unrealized losses on the Company's investments in U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations were caused by interest rate changes. The contractual cash flows of those investments are guaranteed by an agency or 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 has the ability to hold and does not intend to sell, and it is more likely than not that it will not be required to sell those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2014.

Private Label Residential Mortgage Backed Securities

At September 30, 2014, the Company had a total of 21 PLRMBS with a remaining principal balance of $3,352,000 and a net unrealized gain of approximately $1,465,000. None of these securities were recorded with an unrealized loss at September 30, 2014. Eleven of these PLRMBS with a remaining principal balance of $2,855,000 had credit ratings below investment grade. The Company continues to perform extensive analyses on these securities.

Other Equity Securities

At September 30, 2014, the Company had a total of one mutual fund equity investment. The equity investment was not recorded with an unrealized loss at September 30, 2014.

Table of Contents

The following tables provide a roll forward for the three and nine month periods ended September 30, 2014 and 2013 of investment securities credit losses recorded in earnings. The beginning balance represents the credit loss component for which OTTI occurred on debt securities in prior periods. Additions represent the first time a debt security was credit impaired or when subsequent credit impairments have occurred on securities for which OTTI credit losses have been previously recognized.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(In thousands)	2014	2013	2014	2013
Beginning balance	$800	$800	$800	$783
Amounts related to credit loss for which an OTTI charge was not previously recognized	—	—	—	17
Increases to the amount related to credit loss for which OTTI was previously recognized	—	—	—	—
Realized losses for securities sold	—	—	—	—
Ending balance	$800	$800	$800	$800

The amortized cost and estimated fair value of available-for-sale and held-to-maturity investment securities at September 30, 2014 by contractual maturity is shown below (in thousands). Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2014	
Available-for-Sale Securities	Amortized Cost	Estimated Fair Value
Within one year	$—	$—
After one year through five years	2,898	3,206
After five years through ten years	17,627	18,470
After ten years	122,502	126,474
	143,027	148,150
Investment securities not due at a single maturity date:		
U.S. Government agencies	33,827	33,742
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	251,870	252,778
Private label residential mortgage backed securities	3,352	4,817
Other equity securities	7,500	7,529
Total available-for-sale	$439,576	$447,016

	September 30, 2014	
Held-to-Maturity Securities	Amortized Cost	Estimated Fair Value
After ten years	$31,837	$34,523

During the quarter ended March 31, 2014, to better manage our interest rate risk, we transferred from available for sale to held to maturity selected municipal securities in our portfolio having a book value of approximately $31 million, a market value of approximately $32 million, and a net unrecognized gain of approximately $163,000. This transfer was completed after careful consideration of our intent and ability to hold these securities to maturity. There were no transfers or reclassifications of securities in or out of held-to-maturity during the quarter ended September 30, 2014.

18

Table of Contents

Note 5. Loans and Allowance for Credit Losses

Outstanding loans are summarized as follows:

Loan Type (Dollars in thousands)	September 30, 2014	% of Total Loans		December 31, 2013	% of Total Loans	
Commercial:						
Commercial and industrial	$88,756	16.0	%	$87,082	17.0	%
Agricultural land and production	44,421	7.9	%	31,649	6.1	%
Total commercial	133,177	23.9	%	118,731	23.1	%
Real estate:						
Owner occupied	158,339	28.5	%	156,781	30.6	%
Real estate construction and other land loans	43,453	7.8	%	42,329	8.3	%
Commercial real estate	99,966	18.0	%	86,117	16.8	%
Agricultural real estate	57,807	10.5	%	44,164	8.6	%
Other real estate	4,239	0.8	%	4,548	0.9	%
Total real estate	363,804	65.6	%	333,939	65.2	%
Consumer:						
Equity loans and lines of credit	47,812	8.7	%	48,594	9.5	%
Consumer and installment	9,766	1.8	%	11,252	2.2	%
Total consumer	57,578	10.5	%	59,846	11.7	%
Net deferred origination costs and (fees)	177			(159	)	
Total gross loans	554,736	100.0	%	512,357	100.0	%
Allowance for credit losses	(7,489	)		(9,208	)	
Total loans	$547,247			$503,149		

The table above includes loans acquired at fair value on July 1, 2013 in the VCB acquisition with outstanding balances of $81,442,000 and $99,948,000 as of September 30, 2014 and December 31, 2013, respectively.

At September 30, 2014 and December 31, 2013, loans originated under Small Business Administration (SBA) programs totaling $7,250,000 and $7,345,000, respectively, were included in the real estate and commercial categories.

Purchased Credit Impaired Loans

The Company has loans that were acquired in an acquisition, for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected.

These purchased credit impaired loans are recorded at the amount paid, such that there is no carryover of the seller’s allowance for loan losses. After acquisition, losses are recognized by an increase in the allowance for loan losses. The Company estimates the amount and timing of expected cash flows for each loan and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan’s contractual principal and interest over expected cash flows is not recorded (nonaccretable difference). Over the life of the loan, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

The carrying amount of those loans is included in the balance sheet amounts of loans receivable at September 30, 2014 and December 31, 2013. The amounts of loans at September 30, 2014 and December 31, 2013 are as follows (in thousands):

	September 30, 2014	December 31, 2013
Real estate	$—	$2,465
Outstanding balance	$—	$2,465
Carrying amount, net of allowance of $0	$—	$2,465

Table of Contents

Accretable yield, or income expected to be collected for the three and nine months ended September 30, 2014 and 2013 is as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Balance at beginning of period	$—	$—	$94	$—
Additions	—	105	—	105
Accretion	—	(70)	(907)	(70)
Reclassification from non-accretable difference	—	77	813	77
Disposals	—	—	—	—
Balance at end of period	$—	$112	$—	$112

Loans acquired during each period or year for which it was probable at acquisition that all contractually required payments would not be collected are as follows (in thousands):

	September 30, 2014	December 31, 2013
Contractually required payments receivable at acquisition:		
Real estate	$—	$6,912
Total	$—	$6,912
Cash flows expected to be collected at acquisition	$—	$2,681
Fair value of acquired loans at acquisition	$—	$2,576

Certain of the loans acquired by the Company that are within the scope of Topic ASC 310-30 are not accounted for using the income recognition model of the Topic because the Company cannot reliably estimate cash flows expected to be collected. The carrying amounts of such loans (which are included in the carrying amount, net of allowance, described above) are as follows (in thousands):

	September 30, 2014	December 31, 2013
Loans acquired during the period	$—	$1,324
Loans at the end of the period	$—	$1,324

The allowance for credit losses (the "allowance") is an estimate of probable incurred credit losses inherent in the Company's loan portfolio that have been incurred 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 growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off credits is recorded as a recovery to the allowance. The overall allowance consists of two primary components, specific reserves related to impaired loans and general reserves for probable incurred losses related to loans that are not impaired.

For all portfolio segments, the determination of the general reserve for loans that are not impaired is based on estimates made by management, including but not limited to, consideration of historical losses by portfolio segment over the most recent 20 quarters, and qualitative factors including economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan portfolio, and probable losses inherent in the portfolio taken as a whole.

Table of Contents

The following table shows the summary of activities for the allowance for credit losses as of and for the three months ended September 30, 2014 and 2013 by portfolio segment (in thousands):

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
Beginning balance, July 1, 2014	$ 1,874	$ 4,157	$ 981	$ 295	$ 7,307
Provision charged to operations	243	(121)	(85)	(37)	—
Losses charged to allowance	(1)	—	(57)	—	(58)
Recoveries	41	159	40	—	240
Ending balance, September 30, 2014	$ 2,157	$ 4,195	$ 879	$ 258	$ 7,489
Allowance for credit losses:					
Beginning balance, July 1, 2013	$ 2,792	$ 5,057	$ 1,252	$ 500	$ 9,601
Provision charged to operations	(52)	(331)	48	335	—
Losses charged to allowance	(5)	—	(51)	—	(56)
Recoveries	111	8	68	—	187
Ending balance, September 30, 2013	$ 2,846	$ 4,734	$ 1,317	$ 835	$ 9,732

The following table shows the summary of activities for the allowance for credit losses as of and for the nine months ended September 30, 2014 and 2013 by portfolio segment of loans (in thousands):

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
Beginning balance, January 1, 2014	$ 2,444	$ 5,174	$ 1,168	$ 422	$ 9,208
Provision charged to operations	768	(970)	(34)	(164)	(400)
Losses charged to allowance	(1,195)	(183)	(467)	—	(1,845)
Recoveries	140	174	212	—	526
Ending balance, September 30, 2014	$ 2,157	$ 4,195	$ 879	$ 258	$ 7,489
Allowance for credit losses:					
Beginning balance, January 1, 2013	$ 2,676	$ 5,877	$ 1,541	$ 39	$ 10,133
Provision charged to operations	622	(1,151)	(267)	796	—
Losses charged to allowance	(706)	—	(86)	—	(792)
Recoveries	254	8	129	—	391
Ending balance, September 30, 2013	$ 2,846	$ 4,734	$ 1,317	$ 835	$ 9,732

The following is a summary of the allowance for credit losses by impairment methodology and portfolio segment as of September 30, 2014 and December 31, 2013 (in thousands).

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
Ending balance, September 30, 2014	$ 2,157	$ 4,195	879	$ 258	$ 7,489
Ending balance: individually evaluated for impairment	$ —	$ 312	48	$ —	$ 360
Ending balance: collectively evaluated for impairment	$ 2,157	$ 3,883	831	$ 258	$ 7,129
Ending balance, December 31, 2013	$ 2,444	$ 5,174	$ 1,168	$ 422	$ 9,208
Ending balance: individually evaluated for impairment	$ 469	$ 465	$ 73	$ —	$ 1,007
Ending balance: collectively evaluated for impairment	$ 1,975	$ 4,709	$ 1,095	$ 422	$ 8,201

The table above excludes ending balance of loans acquired with deteriorated quality of $2,465,000 with no allowance at December 31, 2013. There were no such loans at September 30, 2014.

Table of Contents

The following table shows the ending balances of loans as of September 30, 2014 and December 31, 2013 by portfolio segment and by impairment methodology (in thousands):

	Commercial	Real Estate	Consumer	Total
Loans:				
Ending balance, September 30, 2014	$ 133,177	$ 363,804	$ 57,578	$ 554,559
Ending balance: individually evaluated for impairment	$ 22	$ 7,163	$ 1,935	$ 9,120
Ending balance: collectively evaluated for impairment	$ 133,155	$ 356,641	$ 55,643	$ 545,439
Loans:				
Ending balance, December 31, 2013	$ 118,731	$ 333,939	$ 59,846	$ 512,516
Ending balance: individually evaluated for impairment	$ 1,527	$ 9,540	$ 2,290	$ 13,357
Ending balance: collectively evaluated for impairment	$ 117,204	$ 324,399	$ 57,556	$ 499,159

The following table shows the loan portfolio by class allocated by management's internal risk ratings at September 30, 2014 (in thousands):

	Pass	Special Mention	Sub-Standard	Doubtful	Total
Commercial:					
Commercial and industrial	$ 72,871	$ 13,462	$ 2,423	$ —	$ 88,756
Agricultural land and production	44,421	—	—	—	44,421
Real Estate:					
Owner occupied	150,368	3,964	4,007	—	158,339
Real estate construction and other land loans	35,770	1,142	6,541	—	43,453
Commercial real estate	91,486	1,209	7,271	—	99,966
Agricultural real estate	55,214	2,593	—	—	57,807
Other real estate	4,239	—	—	—	4,239
Consumer:					
Equity loans and lines of credit	40,588	2,732	4,492	—	47,812
Consumer and installment	9,741	—	25	—	9,766
Total	$ 504,698	$ 25,102	$ 24,759	$ —	$ 554,559

The following table shows the loan portfolio by class allocated by management's internally assigned risk grade ratings at December 31, 2013 (in thousands):

	Pass	Special Mention	Sub-Standard	Doubtful	Total
Commercial:					
Commercial and industrial	$ 81,732	$ 2,244	$ 3,106	$ —	$ 87,082
Agricultural land and production	31,649	—	—	—	31,649
Real Estate:					
Owner occupied	144,082	5,229	7,470	—	156,781
Real estate construction and other land loans	31,776	3,959	6,594	—	42,329
Commercial real estate	77,589	3,718	4,810	—	86,117
Agricultural real estate	42,151	2,013	—	—	44,164
Other real estate	4,548	—	—	—	4,548
Consumer:					
Equity loans and lines of credit	41,999	2,400	4,195	—	48,594
Consumer and installment	10,946	46	260	—	11,252
Total	$ 466,472	$ 19,609	$ 26,435	$ —	$ 512,516

22

Table of Contents

The following table shows an aging analysis of the loan portfolio by class and the time past due at September 30, 2014 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days Accruing	Non-accrual
Commercial:								
Commercial and industrial	$ 90	$—	$—	$ 90	$ 88,666	$ 88,756	$—	$ 22
Agricultural land and production	—	—	—	—	44,421	44,421	—	—
Real estate:	—			—	—	—		
Owner occupied	—	—	253	253	158,086	158,339	—	990
Real estate construction and other land loans	—	—	—	—	43,453	43,453	—	1,319
Commercial real estate	—	—	—	—	99,966	99,966	—	—
Agricultural real estate	—	—	—	—	57,807	57,807	—	—
Other real estate	—	—	—	—	4,239	4,239	—	—
Consumer:				—	—	—		
Equity loans and lines of credit	—	—	227	227	47,585	47,812	—	1,914
Consumer and installment	44	—	—	44	9,722	9,766	—	21
Total	$ 134	$—	$ 480	$ 614	$ 553,945	$ 554,559	$—	$ 4,266

The following table shows an aging analysis of the loan portfolio by class and the time past due at December 31, 2013 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days Accruing	Non-accrual
Commercial:								
Commercial and industrial	$ 274	$ 236	$—	$ 510	$ 86,572	$ 87,082	$—	$ 1,527
Agricultural land and production	—	—	—	—	31,649	31,649	—	—
Real estate:	—							
Owner occupied	1,272	134	418	1,824	154,957	156,781	—	2,161
Real estate construction and other land loans	—	—	—	—	42,329	42,329	—	1,450
Commercial real estate	—	—	—	—	86,117	86,117	—	158
Agricultural real estate	—	—	—	—	44,164	44,164	—	—
Other real estate	—	—	—	—	4,548	4,548	—	—

Consumer:								
Equity loans and lines of credit	10	147	252	409	48,185	48,594	—	2,286
Consumer and installment	86	—	—	86	11,166	11,252	—	4
Total	$ 1,642	$517	$670	$ 2,829	$509,687	$512,516	$—	$7,586

Table of Contents

The following table shows information related to impaired loans by class at September 30, 2014 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial:			
Commercial and industrial	$14	$34	$—
Real estate:			
Owner occupied	784	909	—
Real estate construction and other land loans	1,319	2,111	—
Commercial real estate	331	344	—
Total real estate	2,434	3,364	—
Consumer:			
Equity loans and lines of credit	1,655	2,317	—
Total with no related allowance recorded	4,103	5,715	—
With an allowance recorded:			
Commercial:			
Commercial and industrial	8	8	—
Real estate:			
Owner occupied	1,094	1,250	97
Real estate construction and other land loans	3,635	3,635	215
Total real estate	4,729	4,885	312
Consumer:			
Equity loans and lines of credit	258	277	44
Consumer and installment	22	23	4
Total consumer	280	300	48
Total with an allowance recorded	5,017	5,193	360
Total	$9,120	$10,908	$360

The recorded investment in loans excludes accrued interest receivable and net loan origination fees, due to immateriality.

Table of Contents

The following table shows information related to impaired loans by class at December 31, 2013 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial:			
Commercial and industrial	$350	$385	$—
Real estate:			
Owner occupied	3,160	4,159	—
Real estate construction and other land loans	1,449	2,136	—
Commercial real estate	502	891	—
Total real estate	5,111	7,186	—
Consumer:			
Equity loans and lines of credit	2,029	2,826	—
Consumer and installment	4	5	—
Total consumer	2,033	2,831	—
Total with no related allowance recorded	7,494	10,402	—
With an allowance recorded:			
Commercial:			
Commercial and industrial	1,177	1,222	469
Real estate:			
Owner occupied	385	425	3
Real estate construction and other land loans	4,044	4,044	462
Total real estate	4,429	4,469	465
Consumer:			
Equity loans and lines of credit	257	264	73
Total with an allowance recorded	5,863	5,955	1,007
Total	$13,357	$16,357	$1,007

The recorded investment in loans excludes accrued interest receivable and net loan origination fees, due to immateriality.

Table of Contents

The following presents by class, information related to the average recorded investment and interest income recognized on impaired loans for the three months ended September 30, 2014 and 2013.