FARMERS & MERCHANTS BANCORP
Form 10-Q
August 07, 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 June 30, 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 July 31, 2015.

FARMERS & MERCHANTS BANCORP

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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.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FARMERS & MERCHANTS BANCORP
Consolidated Balance Sheets

(in thousands, except shares)	June 30, 2015 (Unaudited)	December 31, 2014	June 30, 2014 (Unaudited)
Assets			
Cash and Cash Equivalents:			
Cash and Due from Banks	$45,017	$42,375	$44,567
Interest Bearing Deposits with Banks	46,322	34,750	3,434
Total Cash and Cash Equivalents	91,339	77,125	48,001
Investment Securities:			
Available-for-Sale	351,424	366,542	401,732
Held-to-Maturity	67,401	63,863	70,340
Total Investment Securities	418,825	430,405	472,072
Loans & Leases	1,818,642	1,712,244	1,499,709
Less: Allowance for Credit Losses	39,037	35,401	34,290
Loans & Leases, Net	1,779,605	1,676,843	1,465,419
Premises and Equipment, Net	27,195	25,821	23,918
Bank Owned Life Insurance	54,933	53,990	53,037
Interest Receivable and Other Assets	84,862	96,367	90,404
Total Assets	$2,456,759	$2,360,551	$2,152,851
Liabilities			
Deposits:			
Demand	$613,042	$610,133	$499,133
Interest Bearing Transaction	349,404	341,397	313,879
Savings and Money Market	706,121	644,260	630,194
Time	494,569	468,283	418,829
Total Deposits	2,163,136	2,064,073	1,862,035
Federal Home Loan Bank Advances	-	-	12,000
Subordinated Debentures	10,310	10,310	10,310
Interest Payable and Other Liabilities	42,149	52,990	46,684
Total Liabilities	2,215,595	2,127,373	1,931,029
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 777,882 Shares Issued and Outstanding at June 30, 2015, December 31, 2014 and June 30, 2014, Respectively	8	8	8
Additional Paid-In Capital	78,569	77,804	75,014

Retained Earnings	160,956	152,833	144,836
Accumulated Other Comprehensive Income	1,631	2,533	1,964
Total Shareholders' Equity	241,164	233,178	221,822
Total Liabilities and Shareholders' Equity	$2,456,759	$2,360,551	$2,152,851

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

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FARMERS & MERCHANTS BANCORP

Consolidated Statements of Income (Unaudited)

(in thousands except per share data)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Interest Income				
Interest and Fees on Loans & Leases	$19,606	$16,741	$38,733	$33,012
Interest on Deposits with Banks	65	41	123	105
Interest on Investment Securities:				
Taxable	1,582	2,109	3,168	4,224
Exempt from Federal Tax	503	567	1,025	1,164
Total Interest Income	21,756	19,458	43,049	38,505
Interest Expense				
Deposits	754	598	1,466	1,198
Subordinated Debentures	81	80	161	160
Total Interest Expense	835	678	1,627	1,358
Net Interest Income	20,921	18,780	41,422	37,147
Provision for Credit Losses	50	-	650	-
Net Interest Income After Provision for Credit Losses	20,871	18,780	40,772	37,147
Non-Interest Income				
Service Charges on Deposit Accounts	865	984	1,763	1,922
Net Gain on Sale of Investment Securities	5	31	6	34
Increase in Cash Surrender Value of Life Insurance	479	473	943	928
Debit Card and ATM Fees	804	790	1,581	1,525
Net (Loss) Gain on Deferred Compensation Investments	(216)	1,087	549	1,530
Other	889	578	2,648	1,166
Total Non-Interest Income	2,826	3,943	7,490	7,105
Non-Interest Expense				
Salaries and Employee Benefits	9,566	9,137	19,665	17,374
Net (Loss) Gain on Deferred Compensation Investments	(216)	1,087	549	1,530
Occupancy	746	635	1,385	1,257
Equipment	776	700	1,508	1,403
FDIC Insurance	297	262	581	514
Other	1,592	1,213	3,291	2,596
Total Non-Interest Expense	12,761	13,034	26,979	24,674
Income Before Income Taxes	10,936	9,689	21,283	19,578
Provision for Income Taxes	4,187	3,585	8,131	7,192
Net Income	$6,749	$6,104	$13,152	$12,386
Basic Earnings Per Common Share	$8.59	$7.84	$16.74	$15.92

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

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FARMERS & MERCHANTS BANCORP

Consolidated Statements of Comprehensive Income (Unaudited)

(in thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net Income	$6,749	$6,104	$13,152	$12,386
Other Comprehensive Income (Loss)				
Change in Net Unrealized Gain (Loss) on Available-for-Sale Securities	(3,177)	4,633	(1,550)	7,681
Deferred Tax Benefit (Expense) Related to Unrealized Gains	1,335	(1,947)	651	(3,229)
Reclassification Adjustment for Realized Gains on Available-for-Sale Securities Included in Net Income	(5)	(31)	(6)	(34)
Deferred Tax Benefit Related to Reclassification Adjustment	4	12	3	14
Change in Net Unrealized Gain (Loss) on Available-for-Sale Securities, Net of Tax	(1,843)	2,667	(902)	4,432
Total Other Comprehensive (Loss) Income	(1,843)	2,667	(902)	4,432
Comprehensive Income	$4,906	$8,771	$12,250	$16,818

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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		-	-	12,386	-	12,386
Cash Dividends Declared on Common Stock ($6.30 per share)		-	-	(4,900)	-	- (4,900)
Change in Net Unrealized Gain (Loss) on Securities Available-for-Sale, Net of Tax					4,432	4,432
Balance, June 30, 2014	777,882	$ 8	$ 75,014	$ 144,836	$ 1,964	$ 221,822
Balance, January 1, 2015	784,082	$ 8	$ 77,804	$ 152,833	$ 2,533	$ 233,178
Net Income		-	-	13,152	-	13,152
Cash Dividends Declared on Common Stock ($6.40 per share)		-	-	(5,029)	-	- (5,029)
Issuance of Common Stock	1,700	-	765	-	-	765
Change in Net Unrealized Gain (Loss) on Securities Available-for-Sale, Net of Tax					(902)	(902)
Balance, June 30, 2015	785,782	$ 8	$ 78,569	$ 160,956	$ 1,631	$ 241,164

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

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FARMERS & MERCHANTS BANCORP
Consolidated Statements of Cash Flows (Unaudited)

(in thousands)	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Operating Activities:		
Net Income	$13,152	$12,386
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	650	-
Depreciation and Amortization	751	666
Net Amortization of Investment Security Premiums & Discounts	778	808
Net Gain on Sale of Investment Securities	(6)	(34)
Net Gain on Sale of Property & Equipment	-	(8)
Net Change in Operating Assets & Liabilities:		
Net Decrease (Increase) in Interest Receivable and Other Assets	526	(4,105)
Net Increase (Decrease) in Interest Payable and Other Liabilities	427	(1,484)
Net Cash Provided by Operating Activities	16,278	8,229
Investing Activities:		
Purchase of Investment Securities Available-for-Sale	(80,210)	(25,841)
Proceeds from Sold, Matured or Called Securities Available-for-Sale	93,217	35,466
Purchase of Investment Securities Held-to-Maturity	(8,753)	(12,194)
Proceeds from Matured or Called Securities Held-to-Maturity	5,185	10,366
Net Loans & Leases Paid, Originated or Acquired	(106,444)	(111,616)
Principal Collected on Loans & Leases Previously Charged Off	3,032	159
Additions to Premises and Equipment	(2,125)	(1,712)
Proceeds from Sale of Property & Equipment	-	23
Net Cash Used by Investing Activities	(96,098)	(105,349)
Financing Activities:		
Net Increase in Deposits	99,063	54,344
Net Changes in Other Borrowings	-	12,000
Cash Dividends	(5,029)	(4,900)
Net Cash Provided by Financing Activities	94,034	61,444
Increase (Decrease) in Cash and Cash Equivalents	14,214	(35,676)
Cash and Cash Equivalents at Beginning of Period	77,125	83,677
Cash and Cash Equivalents at End of Period	$91,339	$48,001
Supplementary Data		
Cash Payments Made for Income Taxes	$3,055	$7,500
Issuance of Common Stock to the Bank’s Non-Qualified Retirement Plans	$765	$-
Interest Paid	$1,449	$1,361

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

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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 and six-month periods ended June 30, 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.

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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.

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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 or 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's 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.

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.

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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 correction in residential real estate values that occurred between 2007 and 2012. 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.

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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 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 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.

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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 June 30, 2015, December 31, 2014 or June 30, 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
June 30, 2015	Cost	Gains	Losses	Value
Government Agency & Government-Sponsored Entities	$ 11,063	$ 58	$ -	$ 11,121
US Treasury Notes	80,212	85	59	80,238
Mortgage Backed Securities (1)	256,849	3,812	1,081	259,580
Other	485	-	-	485
Total	$ 348,609	$ 3,955	$ 1,140	$ 351,424

		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
June 30, 2014	Cost	Gains	Losses	Value
Government Agency & Government-Sponsored Entities	$ 18,230	$ 194	$ -	$ 18,424
Mortgage Backed Securities (1)	323,518	5,688	2,871	326,335
Corporate Securities	54,283	393	15	54,661
Other	2,312	-	-	2,312
Total	$ 398,343	$ 6,275	$ 2,886	$ 401,732

[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.

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

		Gross		
	Book	Unrealized		Fair
June 30, 2015	Value	Gains	Losses	Value
Obligations of States and Political Subdivisions	$65,270	$278	$ 213	$65,335
Other	2,131	-	-	2,131
Total	$67,401	$278	$ 213	$67,466

		Gross		
	Book	Unrealized		Fair
December 31, 2014	Value	Gains	Losses	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

		Gross		
	Book	Unrealized		Fair
June 30, 2014	Value	Gains	Losses	Value
Obligations of States and Political Subdivisions	$67,866	$683	$ 90	$68,459
Other	2,474	-	-	2,474
Total	$70,340	$683	$ 90	$70,933

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.

In June 2014, the Company sold $375,000 of municipal bonds from a single issuer. The Company took this action under the provisions of ASC 320-10-25-6(a), which allow for the sale of HTM securities where there is “evidence of a significant deterioration in the issuer’s creditworthiness.” The resulting income statement impact was not material.

The amortized cost and estimated fair values of investment securities at June 30, 2015 by contractual maturity are shown in the following table (in thousands):

	Available-for-Sale		Held-to-Maturity	
June 30, 2015	Amortized Cost	Fair/Book Value	Book Value	Fair Value
Within one year	$10,482	$10,488	$2,731	$2,733
After one year through five years	71,151	71,242	18,364	18,462
After five years through ten years	10,127	10,114	9,097	9,166
After ten years	-	-	37,209	37,105
	91,760	91,844	67,401	67,466
Investment securities not due at a single maturity date:				
Mortgage Backed Securities	256,849	259,580	-	-
Total	$348,609	$351,424	$67,401	$67,466

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

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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):

June 30, 2015	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities Available-for-Sale						
US Treasury Notes	$35,117	$ 59	$-	$ -	$35,117	$ 59
Mortgage Backed Securities	42,839	942	7,796	139	50,635	1,081
Total	$77,956	$ 1,001	$7,796	$ 139	$85,752	$ 1,140
Securities Held-to-Maturity						
Obligations of States and Political Subdivisions	$16,083	$ 213	$-	$ -	$16,083	$ 213
Total	$16,083	$ 213	$-	$ -	$16,083	$ 213

December 31, 2014	Less Than 12 Months		12 Months or More		Total	
	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

June 30, 2014	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities Available-for-Sale						
Mortgage Backed Securities	$-	$ -	$92,992	$ 2,871	92,992	$ 2,871
Corporate Securities	8,390	4	2,738	11	11,128	15
Total	$8,390	$ 4	$95,730	$ 2,882	$104,120	$ 2,886
Securities Held-to-Maturity						
Obligations of States and Political Subdivisions	$4,740	$ 32	$5,137	$ 58	$9,877	$ 90
Total	$4,740	$ 32	$5,137	$ 58	$9,877	$ 90

As of June 30, 2015, the Company held 249 investment securities of which 51 were in a loss position for less than twelve months and 1 security was 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 – There were no unrealized losses on the Company’s investment in securities of government agency and government sponsored entities at June 30, 2015 and June 30, 2014. The unrealized losses on the Company’s investment in securities of government agency and government sponsored entities at December 31, 2014 were $3,000. The unrealized losses were 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 did not consider these investments to be other-than-temporarily impaired at December 31, 2014.

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Mortgage Backed Securities – At June 30, 2015, seven mortgage backed security investments were in a loss position for less than 12 months and one was in a loss position for 12 months or more. The unrealized losses on the Company's investment in mortgage backed securities were $1.08 million, $657,000, and $2.9 million at June 30, 2015, December 31, 2014, and June 30, 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 June 30, 2015, December 31, 2014 and June 30, 2014, respectively.

Obligations of States and Political Subdivisions - At June 30, 2015, forty 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 June 30, 2015, over ninety-eight 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 two 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 $213,000, $10,000, and $90,000 at June 30, 2015, December 31, 2014 and June 30, 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 June 30, 2015, December 31, 2014 and June 30, 2014, respectively.

Corporate Securities - The Company did not hold any corporate securities at June 30, 2015 or December 31, 2014. The unrealized losses on the Company’s investment in corporate securities at June 30, 2014 were $15,000. 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.

US Treasury Notes – At June 30, 2015, four US treasury notes were 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 US treasury notes were $59,000 at June 30, 2015. The unrealized losses were caused by interest rate fluctuations. 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 did not consider these investments to be other-than-temporarily impaired at June 30, 2015. The Company did not hold any US treasury notes at December 31, 2014 or June 30, 2014.

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Proceeds from sales and calls of securities were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2015	2014	2015	2014
Proceeds	$4,060	$6,969	$4,535	$9,917
Gains	5	31	6	34
Losses	-	-	-	-

Pledged Securities

As of June 30, 2015, securities carried at $189.5 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 $329.0 million at June 30, 2014.

The decrease in pledged securities since June 30, 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.

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):

June 30, 2015	Commercial Real Estate	Agricultural Real Estate	Real Estate Construction	Residential 1st Mortgages	Home Equity Lines & Loans	Agricultural	Commercial	Consumer & Other	Leases	Unallo
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
Charge-Offs	-	-	-	-	-	-	(12)	(34)	-	-
Recoveries	2,939	-	-	2	47	3	4	37	-	-
Provision	(2,190)	3,087	508	(293)	(400)	(1,061)	691	(4)	321	(9
Ending Balance- June 30, 2015	$8,591	$7,272	$2,177	$731	$2,073	$5,046	$8,878	$217	$2,532	$1,520
Second Quarter Allowance for Credit Losses:										
Beginning Balance- April 1, 2015	$7,954	$6,901	$1,916	$673	$2,096	$4,602	$8,941	$212	$2,499	$3,146
Charge-Offs	-	-	-	-	-	-	-	(17)	-	-
Recoveries	1	-	-	2	42	2	2	15	-	-
Provision	636	371	261	56	(65)	442	(65)	7	33	(1,62
Ending Balance- June 30, 2015	$8,591	$7,272	$2,177	$731	$2,073	$5,046	$8,878	$217	$2,532	$1,520
Ending Balance Individually Evaluated for Impairment	61	-	-	71	49	129	887	34	-	-

Ending Balance Collectively Evaluated for Impairment	8,530	7,272	2,177	660	2,024	4,917	7,991	183	2,532	1,520
Loans & Leases:										
Ending Balance	$570,173	$373,324	$116,983	$189,039	$31,327	$225,795	$256,386	$4,984	$50,631	$-
Ending Balance Individually Evaluated for Impairment	4,163	-	4,335	2,055	1,541	454	4,819	40	-	-
Ending Balance Collectively Evaluated for Impairment	$566,010	$373,324	$112,648	$186,984	$29,786	$225,341	$251,567	$4,944	$50,631	$-

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

June 30, 2014	Commercial Real Estate	Agricultural Real Estate	Real Estate Construction	Residential 1st Mortgages	Home Equity Lines & Loans	Agricultural	Commercial	Consumer & Other	Leases	Unalloc
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
Charge-Offs	-	-	-	(33)	(65)	-	-	(45)	-	-
Recoveries	-	-	-	-	51	2	77	29	-	-
Provision	1,813	101	636	19	(16)	(3,916)	1,603	33	469	(742)
Ending Balance- June 30, 2014	$6,991	$3,677	$1,290	$1,094	$2,737	$8,291	$7,377	$193	$1,108	$1,532
Second Quarter Allowance for Credit Losses:										
	$6,426	$3,387	$1,077	$1,100	$2,648	$9,601	$6,426	$171	$921	$2,520

Beginning Balance- April 1, 2014										
Charge-Offs	-	-	-	(30)	(65)	-	-	(18)	-	-
Recoveries	-	-	-	-	39	1	72	14	-	-
Provision	565	290	213	24	115	(1,311)	879	26	187	(988
Ending Balance- June 30, 2014	$6,991	$3,677	$1,290	$1,094	$2,737	$8,291	$7,377	$193	$1,108	$1,532
Ending Balance Individually Evaluated for Impairment	218	-	241	329	315	118	807	45	-	-
Ending Balance Collectively Evaluated for Impairment	6,773	3,677	1,049	765	2,422	8,173	6,570	148	1,108	1,532
Loans & Leases:										
Ending Balance	$428,529	$358,933	$81,647	$160,418	$34,453	$228,745	$179,948	$4,881	$22,155	$-
Ending Balance Individually Evaluated for Impairment	21,719	-	4,446	1,647	1,597	534	4,898	45	-	-
Ending Balance Collectively Evaluated for Impairment	$406,810	$358,933	$77,201	$158,771	$32,856	$228,211	$175,050	$4,836	$22,155	$-

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The ending balance of loans individually evaluated for impairment includes restructured loans in the amount of $9.6 million at June 30, 2015, $26.4 million at December 31, 2014 and $28.1 million at June 30, 2014, which are no longer disclosed or classified as TDR's.

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

June 30, 2015	Pass	Special Mention	Substandard	Total Loans & Leases
Loans & Leases:				
Commercial Real Estate	$561,370	$8,088	$ 715	$570,173
Agricultural Real Estate	373,324	-	-	373,324
Real Estate Construction	115,320	1,663	-	116,983
Residential 1st Mortgages	187,663	739	637	189,039
Home Equity Lines & Loans	30,637	80	610	31,327
Agricultural	225,075	453	267	225,795
Commercial	240,190	12,680	3,516	256,386
Consumer & Other	4,737	-	247	4,984
Leases	50,631			50,631
Total	$1,788,947	$23,703	$ 5,992	$1,818,642

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

June 30, 2014	Pass	Special Mention	Substandard	Total Loans & Leases
Loans & Leases:				
Commercial Real Estate	$417,627	$10,780	$ 122	$428,529
Agricultural Real Estate	358,933	-	-	358,933
Real Estate Construction	80,015	1,632	-	81,647
Residential 1st Mortgages	159,098	759	561	160,418
Home Equity Lines & Loans	33,717	-	736	34,453
Agricultural	227,891	785	69	228,745
Commercial	157,709	20,557	1,682	179,948
Consumer & Other	4,622	-	259	4,881
Leases	22,155	-	-	22,155
Total	$1,461,767	$34,513	$ 3,429	$1,499,709

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 June 30, 2015, December 31, 2014, and June 30, 2014, rated doubtful or loss.

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

June 30, 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	$ -	$ -	$ -	$ 715	$ 715	$ 569,458	$ 570,173
Agricultural Real Estate	-	-	-	-	-	373,324	373,324
Real Estate Construction	-	-	-	-	-	116,983	116,983
Residential 1st Mortgages	-	196	-	72	268	188,771	189,039
Home Equity Lines & Loans	-	-	-	576	576	30,751	31,327
Agricultural	-	-	-	11	11	225,784	225,795
Commercial	-	-	-	1,559	1,559	254,827	256,386
Consumer & Other	8	-	-	11	19	4,965	4,984
Leases	-	-	-	-	-	50,631	50,631
Total	$ 8	$ 196	$ -	$ 2,944	$ 3,148	$ 1,815,494	$ 1,818,642

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

June 30, 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	$ -	$ -	$ -	$ -	$ -	$ 428,529	$ 428,529
Agricultural Real Estate	-	-	-	-	-	358,933	358,933
Real Estate Construction	-	-	-	-	-	81,647	81,647
Residential 1st Mortgages	-	-	-	289	289	160,129	160,418
Home Equity Lines & Loans	-	-	-	576	576	33,877	34,453
Agricultural	-	-	-	26	26	228,719	228,745
Commercial	-	-	-	1,613	1,613	178,335	179,948
Consumer & Other	72	-	-	15	87	4,794	4,881
Leases	-	-	-	-	-	22,155	22,155
Total	$ 72	$ -	$ -	$ 2,519	$ 2,591	$ 1,497,118	$ 1,499,709

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

June 30, 2015	Recorded Investment	Unpaid Principal Balance	Related Allowance	Three Months Ended June 30, 2015 Average Recorded Investment	Three Months Ended June 30, 2015 Interest Income Recognized	Six Months Ended June 30, 2015 Average Recorded Investment	Six Months Ended June 30, 2015 Interest Income Recognized
With no related allowance recorded:							
Commercial Real Estate	$ 802	$ 802	$ -	$497	$ 2	$297	$ 4
Residential 1st Mortgages	564	628	-	567	4	426	8
Home Equity Lines & Loans	620	660	-	641	-	486	1
Agricultural	11	24	-	13	-	10	-
Commercial	3,125	3,125	-	1,587	27	806	28
	$ 5,122	$ 5,239	$ -	$3,305	$ 33	$2,025	$ 41
With an allowance recorded:							
Residential 1st Mortgages	$ 355	$ 426	$ 18	357	$ 4	503	8
Home Equity Lines & Loans	137	155	7	138	1	342	2
Agricultural	443	443	129	443	7	448	14
Commercial	1,694	1,804	887	3,244	2	4,006	27
Consumer & Other	40	46	34	42	1	44	2
	$ 2,669	$ 2,874	$ 1,075	$4,224	$ 15	$5,343	$ 53
Total	$ 7,791	$ 8,113	$ 1,075	$7,529	$ 48	$7,368	$ 94

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	$ 7,518	$ 1,444	$ 7,016	$ 165

June 30, 2014	Recorded Investment	Unpaid Principal Balance	Related Allowance	Three Months Ended June 30, 2014 Average Recorded Investment	Three Months Ended June 30, 2014 Interest Income Recognized	Six Months Ended June 30, 2014 Average Recorded Investment	Six Months Ended June 30, 2014 Interest Income Recognized
With no related allowance recorded:							

Commercial Real Estate	$ 97	$ 97	$ -	$98	$ 2	$99	$ 4
Home Equity Lines & Loans	-	-	-	339	-	339	-
Agricultural	27	37	-	30	-	32	-
Commercial	3,150	3,151	-	3,241	27	3,322	54
	$ 3,274	$ 3,285	$ -	$3,708	$ 29	$3,792	$ 58
With an allowance recorded:							
Residential 1st Mortgages	$ 442	$ 527	$ 89	427	$ 1	509	2
Home Equity Lines & Loans	913	960	182	654	3	598	3
Agricultural	473	473	118	473	7	477	14
Commercial	1,613	1,657	807	1,620	-	1,627	-
Consumer & Other	45	49	45	47	-	48	1
	$ 3,486	$ 3,666	$ 1,241	$3,221	$ 11	$3,259	$ 20
Total	$ 6,760	$ 6,951	$ 1,241	$6,929	$ 40	$7,051	$ 78

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Total recorded investment shown in the prior tables will not equal the total ending balance of loans & leases individually evaluated for impairment on the allocation of allowance tables. This is because the calculation of recorded investment takes into account charge-offs, net unamortized loan & lease fees & costs, unamortized premium or discount, and accrued interest. This table also excludes impaired loans that were previously modified in a troubled debt restructuring, are currently performing and are no longer disclosed or classified as TDR's.

At June 30, 2015, the Company allocated $1.1 million of specific reserves to $6.5 million of troubled debt restructured loans & leases, of which $4.8 million were performing. The Company had no commitments at June 30, 2015 to lend additional amounts to customers with outstanding loans or leases that are classified as troubled debt restructurings.

During the three month period ending June 30, 2015, there were no loans & leases modified as a troubled debt restructuring. During the six month period ending June 30, 2015, the terms of certain loans & leases were modified as troubled debt restructurings. The modification of the terms of such loans & leases can include one or a combination of the following: a reduction of the stated interest rate; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Modifications involving a reduction of the stated interest rate were for 10 years. Modifications involving an extension of the maturity date were for 10 years.

The following table presents loans or leases by class modified as troubled debt restructured loans or leases during the three and six-month periods ended June 30, 2015 (in thousands):

	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
Troubled Debt Restructurings	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	-	$ -	$ -	1	$ 131	$ 119
Total	-	$ -	$ -	1	$ 131	$ 119

The TDR described above increased the allowance for credit losses by $0 and $114,000 for the three and six-month periods ending June 30, 2015, and resulted in charge-offs of $0 and $12,000 for the three and six-month periods ended June 30, 2015.

During the three and six-months ended June 30, 2015, there were no payment defaults on loans or leases modified as troubled debt restructurings within twelve months following the modification. The Company considers a loan or lease to be in payment default once it is greater than 90 days contractually past due under the modified terms.

At December 31, 2014, the Company allocated $1.3 million of specific reserves to $6.6 million of troubled debt restructured loans, of which $5.0 million were performing. The Company had no commitments at December 31, 2014 to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

During the period ending December 31, 2014, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 4 to 30 years. Modifications involving an extension of the maturity date were for periods ranging from 6 months to 30 years.

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The following table presents loans or leases by class modified as TDRs for the period ended December 31, 2014 (in thousands):

	December 31, 2014		
Troubled Debt Restructurings	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential 1st Mortgages	5	$ 857	$ 804
Home Equity Lines and Loans	3	98	89
Agricultural	1	32	32
Commercial	1	18	18
Consumer & Other	1	7	7
Total	11	$ 1,012	$ 950

The troubled debt restructurings described above increased the allowance for credit losses by $28,000 and resulted in charge-offs of $63,000 for the twelve months ended December 31, 2014.

During the period ended December 31, 2014, there were no payment defaults on loans modified as troubled debt restructurings within twelve months following the modification. The Company considers a loan to be in payment default once it is greater than 90 days contractually past due under the modified terms.

At June 30, 2014, the Company allocated $1.1 million of specific reserves to $6.2 million of troubled debt restructured loans & leases, of which $4.2 million were performing. The Company had no commitments at June 30, 2014 to lend additional amounts to customers with outstanding loans or leases that are classified as troubled debt restructurings.

During the three and six month periods ending June 30, 2014, the terms of certain loans & leases were modified as troubled debt restructurings. The modification of the terms of such loans & leases can include one or a combination of the following: a reduction of the stated interest rate; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Modifications involving a reduction of the stated interest rate were for periods ranging from 5 years to 30 years. Modifications involving an extension of the maturity date were for periods ranging from 5 years to 30 years.

The following table presents loans or leases by class modified as troubled debt restructured loans or leases during the three and six-month periods ended June 30, 2014 (in thousands):

	Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
Troubled Debt Restructurings	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential 1st Mortgages	1	$ 69	$ 60	3	$ 316	$ 305
Home Equity Lines & Loans	2	47	42	3	79	74
Total	3	$ 116	$ 102	6	$ 395	$ 379

The TDRs described above had no impact on the allowance for credit losses but resulted in charge-offs of $14,000 and $17,000 for the three and six-month periods ended June 30, 2014

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During the three and six-months ended June 30, 2014, there were no payment defaults on loans or leases modified as troubled debt restructurings within twelve months following the modification The Company considers a loan or lease to be in payment default once it is greater than 90 days contractually past due under the modified terms.

4. Fair Value Measurements

The Company follows the “Fair Value Measurement and Disclosures” topic of the FASB ASC, which establishes a framework for measuring fair value in U.S. GAAP and expands disclosures about fair value measurements. This standard applies whenever other standards require, or permit, assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, this standard establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy is as follows:

Level 1 inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity’s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

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, the transfer is reported at the beginning of the reporting period.

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.

Securities classified as AFS are reported at fair value on a recurring basis utilizing Level 1, 2 and 3 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

The Company does not record all loans & leases at fair value on a recurring basis. However, from time to time, a loan or lease is considered impaired and an allowance for credit losses is established. Once a loan or lease is identified as individually impaired, management measures impairment in accordance with the “Receivable” topic of the FASB ASC. The fair value of impaired loans or leases is estimated using one of several methods, including collateral value when the loan is collateral dependent, market value of similar debt, enterprise value, and discounted cash flows. Impaired loans & leases not requiring an allowance represent loans & leases for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans & leases. Impaired loans & leases where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. The fair value of collateral dependent impaired loans is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including sales comparison, cost and the income approach. Adjustments are often made in the appraisal process by the appraisers to take into account differences between the comparable sales and income and other available data. Such adjustments can be significant and typically result in a Level 3 classification of the inputs for determining fair value. The valuation technique used for Level 3 nonrecurring impaired loans is primarily the sales comparison approach less selling costs of 10%.

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Other Real Estate ("ORE") is reported at fair value on a non-recurring basis. Fair values are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches including sales comparison, cost and the income approach. Adjustments are often made in the appraisal process by the appraisers to take into account differences between the comparable sales and income and other available data. Such adjustments can be significant and typically result in a Level 3 classification of the inputs for determining fair value. The valuation technique used for Level 3 nonrecurring ORE is primarily the sales comparison approach less selling costs of 10%.

At June 30, 2015, formal foreclosure proceedings were in process for $575,000 of consumer mortgage loans secured by residential real estate properties.

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value for the periods indicated.

		Fair Value Measurements At June 30, 2015, Using		
(in thousands)	Fair Value Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-Sale Securities:				
Government Agency & Government-Sponsored Entities	$11,121	$-	$ 11,121	$ -
US Treasury Notes	80,238	-	80,238	-
Mortgage Backed Securities	259,580	-	259,580	-
Other	485	175	310	-
Total Assets Measured at Fair Value On a Recurring Basis	$351,424	$175	$ 351,249	$ -

		Fair Value Measurements At December 31, 2014, Using		
(in thousands)	Fair Value Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-Sale Securities:				
Government Agency & Government-Sponsored Entities	$78,109	$10,005	$ 68,104	$ -
Mortgage Backed Securities	287,948	-	287,948	-
Other	485	175	310	-
Total Assets Measured at Fair Value On a Recurring Basis	$366,542	$10,180	$ 356,362	$ -

(in thousands)	Fair Value Total	Fair Value Measurements At June 30, 2014, Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-Sale Securities:				
Government Agency & Government-Sponsored Entities	$18,424	$13,412	$ 5,012	$ -
Mortgage Backed Securities	326,335	-	326,335	-
Corporate Securities	54,661	8,982	45,679	-
Other	2,312	2,002	310	-
Total Assets Measured at Fair Value On a Recurring Basis	$401,732	$24,396	$ 377,336	$ -

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Fair values for Level 2 available-for-sale investment securities are based on quoted market prices for similar securities. During the three and six-months ended June 30, 2015 and 2014, there were no transfers in or out of level 1, 2, or 3.

The following tables present information about the Company's other real estate and impaired loans or leases, classes of assets or liabilities that the Company carries at fair value on a non-recurring basis, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value for the periods indicated. Not all impaired loans or leases are carried at fair value. Impaired loans or leases are only included in the following tables when their fair value is based upon a current appraisal of the collateral, and if that appraisal results in a partial charge-off or the establishment of a specific reserve.

		Fair Value Measurements At June 30, 2015, Using		
(in thousands)	Fair Value Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans				
Residential 1st Mortgage	$337	$-	$ -	$ 337
Home Equity Lines and Loans	128	-	-	128
Agricultural	313	-	-	313
Commercial	807	-	-	807
Consumer	6			6
Total Impaired Loans	1,591	-	-	1,591
Other Real Estate				
Real Estate Construction	2,441	-	-	2,441
Total Other Real Estate	2,441	-	-	2,441
Total Assets Measured at Fair Value On a Non-Recurring Basis	$4,032	$-	$ -	$ 4,032

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(in thousands)	Fair Value Total	Fair Value Measurements At December 31, 2014, Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans				
Commercial Real Estate	$90	$-	$ -	$ 90
Residential 1st Mortgage	748	-	-	748
Home Equity Lines and Loans	759	-	-	759
Agricultural	346	-	-	346
Commercial	3,832	-	-	3,832
Consumer	6			6
Total Impaired Loans	5,781	-	-	5,781
Other Real Estate				
Real Estate Construction	2,441	-	-	2,441
Agricultural Real Estate	858	-	-	858
Total Other Real Estate	3,299	-	-	3,299
Total Assets Measured at Fair Value On a Non-Recurring Basis	$9,080	$-	$ -	$ 9,080

(in thousands)	Fair Value Total	Fair Value Measurements At June 30, 2014, Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans				
Residential 1st Mortgages	$354	$-	$ -	$ 354
Home Equity Lines and Loans	729	-	-	729
Agricultural	354	-	-	354
Commercial	807	-	-	807
Total Impaired Loans	2,244	-	-	2,244
Other Real Estate				
Real Estate Construction	2,441	-	-	2,441
Agricultural Real Estate	853	-	-	853
Total Other Real Estate	3,294	-	-	3,294
Total Assets Measured at Fair Value On a Non-Recurring Basis	$5,538	$-	$ -	$ 5,538

The Company’s property appraisals are primarily based on the sales comparison approach and the income approach methodologies, which consider recent sales of comparable properties, including their income generating characteristics, and then make adjustments to reflect the general assumptions that a market participant would make when analyzing the property for purchase. These adjustments may increase or decrease an appraised value and can vary significantly depending on the location, physical characteristics and income producing potential of each property. Additionally, the quality and volume of market information available at the time of the appraisal can vary from period to period and cause significant changes to the nature and magnitude of comparable sale adjustments. Given these variations, comparable sale adjustments are generally not a reliable indicator for how fair value will increase or decrease from period to period. Under certain circumstances, management discounts are applied based on specific characteristics of an individual property.

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The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at June 30, 2015:

(in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range, Weighted Avg.	
Impaired Loans					
Residential 1st Mortgage	$337	Sales Comparison Approach	Adjustment for Difference Between Comparable Sales	2% -5%, 4	%
Home Equity Lines and Loans	$128	Sales Comparison Approach	Adjustment for Difference Between Comparable Sales	1% - 3%, 2	%
Agricultural	$313	Income Approach	Capitalization Rate	16% - 16%, 16	%
Commercial	$807	Income Approach	Capitalization Rate	16% - 16%, 16	%
Consumer	$6	Sales Comparison Approach	Adjustment for Difference Between Comparable Sales	1% - 2%, 2	%
Other Real Estate					
Real Estate Construction	$2,441	Sales Comparison Approach	Adjustment for Difference Between Comparable Sales	10% - 10%, 10	%

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5. Fair Value of Financial Instruments

U.S. GAAP requires disclosure of fair value information about financial instruments, whether or not recognized on the balance sheet, for which it is practical to estimate that value. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. The use of assumptions and various valuation techniques, as well as the absence of secondary markets for certain financial instruments, will likely reduce the comparability of fair value disclosures between financial institutions. In some cases, book value is a reasonable estimate of fair value due to the relatively short period of time between origination of the instrument and its expected realization.

The following tables summarize the book value and estimated fair value of financial instruments for the periods indicated.

June 30, 2015 (in thousands)	Carrying Amount	Fair Value of Financial Instruments Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
Assets:					
Cash and Cash Equivalents	$91,339	$91,339	$ -	$ -	$91,339
Investment Securities Available-for-Sale:					
Government Agency & Government-Sponsored Entities	11,121	-	11,121	-	11,121
U.S. Treasury Notes	80,238	-	80,238	-	80,238
Mortgage Backed Securities	259,580	-	259,580	-	259,580
Other	485	175	310	-	485
Total Investment Securities Available-for-Sale	351,424	175	351,249	-	351,424
Investment Securities Held-to-Maturity:					
Obligations of States and Political Subdivisions	65,270	-	47,321	18,014	65,335
Other	2,131	-	2,131	-	2,131
Total Investment Securities Held-to-Maturity	67,401	-	49,452	18,014	67,466
FHLB Stock	7,795	N/A	N/A	N/A	N/A
Loans & Leases, Net of Deferred Fees & Allowance:					
Commercial Real Estate	561,582	-	-	559,550	559,550
Agricultural Real Estate	366,052	-	-		