CENTRAL VALLEY COMMUNITY BANCORP
Form 10-K
March 15, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 000-31977
CENTRAL VALLEY COMMUNITY BANCORP
(Exact name of registrant as specified in its charter)

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

559-298-1775
(Registrant's telephone number, including area code)
[None]
(Former name, former address and former fiscal year, if changed since last report)
Securities registered pursuant to Section 12(b) of the Act:

| | |
|---|---|
| None | NASDAQ Capital Market |
| [Common Stock, $ par value per share] | [EXCHANGE] |

Securities registered pursuant to Section 12(g) of the Act: Common Stock, No Par Value
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x
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 x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations 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 x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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. (Check one):

| | |
|---|---|
| Large accelerated filer o | Accelerated filer x |
| Non-accelerated filer o | Smaller reporting company o |
| (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 o No x

As of June 30, 2015, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $103,500,000 based on the price at which the stock was last sold on June 30, 2015.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Common Stock, No Par Value | Outstanding at March 7, 2016 | |
|---|---|---|
| [Common Stock, No par value per share] | 11,015,929 | shares |

DOCUMENTS INCORPORATED BY REFERENCE

| Document | Parts into Which Incorporated |
|---|---|
| Proxy Statement for the Annual Meeting of Shareholders to be held May 18, 2016 (Proxy Statement) | Part III |

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ADDITIONAL INFORMATION; INQUIRIES

Under the Securities Exchange Act of 1934, Sections 13 and 15(d), periodic and current reports must be filed with the SEC. We electronically file the following reports with the SEC:

•Form 10-K — Annual Report;
•Form 10-Q — Quarterly Report;
•Form 8-K — Report of Unscheduled Material Events; and
•Form DEF 14A — Proxy Statement.

We may file additional forms. The SEC maintains an Internet site, www.sec.gov, in which all forms filed electronically may be accessed. Additional shareholder information regarding the Company and our Directors is available on our website: www.cvcb.com. None of the information on or hyperlinked from our website is incorporated into this Report.
Copies of the annual report on Form 10-K for the year ended December 31, 2015 may be obtained without charge upon written request to Dave Kinross, Chief Financial Officer, at the Company's administrative offices, 7100 N. Financial Dr., Suite 101, Fresno, CA 93720.
Inquiries regarding Central Valley Community Bancorp's accounting, internal controls or auditing concerns should be directed to Steven D. McDonald, chairman of the Board of Directors' Audit Committee, at steve.mcdonald@cvcb.com or anonymously at www.ethicspoint.com or EthicsPoint, Inc. at 1-866-294-9588.
General inquiries about Central Valley Community Bancorp or Central Valley Community Bank should be directed to Cathy Ponte, Assistant Corporate Secretary at 1-800-298-1775.

# PART I

## ITEM 1 - DESCRIPTION OF BUSINESS

### General

Central Valley Community Bancorp (the Company) was incorporated on February 7, 2000 as a California corporation, for the purpose of becoming the holding company for Central Valley Community Bank (the Bank), formerly known as Clovis Community Bank, a California state chartered bank, through a corporate reorganization. In the reorganization, the Bank became the wholly-owned subsidiary of the Company, and the shareholders of the Bank became the shareholders of the Company. The Company is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (the BHC Act), and is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the Board of Governors).
At December 31, 2015, we had one banking subsidiary, the Bank. Our principal business is to provide, through our banking subsidiary, financial services in our primary market area in California. We serve seven contiguous counties in California's central valley including Fresno County, Madera County, Merced County, Sacramento County, San Joaquin County, Stanislaus County, and Tulare County, and their surrounding areas through the Bank. We do not currently conduct any operations other than through the Bank. Unless the context otherwise requires, references to us refer to the Company and the Bank on a consolidated basis. At December 31, 2015, we had consolidated total assets of approximately $1,276,736,000. See Items 7 and 8, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Financial Statements.
Effective July 1, 2013, the Company and Visalia Community Bank (VCB) completed a merger under which Visalia Community Bank, with three full-service offices in Visalia and one in Exeter, merged with and into the Bank.
On August 18, 2011, the Company entered into a Securities Purchase Agreement (SPA) with the Small Business Lending Fund of the United States Department of the Treasury (the Treasury), under which the Company issued 7,000 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series C (Series C Preferred) to the Treasury for an

aggregate purchase price of $7,000,000. Simultaneously, the Company agreed with Treasury under a Letter Agreement to redeem, for an aggregate price of $7,000,000, the 7,000 shares of the Company’s Series A Fixed Rate Cumulative Preferred Stock (Series A Stock) originally issued pursuant to the Treasury’s Capital Purchase Program (CPP) in 2009. The redemption of the Series A Stock resulted in an acceleration of the remaining discount booked at the time of the CPP transaction. In connection with the repurchase of the Series A Stock, the Company also repurchased the warrant (the Warrant) to purchase 79,037 shares of the Company’s common stock that was originally issued to Treasury in connection with the CPP transaction for total consideration of $185,000.
On December 31, 2013, the Company redeemed all 7,000 outstanding shares of its Series C Preferred from the Treasury, in exercise of its optional redemption rights pursuant to the terms of the Series C Preferred under the Company’s charter and the SPA. The Company paid the Treasury $7,087,500 in connection with the redemption, representing $1,000 per

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share of the Series C Preferred plus all accrued and unpaid dividends through the date of the redemption. The obligations of the Company under the SPA are terminated as a result of the redemption. No shares of Series C Preferred remain outstanding.

As of March 1, 2016, we had a total of 282 employees and 272 full time equivalent employees, including the employees of the Bank.

The Bank

The Bank was organized in 1979 and commenced business as a California state chartered bank in 1980. The deposits of the Bank are insured by the Federal Deposit Insurance Corporation (the FDIC) up to applicable limits. The Bank is not a member of the Federal Reserve System.

The Bank operates 21 full-service banking offices in Clovis, Exeter, Fresno, Kerman, Lodi, Madera, Merced, Modesto, Oakhurst, Prather, Sacramento, Stockton, Tracy, and Visalia. The Oakhurst and Madera branches were added through the Bank of Madera County merger in 2005. The Tracy, Stockton and Lodi offices were added through the merger with Service 1st Bank in November of 2008. The Exeter and Visalia offices were added through the Visalia Community Bank merger in 2013. The Bank has a Real Estate Division, an Agribusiness Center and an SBA Lending Division in Fresno. All real estate related transactions are conducted and processed through the Real Estate Division, including interim construction loans for single family residences and commercial buildings. We offer permanent single family residential loans through our mortgage broker services. Our total market share of deposits in Fresno, Madera, and Tulare counties were 4.76% in 2015 compared to 4.81% in 2014 based on FDIC deposit market share information published as of June 30, 2015.

The Bank of Madera County (BMC) was merged with and into the Bank on January 1, 2005. The transaction was a combination of cash and stock and was accounted for under the purchase method of accounting. BMC had two branches in Madera County which continue to be operated by the Bank.

In November of 2008, the Company acquired Service 1st and its banking subsidiary, S1 Bank, adding three branches located in Tracy, Stockton and Lodi, California.

In 2009, we opened a new full service office in Merced, California and relocated our Oakhurst office to a new smaller facility in a more desirable location.

In 2010, the Company expanded the existing Modesto loan production office opened in 2007, to a larger full-service branch.

In 2013, the Company acquired Visalia Community Bank, adding four branches located in Exeter and Visalia, California.

Branch expansions provide the Company with opportunities to expand its loan and deposit base; however, based on past experience, management expects these new offices may initially have a negative impact on earnings until the volume of business grows to cover fixed overhead expenses. The Bank anticipates additional future branch openings to meet the growing service needs of its customers, although none are planned during 2016. After extensive analysis combined with the rising popularity of online and mobile banking trends, the Company has chosen to consolidate the Sunnyside office into our Fresno Downtown office in April 2016.

The Bank conducts a commercial banking business, which includes accepting demand, savings and time deposits and making commercial, real estate and consumer loans. It also provides domestic and international wire transfer services and provides safe deposit boxes and other customary banking services. The Bank also has offered Internet banking since 2000. Internet banking consists of inquiry, account status, bill paying, account transfers, and cash management. The Bank does not offer trust services or international banking services and does not currently plan to do so in the near future.

The Company terminated its interest in Central Valley Community Insurance Services, LLC (CVCIS) at the beginning of the third quarter of 2015. The Bank's interest in CVCIS was originally established in 2006 for the purpose of providing health, commercial property and casualty insurance products and services primarily to business customers. The operating results of CVCIS were not significant to the Company's operations. The termination of this entity did not have a material impact on the Company's financial statements.

Since August of 1995 the Bank has been a party to an agreement with Investment Centers of America, pursuant to which Investment Centers of America provides Bank customers with access to investment services. In connection with entering into this agreement, the Bank adopted a policy intended to comply with FDIC Regulation Section 337.4, which outlines the guidelines under which an insured non-member bank may be affiliated with a company that directly engages in the sale, distribution, or underwriting of stocks, bonds, debentures, notes, or other securities.

The Bank's operating policy since its inception has emphasized serving the banking needs of individuals and the business and professional communities in the central valley area of California. At December 31, 2015, we had total loans of $598,111,000. Total commercial and industrial loans outstanding were $102,197,000, total agricultural land and production loans outstanding were $30,472,000, total real estate construction and other land loans outstanding were $38,685,000; total other real estate loans outstanding were $371,541,000, total equity loans and lines of credit were $42,296,000 and total consumer installment loans outstanding were $12,503,000. We accept real estate, listed securities, savings and time deposits, automobiles, inventory, accounts receivable, machinery and equipment as collateral for loans.

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No individual or single group of related accounts is considered material in relation to the Bank's assets or deposits, or in relation to the overall business of the Company. However, at December 31, 2015 approximately 75.7% of our loan portfolio held for investment consisted of real estate-related loans, including construction loans, equity loans and lines of credit and commercial loans secured by real estate and 22.2% consisted of commercial loans. See Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations. We believe that these concentrations are mitigated by the diversification of our loan portfolio among commercial, real estate and consumer loans. In addition, our business activities currently are mainly concentrated in Fresno, Madera, Merced, Sacramento, San Joaquin, Stanislaus, and Tulare County, California. Consequently, our results of operations and financial condition are dependent upon the general trends in this part of the California economy and, in particular, the residential and commercial real estate markets. Further, our concentration of operations in this area of California exposes us to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires, droughts, and floods in this region, or as a result of energy shortages in California.

Our deposits are attracted from individual and commercial customers. A material portion of our deposits have not been obtained from a single person or a few persons, the loss of any one or more of which would not have a material adverse effect on our business.

In order to attract loan and deposit business from individuals and small businesses, we maintain the following lobby hours at our branches:

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| Branch | Monday — Thursday | Friday | Saturday |
|---|---|---|---|
| | 9:00 a.m. to 4:00 p.m. | 9:00 a.m. to 6:00 p.m. | |
| Clovis Main | Drive Up 8:00 a.m. to 5:30 p.m. | Drive Up 8:00 a.m. to 6:00 p.m. | None |
| | 9:00 a.m. to 4:00 p.m. | 9:00 a.m. to 5:00 p.m. | |
| Fresno Downtown | Walk-up window 8:00 a.m. to 9:00 a.m. | Walk-up window 8:00 a.m. to 9:00 a.m. | None |
| Fig Garden Village | 9:00 a.m. to 5:00 p.m. | 9:00 a.m. to 6:00 p.m. | 9:00 a.m. to 1:00 p.m. |
| | 9:00 a.m. to 5:00 p.m. | 9:00 a.m. to 6:00 p.m. | 9:00 a.m. to 1:00 p.m. |
| Herndon & Fowler | Drive Up 8:30 a.m. to 5:30 p.m. | Drive Up 8:30 a.m. to 6:00 p.m. | Drive Up 9:00 a.m. to 1:00 p.m. |
| | 9:00 a.m. to 5:00 p.m. | 9:00 a.m. to 6:00 p.m. | |
| River Park | Drive Up 9:00 a.m. to 5:30 p.m. | Drive Up 9:00 a.m. to 6:00 p.m. | None |
| | 9:00 a.m. to 5:00 p.m. | 9:00 a.m. to 6:00 p.m. | |
| Sunnyside * | Drive Up 8:30 a.m. to 5:00 p.m. | Drive Up 8:30 a.m. to 6:00 p.m. | None |
| | 9:00 a.m. to 5:00 p.m. | 9:00 a.m. to 6:00 p.m. | |
| Kerman | Drive Up 8:30 a.m. to 5:00 p.m. | Drive Up 8:30 a.m. to 6:00 p.m. | None |
| Lodi | 9:00 a.m. to 5:00 p.m. | 9:00 a.m. to 6:00 p.m. | None |
| Madera | 8:30 a.m. to 5:00 p.m. | 8:30 a.m. to 6:00 p.m. | None |
| Merced | 9:00 a.m. to 5:00 p.m. | 9:00 a.m. to 6:00 p.m. | None |
| | 9:00 a.m. to 5:00 p.m. | 9:00 a.m. to 6:00 p.m. | |
| Modesto | Drive Up 8:30 a.m. to 5:00 p.m. | Drive Up 8:30 a.m. to 6:00 p.m. | None |
| Oakhurst | 8:30 a.m. to 5:00 p.m. | 8:30 a.m. to 6:00 p.m. | None |
| Prather (Foothill office) | 9:00 a.m. to 5:00 p.m. | 9:00 a.m. to 6:00 p.m. | 9:00 a.m. to 1:00 p.m. |
| Sacramento Private Banking | 9:00 a.m. to 4:00 p.m. | 9:00 a.m. to 4:00 p.m. | None |
| Stockton | 9:00 a.m. to 5:00 p.m. | 9:00 a.m. to 6:00 p.m. | None |
| Tracy | 9:00 a.m. to 5:00 p.m. | 9:00 a.m. to 6:00 p.m. | None |
| | 9:00 a.m. to 5:00 p.m. | 9:00 a.m. to 6:00 p.m. | |
| Exeter | Drive Up 8:30 a.m. to 5:30 p.m. | Drive Up 8:30 a.m. to 6:00 p.m. | None |
| | 9:00 a.m. to 5:00 p.m. | 9:00 a.m. to 6:00 p.m. | 9:00 a.m. to 1:00 p.m. |
| Caldwell | Drive Up 8:30 a.m. to 5:30 p.m. | Drive Up 8:30 a.m. to 6:00 p.m. | Drive Up 9:00 a.m. to 1:00 p.m. |
| Floral | 9:00 a.m. to 5:00 p.m. | 9:00 a.m. to 6:00 p.m. | None |
| Mission Oaks | 9:00 a.m. to 5:00 p.m. | 9:00 a.m. to 6:00 p.m. | None |

| | | | |
|---|---|---|---|
| | Drive Up 8:30 a.m. to 5:30 p.m. | Drive Up 8:30 a.m. to 6:00 p.m. | |
| Financial Drive | 8:00 a.m. to 5:00 p.m. | 8:00 a.m. to 5:00 p.m. | None |

* The Sunnyside office is scheduled for closure and consolidation with the Fresno Downtown office in April 2016.

Automated teller machines operate at 19 branch locations. All operate 24 hours per day, seven days per week. No automated teller machines are currently located at the Sacramento office. Our Real Estate, Small Business Administration (SBA) Departments and Agribusiness office maintain business hours of 8:00 A.M. to 5:00 P.M., Monday through Friday, and extended hours are available upon customer request.

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To compete effectively, we rely substantially on local promotional activity, personal contacts by our officers, directors and employees, referrals by our shareholders, extended hours, personalized service and our reputation in the communities we serve.

In Fresno and Madera Counties, in addition to our 11 full-service branch locations serving the Bank's primary service areas, as of June 30, 2015 there were 147 operating banking and credit union offices in our primary service area, which consists of the cities of Clovis, Fresno, Kerman, Oakhurst, Madera, and Prather, California. Prather does not contain any banking offices other than our office. The June 2015 FDIC Summary of Deposits report indicated the Company had 4.76% of the total deposits held by all depositories in Fresno County and 8.62% in Madera County. In San Joaquin County, in addition to our three full service branch locations, as of June 30, 2015 there were 102 operating banking and credit union offices. The FDIC Summary of Deposits as of June 2015 report indicated the Company had 1.67% of total deposits held by all depositories in San Joaquin County. In Merced County, in addition to our one branch, as of June 30, 2015 there were 30 operating banking and credit union offices in our primary service area. In Sacramento County, in addition to our one branch, as of June 30, 2015 there were 225 operating banking and credit union offices in our primary service area. In Stanislaus County, in addition to our one branch, there were 88 operating banking and credit union offices in our primary service area. In Tulare County, in addition to our four branches there were 55 operating banking and credit union offices in our primary service area. Business activity in our primary service area is oriented toward light industry, small business and agriculture.

The banking business in California generally, and our primary service area specifically, is highly competitive with respect to both loans and deposits, and is dominated by a relatively small number of major banks with many offices operating over a wide geographic area. Among the advantages such major banks have over us is their ability to finance wide-ranging advertising campaigns and to allocate their investment assets, including loans, to regions of higher yield and demand. Major banks offer certain services such as international banking and trust services which we do not offer directly but which we usually can offer indirectly through correspondent institutions. In addition, by virtue of their greater total capitalization, such banks have substantially higher lending limits than we do. Legal lending limits to an individual customer are limited to a percentage of our total capital. As of December 31, 2015, the Bank's legal lending limits to individual customers were $17,173,000 for unsecured loans and $28,622,000 for unsecured and secured loans combined. As of December 31, 2015 the Bank's largest lending relationships totaled $139,205,000 on an unsecured basis and $85,890,000 on a secured basis.

For borrowers desiring loans in excess of the Bank's lending limits, the Bank makes, and may in the future make, such loans on a participation basis with other community banks taking the amount of loans in excess of the Bank's lending limits. In other cases, the Bank may refer such borrowers to larger banks or other lending institutions.

Other entities, both governmental and in private industry, seeking to raise capital through the issuance and sale of debt or equity securities also provide competition for us in the acquisition of deposits. Banks also compete with money market funds and other money market instruments, which are not subject to interest rate ceilings. In recent years, increased competition has also developed from specialized finance and non-finance companies that offer wholesale finance, credit card, and other consumer finance services, including on-line banking services and personal finance software. Competition for deposit and loan products remains strong, from both banking and non-banking firms, and affects the rates of those products as well as the terms on which they are offered to customers.

Technological innovation continues to contribute to greater competition in domestic and international financial services markets. Technological innovation has, for example, made it possible for non-depository institutions to offer customers automated transfer payment services that previously have been traditional banking products. In addition, customers now expect a choice of several delivery systems and channels, including telephone, mail, home computer, ATMs, remote deposit, mobile banking applications, self-service branches, and in-store branches.

Mergers between financial institutions have placed additional pressure on banks to streamline their operations, reduce expenses, and increase revenues to remain competitive. In addition, competition has intensified due to federal and state interstate banking laws, which permit banking organizations to expand geographically with fewer restrictions than in the past. Such laws allow banks to merge with other banks across state lines, thereby enabling banks to establish or expand banking operations in our market. The competitive environment also is significantly impacted by federal and state legislation, which may make it easier for non-bank financial institutions to compete with us.

Statistical Disclosure

The information in the tables set out below should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included in Items 7 and 8 of this annual report.

Distribution of Average Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential

Table A sets forth our average consolidated balance sheets for the years ended December 31, 2015, 2014, and 2013 and an analysis of interest rates and the interest rate differential for the years then ended. Table B sets forth the changes in interest income and interest expense in 2015 and 2014 resulting from changes in volume and changes in rates.

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Investment Portfolio

The book value (amortized cost) of investment securities at December 31, 2015, 2014, and 2013 and the book value, maturities and weighted average yield of investment securities at December 31, 2015 are set forth in Table C.

Loan Portfolio

The composition of the loan portfolio at December 31, 2015, 2014, 2013, 2012, and 2011, is summarized in Table D. Maturities and sensitivity to changes in interest rates in the loan portfolio at December 31, 2015 are summarized in Table E. Table F shows the composition of nonaccrual, past due and restructured loans at December 31, 2015, 2014, 2013, 2012, and 2011. Set forth in the text accompanying Table F is a discussion of the Company's policy for placing loans on nonaccrual status.

Summary of Loan Loss Experience

Table G sets forth an analysis of loan loss experience as of and for the years ended December 31, 2015, 2014, 2013, 2012, and 2011.
Set forth in the text accompanying Table G is a description of the factors which influenced management's judgment in determining the amount of the additions to the allowance charged to operating expense in each fiscal year, a table showing the allocation of the allowance for credit losses to the various types of loans in the portfolio, as well as a discussion of management's policy for establishing and maintaining the allowance for credit losses.

Deposits

Table H sets forth the average amount of and the average rate paid on major deposit categories for the years ended December 31, 2015, 2014, and 2013. Table I sets forth the maturity of time certificates of deposit of $100,000 or more at December 31, 2015.

Return on Equity and Assets

Table J sets forth certain financial ratios for the years ended December 31, 2015, 2014, and 2013.

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Table A

DISTRIBUTION OF AVERAGE ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL

The following table sets forth consolidated average assets, liabilities and shareholders' equity; interest income earned and interest expense paid; and the average yields earned or rates paid thereon for the years ended December 31, 2015, 2014, and 2013. The average balances reflect daily averages except nonaccrual loans, which were computed using quarterly averages.

| | 2015 | | | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | Average Balance | Interest Income/ Expense | Average Interest Rate | Average Balance | Interest Income/ Expense | Average Interest Rate | Average Balance | Interest Income/ Expense | Average Interest Rate |
| ASSETS: | | | | | | | | | |
| Interest-earning deposits in other banks | $64,963 | $209 | 0.32 % | $53,781 | $175 | 0.32 % | $46,672 | $164 | 0.35 % |
| Securities: | | | | | | | | | |
| Taxable securities | 285,585 | 4,793 | 1.68 % | 296,014 | 5,538 | 1.87 % | 235,487 | 2,375 | 1.01 % |
| Non-taxable securities (1) | 178,247 | 9,569 | 5.37 % | 163,778 | 8,837 | 5.40 % | 163,494 | 8,755 | 5.35 % |
| Total investment securities | 463,832 | 14,362 | 3.10 % | 459,792 | 14,375 | 3.13 % | 398,981 | 11,130 | 2.79 % |
| Federal funds sold | 251 | 1 | 0.25 % | 293 | 1 | 0.25 % | 206 | 1 | 0.25 % |
| Total securities and interest-earning deposits | 529,046 | 14,572 | 2.75 % | 513,866 | 14,551 | 2.83 % | 445,859 | 11,295 | 2.53 % |
| Loans (2)(3) | 578,899 | 30,504 | 5.27 % | 533,531 | 29,493 | 5.53 % | 445,300 | 26,519 | 5.96 % |
| Federal Home Loan Bank stock | 4,813 | 580 | 12.05 % | 4,700 | 327 | 6.96 % | 4,171 | 177 | 4.24 % |
| Total interest-earning assets (1) | 1,112,758 | $45,656 | 4.10 % | 1,052,097 | $44,371 | 4.22 % | 895,330 | $37,991 | 4.24 % |
| Allowance for credit losses | (8,978) | | | (8,147) | | | (9,713) | | |
| Nonaccrual loans | 7,863 | | | 5,998 | | | 9,183 | | |
| Other real estate owned | 33 | | | 36 | | | 50 | | |
| Cash and due from banks | 25,019 | | | 23,905 | | | 21,296 | | |
| Bank premises and equipment | 9,664 | | | 10,511 | | | 7,816 | | |
| Other non-earning assets | 76,167 | | | 73,083 | | | 62,962 | | |
| Total average assets | $1,222,526 | | | $1,157,483 | | | $986,924 | | |

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| | 2015 | | | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | Average Balance | Interest Income/ Expense | Average Interest Rate | Average Balance | Interest Income/ Expense | Average Interest Rate | Average Balance | Interest Income/ Expense | Average Interest Rate |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | | | | | | | | |
| Interest-bearing liabilities | | | | | | | | | |
| Interest-bearing deposits: | | | | | | | | | |
| Savings and NOW accounts | $300,741 | $261 | 0.09 % | $265,751 | $241 | 0.09 % | $215,668 | $291 | 0.13 % |
| Money market accounts (MMA) | 227,743 | 141 | 0.06 % | 229,769 | 174 | 0.08 % | 193,833 | 229 | 0.12 % |
| Time certificates of deposit, under $100,000 | 59,810 | 191 | 0.32 % | 60,630 | 228 | 0.38 % | 48,729 | 219 | 0.45 % |
| Time certificates of deposit, $100,000 and over | 89,573 | 355 | 0.40 % | 101,588 | 417 | 0.41 % | 106,307 | 531 | 0.50 % |
| Total interest-bearing deposits | 677,867 | 948 | 0.14 % | 657,738 | 1,060 | 0.16 % | 564,537 | 1,270 | 0.22 % |
| Other borrowed funds | 5,156 | 99 | 1.89 % | 5,155 | 96 | 1.83 % | 5,645 | 116 | 2.05 % |
| Total interest-bearing liabilities | 683,023 | $1,047 | 0.15 % | 662,893 | $1,156 | 0.17 % | 570,182 | $1,386 | 0.24 % |
| Non-interest bearing demand deposits | 387,931 | | | 348,822 | | | 283,956 | | |
| Other liabilities | 16,510 | | | 15,354 | | | 13,040 | | |
| Shareholders' equity | 135,062 | | | 130,414 | | | 119,746 | | |
| Total average liabilities and shareholders' equity | $1,222,526 | | | $1,157,483 | | | $986,924 | | |
| Interest income and rate earned on average earning assets (1) | | $45,656 | 4.10 % | | $44,371 | 4.22 % | | $37,991 | 4.24 % |
| Interest expense and interest cost related to average interest-bearing liabilities | | 1,047 | 0.15 % | | 1,156 | 0.17 % | | 1,386 | 0.24 % |
| Net interest income and net interest margin (4) | | $44,609 | 4.01 % | | $43,215 | 4.11 % | | $36,605 | 4.09 % |

(1) Interest income is calculated on a fully tax equivalent basis, which includes Federal tax benefits relating to income earned on municipal bonds totaling $3,254, $3,005 and $2,977 in 2015, 2014 and 2013, respectively.
(2) Loan interest income includes loan fees of $255 in 2015, $272 in 2014, and $320 in 2013.
(3) Average loans do not include nonaccrual loans.
(4) Net interest margin is computed by dividing net interest income by total average interest-earning assets.

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Table B

VOLUME AND RATE ANALYSIS

The following table sets forth, for the years indicated, a summary of the changes in interest earned and interest paid resulting from changes in asset and liability volumes and changes in rates. The change in interest due to both volume and rate has been allocated to change due to volume and rate in proportion to the relationship of absolute dollar amounts of change in each.

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 Compared to 2014 | | | 2014 Compared to 2013 | | |
| (In thousands) | Volume | Rate | Net | Volume | Rate | Net |
| Increase (decrease) due to changes in: | | | | | | |
| Interest income: | | | | | | |
| Interest-earning deposits in other banks | $36 | $(2) | $34 | $21 | $(10) | $11 |
| Investment securities: | | | | | | |
| Taxable | (195) | (550) | (745) | 731 | 2,432 | 3,163 |
| Non-taxable (1) | 780 | (48) | 732 | 15 | 67 | 82 |
| Total investment securities | 585 | (598) | (13) | 746 | 2,499 | 3,245 |
| Loans | 2,507 | (1,496) | 1,011 | 4,479 | (1,505) | 2,974 |
| FHLB Stock | 7 | 246 | 253 | 25 | 125 | 150 |
| Total earning assets (1) | 3,135 | (1,850) | 1,285 | 5,271 | 1,109 | 6,380 |
| Interest expense: | | | | | | |
| Deposits: | | | | | | |
| Savings, NOW and MMA | 30 | (43) | (13) | 169 | (274) | (105) |
| Time certificates of deposit under $100,000 | (3) | (34) | (37) | 27 | (18) | 9 |
| Time certificates of deposit $100,000 and over | (50) | (12) | (62) | (23) | (91) | (114) |
| Total interest-bearing deposits | (23) | (89) | (112) | 173 | (383) | (210) |
| Other borrowed funds | 1 | 2 | 3 | (10) | (10) | (20) |
| Total interest bearing liabilities | (22) | (87) | (109) | 163 | (393) | (230) |
| Net interest income (1) | $3,157 | $(1,763) | $1,394 | $5,108 | $1,502 | $6,610 |

(1) Computed on a tax equivalent basis for securities exempt from federal income taxes.

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Table C

INVESTMENT PORTFOLIO

The amortized cost of investment securities at December 31, 2015, 2014, and 2013 is set forth in the following table. At December 31, 2015, we held no investment securities from any issuer which totaled over 10% of our shareholders' equity.

| Available-for-Sale Securities | Amortized Cost at December 31, | | |
|---|---|---|---|
| (In thousands) | 2015 | 2014 | 2013 |
| U.S. Government agencies | $52,803 | $33,088 | 18,172 |
| Obligations of states and political subdivisions | 181,785 | 143,343 | 162,018 |
| U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations | 225,636 | 236,629 | 254,978 |
| Private label residential mortgage backed securities | 2,356 | 3,079 | 4,344 |
| Other equity securities | 7,500 | 7,500 | 7,596 |
| Total Available-for-Sale Securities | $470,080 | $423,639 | $447,108 |

| Held-to-Maturity Securities | Amortized Cost at December 31, | | |
|---|---|---|---|
| (In thousands) | 2015 | 2014 | 2013 |
| Obligations of states and political subdivisions | $31,712 | $31,964 | $— |

The amortized cost, maturities and weighted average yield of investment securities at December 31, 2015 are summarized in the following table.

| (Dollars in thousands) | In one year or less | | After one through five years | | After five through ten years | | After ten years | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| Available-for-Sale Securities | Amount | Yield(1) | Amount | Yield(1) | Amount | Yield(1) | Amount | Yield(1) | Amount | Yield(1) |
| Debt securities(2) | | | | | | | | | | |
| U.S. Government agencies | $— | — | $7,627 | 1.94 % | $4,046 | 4.33 % | $41,130 | 3.96 % | $52,803 | 3.70 % |
| Obligations of states and political subdivisions | — | — | 12,297 | 3.02 % | 37,376 | 3.82 % | 132,112 | 4.87 % | 181,785 | 4.53 % |
| U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations | 3 | 7.60 % | 30,331 | 3.48 % | 20,810 | 2.95 % | 174,492 | 4.22 % | 225,636 | 4.00 % |
| Private label residential mortgage backed securities | — | — | 212 | 4.73 % | 6 | 5.00 % | 2,138 | 5.89 % | 2,356 | 5.78 % |
| Other equity securities | 7,500 | 2.13 % | — | — | — | — | — | — | 7,500 | 2.13 % |
| | $7,503 | 2.32 % | $50,467 | 3.14 % | $62,238 | 3.56 % | $349,872 | 4.44 % | $470,080 | 4.18 % |

| (Dollars in thousands) | In one year or less | | After one through five years | | After five through ten years | | After ten years | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| Held-to-Maturity Securities | Amount | Yield(1) | Amount | Yield(1) | Amount | Yield(1) | Amount | Yield(1) | Amount | Yield(1) |
| Debt securities(2) | | | | | | | | | | |
| Obligations of states and political subdivisions | $— | — % | $— | — % | — | — % | 31,712 | 3.08 % | 31,712 | 3.08 % |

(1) Not computed on a tax equivalent basis.

(2) 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. Expected maturities will also differ from contractual maturities due to unscheduled principal pay downs.

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Table D

LOAN PORTFOLIO

The composition of the loan portfolio at December 31, 2015, 2014, 2013, 2012, and 2011 is summarized in the table below.

| (In thousands) | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Commercial: | | | | | |
| Commercial and industrial | $102,197 | $89,007 | $87,082 | $77,956 | $78,089 |
| Agricultural land and production | 30,472 | 39,140 | 31,649 | 26,599 | 29,958 |
| Total commercial | 132,669 | 128,147 | 118,731 | 104,555 | 108,047 |
| Real estate: | | | | | |
| Owner occupied | 168,910 | 176,804 | 156,781 | 114,444 | 113,183 |
| Real estate construction and other land loans | 38,685 | 38,923 | 42,329 | 33,199 | 33,047 |
| Commercial real estate | 117,244 | 106,788 | 86,117 | 53,797 | 62,523 |
| Agricultural real estate | 74,867 | 57,501 | 44,164 | 28,400 | 42,596 |
| Other real estate | 10,520 | 6,611 | 4,548 | 8,098 | 7,892 |
| Total real estate | 410,226 | 386,627 | 333,939 | 237,938 | 259,241 |
| Consumer: | | | | | |
| Equity loans and lines of credit | 42,296 | 47,575 | 48,594 | 42,932 | 51,106 |
| Consumer and installment | 12,503 | 10,093 | 11,252 | 10,346 | 9,765 |
| Total consumer | 54,799 | 57,668 | 59,846 | 53,278 | 60,871 |
| Deferred loan costs (fees), net | 417 | 146 | (159) | (453) | (764) |
| Total gross loans (1) | 598,111 | 572,588 | 512,357 | 395,318 | 427,395 |
| Allowance for credit losses | (9,610) | (8,308) | (9,208) | (10,133) | (11,396) |
| Total (1) | $588,501 | $564,280 | $503,149 | $385,185 | $415,999 |

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| (1) Includes nonaccrual loans of: | $2,413 | $14,052 | $7,586 | $9,695 | $14,434 |

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Table E

LOAN MATURITIES AND SENSITIVITY TO CHANGES IN INTEREST RATES

The following table presents information concerning loan maturities and sensitivity to changes in interest rates of the indicated categories of our loan portfolio, as well as loans in those categories maturing after one year that have fixed or floating interest rates at December 31, 2015.

| (In thousands) | One Year or Less | After One Through Five Years | After Five Years | Total |
|---|---|---|---|---|
| Loan Maturities: | | | | |
| Commercial and agricultural | $90,970 | $24,245 | $17,454 | $132,669 |
| Real estate construction and other land loans | 33,985 | 3,504 | 1,196 | 38,685 |
| Other real estate | 27,348 | 35,719 | 308,474 | 371,541 |
| Consumer and installment | 8,146 | 10,295 | 36,358 | 54,799 |
| | $160,449 | $73,763 | $363,482 | $597,694 |
| Sensitivity to Changes in Interest Rates: | | | | |
| Loans with fixed interest rates | $32,353 | $47,006 | $46,578 | $125,937 |
| Loans with floating interest rates (1) | 128,096 | 26,757 | 316,904 | 471,757 |
| | $160,449 | $73,763 | $363,482 | $597,694 |

| (In thousands) | One Year or Less | After One Through Five Years | After Five Years | Total |
|---|---|---|---|---|
| (1) Includes floating rate loans which are currently at their floor rate in accordance with their respective loan agreement | $42,214 | $18,012 | $201,831 | $262,057 |

Table F

COMPOSITION OF NONACCRUAL, PAST DUE AND RESTRUCTURED LOANS

A summary of nonaccrual, restructured and past due loans at December 31, 2015, 2014, 2013, 2012, and 2011 is set forth below:

| | December 31, | | | | |
|---|---|---|---|---|---|
| (Dollars in thousands) | 2015 | 2014 | 2013 | 2012 | 2011 |
| Nonaccrual | $1,076 | $12,226 | $2,991 | $450 | $3,833 |
| Restructured nonaccrual loans | 1,337 | 1,826 | 4,595 | 9,245 | 10,601 |
| | $2,413 | $14,052 | $7,586 | $9,695 | $14,434 |
| Interest foregone | $340 | $716 | $661 | $693 | $954 |
| Accruing loans past due 90 days or more | — | — | — | — | — |
| Accruing troubled debt restructurings | $4,286 | $4,774 | $5,771 | $7,410 | $— |
| Nonaccrual loans to total loans | 0.40 % | 2.45 % | 1.48 % | 2.45 % | 3.38 % |

Our consolidated financial statements are prepared on the accrual basis of accounting, including the recognition of interest income on loans. Interest income from nonaccrual loans is recorded only if collection of principal in full is not in doubt and when cash payments, if any, are received.

Loans are placed on nonaccrual status and any accrued but unpaid interest income is reversed and charged against income when the payment of interest or principal is 90 days or more past due. Loans in the nonaccrual category are treated as nonaccrual loans even though we may ultimately recover all or a portion of the interest due. These loans return to accrual status when the loan becomes contractually current, future collectability of amounts due is reasonably assured, and a minimum

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of six months of satisfactory principal repayment performance has occurred. See Note 5 of the Company's audited Consolidated Financial Statements in Item 8 of this Annual Report.

Included in nonaccrual loans at December 31, 2015 were four loans totaling $1,337,000 that were considered troubled debt restructurings (TDRs). None of these TDR loans were in default at December 31, 2015. There are no outstanding commitments to lend additional funds to any of these borrowers. Included in nonaccrual loans at December 31, 2014 were three loans that totaled $1,826,000 that were considered to be TDRs at December 31, 2014. At December 31, 2013, the Company had ten loans totaling $4,595,000 that were on nonaccrual and considered TDR. The Company had seven loans at December 31, 2012 totaling $9,245,000 that were considered to be TDRs. As of December 31, 2011, the Company had six loans totaling $10,601,000 that were on nonaccrual and considered TDR. See Note 5 of the Company's audited Consolidated Financial Statements in Item 8 of this Annual Report concerning our recorded investment in loans for which impairment has been recognized. Impaired loans are identified from internal credit review reports, past due reports, overdraft listings, and third party reports of examination. Borrowers experiencing problems such as operating losses, marginal working capital, inadequate cash flow or business interruptions which jeopardize collection of the loan are also reviewed for possible impairment classification.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the original agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Loans determined to be impaired are individually evaluated for impairment. When a loan is impaired, the Company measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, it may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral. We perform quarterly internal reviews on substandard loans. We place loans on nonaccrual status and classify them as impaired when a reasonable doubt exists as to the collectability of interest and principal under the original contractual terms, or when loans are delinquent 90 days or more unless the loan is both well secured and in the process of collection. Management maintains certain loans that have been brought current by the borrower (less than 30 days delinquent) on nonaccrual status until such time as management has determined that the loans are likely to remain current in future periods. Foregone interest on nonaccrual loans totaled $340,000 for the year ended December 31, 2015 of which $104,000 was attributable to troubled debt restructurings. Foregone interest on nonaccrual loans was $716,000 and $661,000 for 2014 and 2013, respectively of which $139,000 and $279,000 was attributable to troubled debt restructurings, respectively.

Other than as discussed above, as of December 31, 2015, we had no loans where known information about possible credit problems of borrowers caused management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as impaired loans.

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Table G

SUMMARY OF LOAN LOSS EXPERIENCE

The following table summarizes loan loss experience as of and for the years ended December 31, 2015, 2014, 2013, 2012, and 2011.

| (Dollars in thousands) | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Loans outstanding at December 31, | $597,694 | $572,442 | $512,516 | $395,771 | $428,159 |
| Average loans outstanding during the year | $586,762 | $539,529 | $454,483 | $405,040 | $428,291 |
| Allowance for credit losses: | | | | | |
| Balance at beginning of year | $8,308 | $9,208 | $10,133 | $11,396 | $11,014 |
| Deduct loans charged off: | | | | | |
| Commercial and industrial | (802) | (7,423) | (713) | (123) | (280) |
| Agricultural production | — | (1,722) | — | — | — |
| Owner occupied | — | (183) | (281) | (217) | — |
| Real estate construction and other land loans | — | — | — | (319) | (286) |
| Commercial real estate | — | — | (4) | (1,430) | (26) |
| Consumer loans | (159) | (506) | (448) | (761) | (940) |
| Total loans charged off | (961) | (9,834) | (1,446) | (2,850) | (1,532) |
| Add recoveries of loans previously charged off: | | | | | |
| Commercial and industrial | 954 | 171 | 315 | 515 | 286 |
| Agricultural production | 90 | — | — | — | — |
| Owner occupied | — | 150 | — | 45 | — |
| Real estate construction and other land loans | 32 | 364 | 16 | — | 52 |
| Commercial real estate | — | — | — | — | 176 |
| Consumer loans | 587 | 264 | 190 | 327 | 350 |
| Total recoveries | 1,663 | 949 | 521 | 887 | 864 |
| Net recoveries (charge offs) | 702 | (8,885) | (925) | (1,963) | (668) |
| Add provision charged to operating expense | 600 | 7,985 | — | 700 | 1,050 |
| Balance at end of year | $9,610 | $8,308 | $9,208 | $10,133 | $11,396 |
| Allowance for credit losses as a percentage of outstanding loan balance | 1.61% | 1.45% | 1.80% | 2.56% | 2.66% |
| Net recoveries (charge offs) to average loans outstanding | 0.12% | (1.65)% | (0.20)% | (0.48)% | (0.16)% |

Managing credits identified through the risk evaluation methodology includes developing a business strategy with the customer to mitigate our losses. Our management continues to monitor these credits with a view to identifying as early as possible when, and to what extent, additional provisions may be necessary.

The allowance for credit losses is reviewed at least quarterly by the Bank’s and our Board of Directors’ Audit/Compliance Committee. Reserves are allocated to loan portfolio segments using percentages which are based on both historical risk elements such as delinquencies and losses and predictive risk elements such as economic, competitive and environmental factors. We have adopted the specific reserve approach to allocate reserves to each impaired asset for the purpose of estimating potential loss exposure. Although the allowance for credit losses is allocated to various portfolio categories, it is general in nature and available for the loan portfolio in its entirety.

Additions may be required based on the results of independent loan portfolio examinations, regulatory agency examinations, or our own internal review process. Additions are also required when, in management's judgment, the reserve does not properly reflect the potential loss exposure.
During the year ended December 31, 2015, the Company recorded a provision for credit losses of $600,000. The amount of provision is primarily the result of our assessment of the overall adequacy of the allowance for credit losses considering a number of factors, including the increase or decrease in the volume of outstanding loans and the level of net recoveries during the year. The provision of $7,985,000 in 2014 was recorded in connection with the partial charge off of a single commercial and agricultural relationship. Net charge-offs were $8,885,000 in 2014. No provision was added to the allowance for credit losses for the year ended December 31, 2013, and net charge-offs were $925,000. The provision for credit

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losses for the year ended December 31, 2012 was $700,000 and net charge-offs were $1,963,000. For 2011, the provision was $1,050,000 and net charge offs which were $668,000.

Using the criteria on the previous page, the allocation of the allowance for credit losses is set forth below:

| | 2015 | | | 2014 | | | 2013 | | | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Loan Type (Dollars in thousands) | Amount | Percent of Loans in Each Category to Total Loans | | Amount | Percent of Loans in Each Category to Total Loans | | Amount | Percent of Loans in Each Category to Total Loans | | Amount | Percent of Loans in Each Category to Total Loans | | Amount | Percent of Loans in Each Category to Total Loans | |
| Commercial: | | | | | | | | | | | | | | | |
| Commercial and industrial | 3,143 | 17.1 | % | 2,753 | 15.5 | % | 1,928 | 17 | % | 2,071 | 19.7 | % | 1,924 | 18.3 | % |
| Agricultural land and production | 419 | 5.1 | % | 377 | 6.8 | % | 516 | 6.1 | % | 605 | 6.7 | % | 342 | 7 | % |
| Real estate: | | | | | | | | | | | | | | | |
| Owner occupied | 1,556 | 28.2 | % | 1,380 | 30.9 | % | 1,697 | 30.6 | % | 2,153 | 28.9 | % | 1,578 | 26.4 | % |
| Real estate construction and other land loans | 694 | 6.5 | % | 837 | 6.8 | % | 1,289 | 8.3 | % | 1,035 | 8.4 | % | 2,954 | 7.7 | |