CENTRAL VALLEY COMMUNITY BANCORP
Form 10-Q
November 09, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED September 30, 2016

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 000—31977

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

California	77-0539125
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7100 N. Financial Dr., Suite 101, Fresno, California	93720
(Address of principal executive offices)	(Zip code)

Registrant's telephone number (559) 298-1775

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

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

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

Large accelerated filer o	Accelerated filer ý
Non-accelerated filer o	Small 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 ý

As of November 2, 2016 there were 12,140,705 shares of the registrant's common stock outstanding.

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

2016 QUARTERLY REPORT ON FORM 10-Q

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PART 1: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In thousands, except share amounts)	September 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$ 23,274	$ 23,339
Interest-earning deposits in other banks	21,803	70,988
Federal funds sold	1	290
Total cash and cash equivalents	45,078	94,617
Available-for-sale investment securities (Amortized cost of $533,044 at September 30, 2016 and $470,080 at December 31, 2015)	551,075	477,554
Held-to-maturity investment securities (Fair value of $35,142 at December 31, 2015)	—	31,712
Loans, less allowance for credit losses of $9,299 at September 30, 2016 and $9,610 at December 31, 2015	620,528	588,501
Bank premises and equipment, net	8,906	9,292
Bank-owned life insurance	20,377	20,702
Federal Home Loan Bank stock	4,823	4,823
Goodwill	29,917	29,917
Core deposit intangibles	922	1,024
Accrued interest receivable and other assets	26,149	18,594
Total assets	$ 1,307,775	$ 1,276,736
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 423,183	$ 428,773
Interest bearing	704,314	687,494
Total deposits	1,127,497	1,116,267
Junior subordinated deferrable interest debentures	5,155	5,155
Accrued interest payable and other liabilities	18,801	15,991
Total liabilities	1,151,453	1,137,413
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Preferred stock, no par value, $1,000 per share liquidation preference; 10,000,000 shares authorized, none issued and outstanding	—	—
Common stock, no par value; 80,000,000 shares authorized; issued and outstanding: 11,081,854 at September 30, 2016 and 10,996,773 at December 31, 2015	54,846	54,424
Retained earnings	91,026	80,437
Accumulated other comprehensive income, net of tax	10,450	4,462
Total shareholders' equity	156,322	139,323
Total liabilities and shareholders' equity	$ 1,307,775	$ 1,276,736

See notes to unaudited consolidated financial statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(In thousands, except share and per share amounts)	2016	2015	2016	2015
INTEREST INCOME:				
Interest and fees on loans	$8,112	$ 7,747	$24,208	$ 22,677
Interest on deposits in other banks	71	49	210	147
Interest and dividends on investment securities:				
Taxable	1,500	1,234	4,486	3,477
Exempt from Federal income taxes	1,582	1,593	4,680	4,627
Total interest income	11,265	10,623	33,584	30,928
INTEREST EXPENSE:				
Interest on deposits	240	246	690	718
Interest on junior subordinated deferrable interest debentures	30	25	88	73
Total interest expense	270	271	778	791
Net interest income before provision for credit losses	10,995	10,352	32,806	30,137
(REVERSAL OF) PROVISION FOR CREDIT LOSSES	(1,000)	100	(5,850)	600
Net interest income after provision for credit losses	11,995	10,252	38,656	29,537
NON-INTEREST INCOME:				
Service charges	743	700	2,227	2,321
Appreciation in cash surrender value of bank-owned life insurance	131	142	411	451
Interchange fees	312	297	904	881
Net gain on disposal of other real estate owned	—	—	—	11
Net realized gains on sales of investment securities	286	—	1,836	1,459
Other-than-temporary impairment loss on investment securities	—	—	(136)	—
Federal Home Loan Bank dividends	110	120	314	474
Loan placement fees	347	241	792	794
Other income	206	222	1,005	1,117
Total non-interest income	2,135	1,722	7,353	7,508
NON-INTEREST EXPENSES:				
Salaries and employee benefits	5,608	5,254	16,304	15,472
Occupancy and equipment	1,124	1,204	3,511	3,522
Professional services	346	395	971	1,212
Data processing	390	287	1,145	862
Regulatory assessments	134	223	469	821
ATM/Debit card expenses	159	145	469	411
License and maintenance contracts	125	123	388	392
Directors’ expenses	163	124	474	316
Advertising	131	157	444	474
Internet banking expense	170	167	497	541
Acquisition and integration	363	—	515	—
Amortization of core deposit intangibles	34	85	102	253
Other	908	864	2,719	2,737

Total non-interest expenses	9,655	9,028	28,008	27,013
Income before provision for income taxes	4,475	2,946	18,001	10,032
Provision for income taxes	1,361	429	5,426	1,971
Net income available to common shareholders	$3,114	$ 2,517	$12,575	$ 8,061
Earnings per common share:				
Basic earnings per share	$0.28	$ 0.23	$1.15	$ 0.74
Weighted average common shares used in basic computation	10,984,141	10,938,160	10,969,633	10,928,780
Diluted earnings per share	$0.28	$ 0.23	$1.14	$ 0.73
Weighted average common shares used in diluted computation	11,092,674	11,024,954	11,068,045	11,012,024
Cash dividend per common share	$0.06	$ 0.06	$0.18	$ 0.12

See notes to unaudited consolidated financial statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
Net income	$3,114	$2,517	$12,575	$8,061
Other Comprehensive Income:				
Unrealized gains on securities:				
Unrealized holdings gains (losses) arising during the period	(4,453)	3,946	8,914	677
Less: reclassification for net gains included in net income	286	—	1,140	1,459
Less: reclassification for other-than-temporary impairment loss included in net income	—	—	(136)	—
Transfer of investment securities from held-to-maturity to available-for-sale	—	—	2,647	—
Amortization of net unrealized gains transferred	—	(2)	(64)	(4)
Other comprehensive income (loss), before tax	(4,739)	3,944	10,493	(786)
Tax (expense) benefit related to items of other comprehensive income	1,790	(1,624)	(4,505)	322
Total other comprehensive income (loss)	(2,949)	2,320	5,988	(464)
Comprehensive income	$165	$4,837	$18,563	$7,597

See notes to unaudited consolidated financial statements.

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

	For the Nine Months Ended September 30,	
(In thousands)	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$12,575	$8,061
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Net decrease in deferred loan fees	(557)	(111)
Depreciation	989	1,043
Accretion	(889)	(881)
Amortization	5,769	5,995
Stock-based compensation	196	184
Excess tax benefit from exercise of stock options	(19)	(4)
(Reversal of) provision for credit losses	(5,850)	600
Other than temporary impairment losses on investment securities	136	—
Net realized gains on sales of available-for-sale investment securities	(1,140)	(1,459)
Net realized gains on sales of held-to-maturity securities	(696)	—
Net loss on disposal of premises and equipment	5	6
Net gain on sale of other real estate owned	—	(11)
Increase in bank-owned life insurance, net of expenses	(414)	(451)
Net gain on bank-owned life insurance	(190)	(345)
Net (increase) decrease in accrued interest receivable and other assets	(1,240)	2,079
Net increase (decrease) in accrued interest payable and other liabilities	2,810	(421)
Provision for deferred income taxes	(977)	6
Net cash provided by operating activities	10,508	14,291
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available-for-sale investment securities	(167,751)	(156,905)
Proceeds from sales or calls of available-for-sale investment securities	84,283	92,647
Proceeds from sales or calls of held-to-maturity investment securities	9,257	—
Proceeds from maturity and principal repayments of available-for-sale investment securities	39,826	39,359
Net increase in loans	(25,983)	(26,633)
Deposit on acquisition of bank	(9,470)	—
Proceeds from sale of other real estate owned	—	359
Purchases of premises and equipment	(608)	(594)
Purchases of bank-owned life insurance	—	(325)
FHLB stock purchased	—	(32)
Proceeds from bank-owned life insurance	928	1,365
Net cash used in investing activities	(69,518)	(50,759)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand, interest bearing and savings deposits	23,212	40,301
Net decrease in time deposits	(11,982)	(4,599)
Proceeds from exercise of stock options	208	38
Excess tax benefit from exercise of stock options	19	4
Cash dividend payments on common stock	(1,986)	(1,318)
Net cash provided by financing activities	9,471	34,426

Decrease in cash and cash equivalents	(49,539)	(2,042)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	94,617	77,328
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$45,078	$75,286

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(In thousands)	For the Nine Months Ended September 30, 2016	2015
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid during the period for:		
Interest	$776	$798
Income taxes	$4,540	$845
Non-cash investing and financing activities:		
Foreclosure of loan collateral and recognition of other real estate owned	$—	$227
Assumption of other real estate owned liabilities	$—	$121
Transfer of loans to other assets	$363	$—
Transfer of securities from held-to-maturity to available-for-sale	$23,131	$—
Unrealized gain on transfer of securities from held-to-maturity to available-for-sale	$526	$—

See notes to unaudited consolidated financial statements.

Note 1. Basis of Presentation

The interim unaudited condensed consolidated financial statements of Central Valley Community Bancorp and subsidiary have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). These interim condensed consolidated financial statements include the accounts of Central Valley Community Bancorp and its wholly owned subsidiary Central Valley Community Bank (the Bank) (collectively, the Company). All significant intercompany accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been omitted. The Company believes that the disclosures are adequate to make the information presented not misleading. These interim unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 2015 Annual Report to Shareholders on Form 10-K. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position at September 30, 2016, and the results of its operations and its cash flows for the three and nine month interim periods ended September 30, 2016 and 2015 have been included. Certain reclassifications have been made to prior year amounts to conform to the 2016 presentation. Reclassifications had no effect on prior period net income or shareholders' equity. The results of operations for interim periods are not necessarily indicative of results for the full year.

The preparation of these interim unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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

The Company terminated its interest in Central Valley Community Insurance Service, 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 termination of this entity did not have a material impact on the Company's financial statements.

Impact of New Financial Accounting Standards:

FASB Accounting Standards Update (ASU) 2015-03 - Interest-Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs: ASU 2015-03 requires the debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not affected by the amendments in ASU 2015-03. ASU 2015-03 was effective for the Company on January 1, 2016, and did not have a significant impact on the Company’s consolidated financial statements, results of operations, cash flows, or disclosures.

FASB Accounting Standards Update (ASU) 2015-16 - Business Combinations (Subtopic 805) - Simplifying the Accounting for Measurement-Period Adjustments: ASU 2015-16 requires that adjustments to provisional amounts that are identified during the measurement period of a business combination be recognized in the reporting period in which the adjustment amounts are determined. Furthermore, the income statement effects of such adjustments, if any, must be calculated as if the accounting had been completed at the acquisition date. The portion of the amount recorded in current-period earnings that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date is required to be reported separately on the face of the income statement, or disclosed within the footnotes to the financial statements. Under previous guidance, adjustments to provisional amounts identified during the measurement period are to be recognized retrospectively. ASU 2015-16 was effective for the Company on January 1, 2016, and did not have a significant impact on the Company's consolidated financial statements, results of operations, cash flows, or disclosures.

FASB Accounting Standards Update (ASU) 2016-01 - Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, was issued January 2016. ASU 2016-01 addresses certain aspects of recognition, measurement presentation, and disclosure of financial instruments. Most notably the ASU changes the income statement impact of equity investments held by the Company and the requirement for the Company to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. The Company will be required to adopt the provisions of ASU 2016-01 on January 1, 2018. Management is evaluating the impact that this ASU will have on the Company's financial statements.

FASB Accounting Standards Update (ASU) 2016-02 - Leases - Overall (Subtopic 845): was issued February 2016. ASU 2016-02 requires the lessee to recognize most leases on the balance sheet thereby resulting in the recognition of lease assets and liabilities for those leases currently classified as operating leases. The accounting for lessors is largely unchanged. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018 with early adoption permitted. Management is evaluating the impact that this ASU will have on the Company's financial statements.

FASB Accounting Standards Update (ASU) 2016-09 - Compensation - Stock Compensation (Subtopic 718): Improvements to Employee Share-Based Payment Accounting, was issued March 2016. ASU 2016-09 addresses simplification of several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016 with early adoption permitted. Management is evaluating the impact that this ASU will have on the Company's financial statements.

FASB Accounting Standards Update (ASU) 2016-13 - Measurement of Credit Losses on Financial Instruments (Subtopic 326): Financial Instruments - Credit Losses was issued June 2016. The amendments in ASU 2016-13 to Topic 326, require that an organization measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The ASU also requires enhanced disclosures, including qualitative and quantitative disclosures that provide additional information about the amounts recorded in the financial statements. Additionally, the ASU amends the accounting for credit losses on AFS debt securities and purchased financial assets with credit deterioration. The amendments in this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Management is evaluating the impact that this ASU will have on the Company's financial statements.

FASB Accounting Standards Update (ASU) 2016-15 - Statement of Cash Flows (Subtopic 230): Classification of Certain Cash Receipts and Cash Payments was issued August 2016. The amendments in ASU 2016-15 to Topic 230, seek to reduce the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. For public entities, the ASU becomes effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. Management is evaluating the impact that this ASU will have on the Company's financial statements.

Note 2. Fair Value Measurements

Fair Value Hierarchy

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

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

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

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

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

	September 30, 2016				
	Carrying	Fair Value			
(In thousands)	Amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$23,274	$23,274	$ —	$ —	$ 23,274
Interest-earning deposits in other banks	21,803	21,803	—	—	21,803
Federal funds sold	1	1	—	—	1
Available-for-sale investment securities	551,075	7,676	543,399	—	551,075
Loans, net	620,528	—	—	625,587	625,587
Federal Home Loan Bank stock	4,823	N/A	N/A	N/A	N/A
Accrued interest receivable	6,428	19	3,281	3,128	6,428
Financial liabilities:					
Deposits	1,127,497	999,635	127,678	—	1,127,313
Junior subordinated deferrable interest debentures	5,155	—	—	3,088	3,088
Accrued interest payable	104	—	74	30	104

	December 31, 2015				
	Carrying	Fair Value			
(In thousands)	Amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$23,339	$23,339	$ —	$ —	$ 23,339
Interest-earning deposits in other banks	70,988	70,988	—	—	70,988
Federal funds sold	290	290	—	—	290
Available-for-sale investment securities	477,554	7,536	470,018	—	477,554
Held-to-maturity investment securities	31,712	—	35,142	—	35,142
Loans, net	588,501	—	—	585,737	585,737
Federal Home Loan Bank stock	4,823	N/A	N/A	N/A	N/A
Accrued interest receivable	6,355	27	3,414	2,914	6,355
Financial liabilities:					
Deposits	1,116,267	976,433	139,353	—	1,115,786
Junior subordinated deferrable interest debentures	5,155	—	—	3,200	3,200
Accrued interest payable	101	—	76	25	101

These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

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These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.
The methods and assumptions used to estimate fair values are described as follows:

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

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

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

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

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

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

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

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

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

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

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

Assets Recorded at Fair Value

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of September 30, 2016:

Recurring Basis

The Company is required or permitted to record the following assets at fair value on a recurring basis as of September 30, 2016 (in thousands).

Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities				
Debt Securities:				
U.S. Government agencies	$ 48,266	$ —	$ 48,266	$ —
Obligations of states and political subdivisions	242,208	—	242,208	—
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	249,966	—	249,966	—
Private label residential mortgage backed securities	2,959	—	2,959	—
Other equity securities	7,676	7,676	—	—
Total assets measured at fair value on a recurring basis	$ 551,075	$ 7,676	$ 543,399	$ —

Securities in Level 1 are mutual funds and fair values are based on quoted market prices for identical instruments traded in active markets. Fair values for available-for-sale investment securities in Level 2 are based on quoted market prices for similar securities in active markets. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators. Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings. During the nine months ended September 30, 2016, no transfers between levels occurred.
There were no Level 3 assets measured at fair value on a recurring basis at or during the nine months ended September 30, 2016. Also there were no liabilities measured at fair value on a recurring basis at September 30, 2016.

Non-recurring Basis

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a non-recurring basis. These include assets and liabilities that are measured at the lower of cost or fair value that were recognized at fair value which was below cost at September 30, 2016 (in thousands).

Description	Fair Value	Level 1	Level 2	Level 3
Assets:				
Impaired loans:				
Consumer:				
Equity loans and lines of credit	$ 23	$ —	$ —	$ 23
Total impaired loans	23	—	—	23
Other repossessed assets	363	—	—	363
Total assets measured at fair value on a non-recurring basis	$ 386	$ —	$ —	$ 386

At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for credit losses. For collateral dependent real estate loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining

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fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. The fair value of impaired loans is based on the fair value of the collateral. Impaired loans were determined to be collateral dependent and categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements. Impaired loans evaluated under the discounted cash flow method are excluded from the table above. The discounted cash flow methods as prescribed by ASC Topic 310 is not a fair value measurement since the discount rate utilized is the loan's effective interest rate which is not a market rate. There were no changes in valuation techniques used during the nine month period ended September 30, 2016.

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

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $58,000 with a valuation allowance of $35,000 at September 30, 2016, resulting in fair value of $23,000. The valuation allowance represents specific allocations for the allowance for credit losses for impaired loans.

During the nine months ended September 30, 2016, specific allocation for the allowance for credit losses related to loans carried at fair value was $35,000 compared to none during 2015 related to loans carried at fair value. There were no charge-offs related to loans carried at fair value at September 30, 2016 and 2015.

In 2016, other repossessed assets were recorded at their estimated realizable value of $363,000. There were no liabilities measured at fair value on a non-recurring basis at September 30, 2016.

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2015:

Recurring Basis

The Company is required or permitted to record the following assets at fair value on a recurring basis as of December 31, 2015 (in thousands).

Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities				
Debt Securities:				
U.S. Government agencies	$ 52,901	$ —	$ 52,901	$ —
Obligations of states and political subdivisions	188,268	—	188,268	—
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	225,259	—	225,259	—
Private label residential mortgage backed securities	3,590	—	3,590	—
Other equity securities	7,536	7,536	—	—
Total assets measured at fair value on a recurring basis	$ 477,554	$ 7,536	$ 470,018	$ —

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

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings. During the year ended December 31, 2015, no transfers between levels occurred.

There were no Level 3 assets measured at fair value on a recurring basis at or during the year ended December 31, 2015. Also there were no liabilities measured at fair value on a recurring basis at December 31, 2015.

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Non-recurring Basis

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a non-recurring basis. These include assets and liabilities that are measured at the lower of cost or fair value that were recognized at fair value which was below cost at December 31, 2015 (in thousands).

Description	Fair Value	Level 1	Level 2	Level 3
Impaired loans:				
Commercial:				
Commercial and industrial	$ —	$ —	$ —	$ —
Total commercial	—	—	—	—
Consumer:				
Equity loans and lines of credit	$ 132	$ —	$ —	$ 132
Total consumer	132	—	—	132
Total impaired loans	132	—	—	132
Total assets measured at fair value on a non-recurring basis	$ 132	$ —	$ —	$ 132

At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for credit losses. For collateral dependent real estate loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. The fair value of impaired loans is based on the fair value of the collateral. Impaired loans were determined to be collateral dependent and categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements. Impaired loans evaluated under the discounted cash flow method are excluded from the table above. The discounted cash flow method as prescribed by ASC Topic 310 is not a fair value measurement since the discount rate utilized is the loan's effective interest rate which is not a market rate. There were no changes in valuation techniques used during the year ended December 31, 2015.

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

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $166,000 with a valuation allowance of $34,000 at December 31, 2015, resulting in fair value of $132,000. The valuation allowance represents specific allocations for the allowance for credit losses for impaired loans.

During the year ended December 31, 2015, there was no provision for credit losses related to loans carried at fair value. During the year ended December 31, 2015, there was no net charge-offs related to loans carried at fair value. There were no liabilities measured at fair value on a non-recurring basis at December 31, 2015.

Note 3. Investments

The investment portfolio consists primarily of U.S. Government sponsored entity and agency securities collateralized by residential mortgage obligations, private label residential mortgage backed securities (PLRMBS), and obligations of states and political subdivisions securities. As of September 30, 2016, $110,723,000 of these securities were held as collateral for borrowing arrangements, public funds, and for other purposes.

The fair value of the available-for-sale investment portfolio reflected a net unrealized gain of $18,031,000 at September 30, 2016 compared to an unrealized gain of $7,474,000 at December 31, 2015. The unrealized gain recorded is net of $7,581,000 and $3,076,000 in tax liabilities as accumulated other comprehensive income within shareholders' equity at September 30, 2016 and December 31, 2015, respectively.

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

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Available-for-Sale Securities	September 30, 2016 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	$48,007	$ 411	$ (152)	$ 48,266
Obligations of states and political subdivisions	227,321	15,078	(191)	242,208
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	248,321	2,886	(1,241)	249,966
Private label residential mortgage backed securities	1,895	1,064	—	2,959
Other equity securities	7,500	176	—	7,676
Total available-for-sale	$533,044	$ 19,615	$ (1,584)	$ 551,075

Available-for-Sale Securities	December 31, 2015 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	$52,803	$ 315	$ (217)	$ 52,901
Obligations of states and political subdivisions	181,785	6,779	(296)	188,268
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	225,636	1,042	(1,419)	225,259
Private label residential mortgage backed securities	2,356	1,234	—	3,590
Other equity securities	7,500	36	—	7,536
Total available-for-sale	$470,080	$ 9,406	$ (1,932)	$ 477,554

Held-to-Maturity Securities	December 31, 2015 Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value
Debt securities:				
Obligations of states and political subdivisions	$31,712	$ 3,431	$ (1)	$ 35,142

Proceeds and gross realized gains (losses) from the sales or calls of investment securities for the periods ended September 30, 2016 and 2015 are shown below (in thousands):

Available-for-Sale Securities	For the Three Months Ended September 30, 2016	2015	For the Nine Months Ended September 30, 2016	2015
Proceeds from sales or calls	$21,239	$ —	$84,283	$92,647
Gross realized gains from sales or calls	306	—	1,277	1,692
Gross realized losses from sales or calls	(20)	—	(137)	(233)

	For the Three Months Ended September	For the Nine Months Ended September 30,

	30,			
Held-to-Maturity Securities	2016	2015	2016	2015
Proceeds from sales or calls	$ —	$ —	$ 9,257	$ —
Gross realized gains from sales or calls	—	—	696	—
Gross realized losses from sales or calls	—	—	—	—

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During 2014, to better manage our interest rate risk, the Company transferred from available-for-sale to held-to-maturity selected municipal securities in our portfolio having a book value of approximately $31 million, a market value of approximately $32 million, and a net unrecognized gain of approximately $163,000. This transfer was completed after careful consideration of our intent and ability to hold these securities to maturity. During the first quarter of 2016, management sold certain investment securities of which management discovered, through the proper operation of the Company's internal control, that five of the 13 securities sold were previously designated as held-to-maturity (HTM). Through an oversight during the portfolio restructuring analysis related to this transaction, management unintentionally sold these five HTM securities. The book value of the HTM securities sold was $8.5 million. The gain realized on the sale of the HTM securities was $696,000. As such, management was required to reclassify the remaining HTM securities with a fair value of $23.1 million to the AFS designation. At September 30, 2016 and December 31, 2015 the remaining unaccreted balance of these HTM securities associated with the original transfer from AFS to HTM and included in accumulated other comprehensive income was $0 and $64,000, respectively.

Losses recognized in 2016 and 2015 were incurred in order to reposition the investment securities portfolio based on the current rate environment. The securities which were sold at a loss were acquired when the rate environment was not as volatile. The securities which were sold were primarily purchased several years ago to serve a purpose in the rate environment in which the securities were purchased. The Company is addressing risks in the security portfolio by selling these securities and using proceeds to purchase securities that fit with the Company's current risk profile.

The provision for income taxes includes $469,000 and $601,000 income tax impact from the reclassification of unrealized net gains on securities to realized net gains on securities for the nine months ended September 30, 2016 and 2015, respectively. The provision for income taxes includes $142,000 and $301,000 income tax impact from the reclassification of unrealized net gains on available-for-sale securities to realized net gains on available-for-sale securities for the three months ended September 30, 2016 and 2015, respectively.

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

	September 30, 2016					
	Less than 12 Months		12 Months or More		Total	
Available-for-Sale Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government agencies	$21,070	$(99)	$5,105	$(53)	$26,175	$(152)
Obligations of states and political subdivisions	17,195	(191)	—	—	17,195	(191)
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	90,478	(1,105)	7,838	(136)	98,316	(1,241)
Total available-for-sale	$128,743	$(1,395)	$12,943	$(189)	$141,686	$(1,584)

	December 31, 2015					
	Less than 12 Months		12 Months or More		Total	
Available-for-Sale Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government agencies	$21,348	$(125)	$3,954	$(92)	$25,302	$(217)
Obligations of states and political subdivisions	40,016	(296)	—	—	40,016	(296)
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	124,688	(1,109)	16,234	(310)	140,922	(1,419)
Total available-for-sale	$186,052	$(1,530)	$20,188	$(402)	$206,240	$(1,932)

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Held-to-Maturity Securities	December 31, 2015 Less than 12 Months Fair Value	Unrecognized Losses	12 Months or More Fair Value	Unrecognized Losses	Total Fair Value	Unrecognized Losses
Debt securities:						
Obligations of states and political subdivisions	$1,053	$ (1)	$ —	$ —	$1,053	$ (1)

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

As of September 30, 2016, the Company performed an analysis of the investment portfolio to determine whether any of the investments held in the portfolio had an other-than-temporary impairment (OTTI). Management evaluated all individual available-for-sale investment securities with an unrealized loss at September 30, 2016 and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at September 30, 2016 greater than 10% of the recorded book value on that date, or which had an unrealized loss of more than $10,000. Management also analyzed any securities that may have been downgraded by credit rating agencies. For those bonds that met the evaluation criteria, management obtained and reviewed the most recently published national credit ratings for those bonds. For those bonds that were obligations of states and political subdivisions with an investment grade rating by the rating agencies, management also evaluated the financial condition of the municipality and any applicable municipal bond insurance provider and concluded during March 2016 that a $136,000 credit related impairment related to one security with a fair value of $2,995,000 and a pre-impairment amortized cost of $3,131,000 existed. The Company recorded an other-than-temporary impairment loss of $136,000 during the nine months ended September 30, 2016. There were no OTTI losses recorded during the three months ended September 30, 2016 or during the three or nine months ended September 30, 2015.

U.S. Government Agencies

At September 30, 2016, the Company held 17 U.S. Government agency securities, of which 6 were in a loss position for less than 12 months and two were in a loss position or had been in a loss position for 12 months or more. The unrealized losses on the Company’s investments in direct obligations of U.S. government agencies were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized costs of the investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold, and it is more likely than not that it will not be required to sell, those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2016.

Obligations of States and Political Subdivisions

At September 30, 2016, the Company held 158 obligations of states and political subdivision securities of which 13 were in a loss position for less than 12 months and none were in a loss position or had been in a loss position for 12 months or more. The unrealized losses on the Company’s investments in obligations of states and political subdivision securities were caused by interest rate changes. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability to hold and does not intend to sell, and it is more likely than not that it will not be required to sell those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2016.

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

At September 30, 2016, the Company held 168 U.S. Government sponsored entity and agency securities collateralized by residential mortgage obligations of which 28 were in a loss position for less than 12 months and 11 have been in a loss position for more than 12 months. The unrealized losses on the Company’s investments in U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations were caused by interest rate changes. The contractual cash flows of those investments are guaranteed by an agency or sponsored entity of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company’s investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability to hold and does not intend to sell, and it is more likely than not that it will not be required to sell those investments until

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a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2016.

Private Label Residential Mortgage Backed Securities

At September 30, 2016, the Company had a total of 16 PLRMBS with a remaining principal balance of $1,895,000 and a net unrealized gain of approximately $1,064,000. None of these securities was recorded with an unrealized loss at September 30, 2016. 11 of these PLRMBS with a remaining principal balance of $1,711,000 had credit ratings below investment grade. The Company continues to monitor these securities for indications that declines in value, if any, may be other-than-temporary.

Other Equity Securities

At September 30, 2016, the Company had one mutual fund equity investment which had an unrealized gain at September 30, 2016.

The following tables provide a roll forward for the nine month periods ended September 30, 2016 and 2015 of investment securities credit losses recorded in earnings. The beginning balance represents the credit loss component for which OTTI occurred on debt securities in prior periods. Additions represent the first time a debt security was credit impaired or when subsequent credit impairments have occurred on securities for which OTTI credit losses have been previously recognized.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
Beginning balance	$874	$747	$747	$747
Amounts related to credit loss for which an OTTI charge was not previously recognized	—	—	136	—
Increases to the amount related to credit loss for which OTTI was previously recognized	—	—	—	—
Realized gain for securities sold	—	—	(9)	—
Ending balance	$874	$747	$874	$747

The amortized cost and estimated fair value of available-for-sale investment securities at September 30, 2016 by contractual maturity is shown below (in thousands). Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2016	
Available-for-Sale Securities	Amortized Cost	Estimated Fair Value
Within one year	$—	$ —
After one year through five years	15,359	16,027
After five years through ten years	42,334	44,764
After ten years	169,628	181,417
	227,321	242,208
Investment securities not due at a single maturity date:		
U.S. Government agencies	48,007	48,266
	248,321	249,966

U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations		
Private label residential mortgage backed securities	1,895	2,959
Other equity securities	7,500	7,676
Total available-for-sale	$533,044	$ 551,075

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Note 4. Loans and Allowance for Credit Losses

Outstanding loans are summarized as follows:

Loan Type (Dollars in thousands)	September 30, 2016	% of Total Loans		December 31, 2015	% of Total Loans	
Commercial:						
Commercial and industrial	$ 89,037	14.1	%	$ 102,197	17.1	%
Agricultural land and production	25,600	4.1	%	30,472	5.1	%
Total commercial	114,637	18.2	%	132,669	22.2	%
Real estate:						
Owner occupied	169,455	26.9	%	168,910	28.2	%
Real estate construction and other land loans	42,639	6.8	%	38,685	6.5	%
Commercial real estate	129,691	20.6	%	117,244	19.6	%
Agricultural real estate	96,101	15.3	%	74,867	12.5	%
Other real estate	11,873	1.9	%	10,520	1.8	%
Total real estate	449,759	71.5	%	410,226	68.6	%
Consumer:						
Equity loans and lines of credit	40,693	6.5	%	42,296	7.1	%
Consumer and installment	23,765	3.8	%	12,503	2.1	%
Total consumer	64,458	10.3	%	54,799	9.2	%
Net deferred origination costs	973			417		
Total gross loans	629,827	100.0	%	598,111	100.0	%
Allowance for credit losses	(9,299)			(9,610)		
Total loans	$ 620,528			$ 588,501		

The table above includes loans acquired at fair value on July 1, 2013 when the Company acquired Visalia Community Bank (VCB), in a combined cash and stock transaction. The acquired VCB assets and liabilities were recorded at fair value at the date of acquisition. Loans acquired in the VCB acquisition had outstanding balances of $50,568,000 and $62,395,000 as of September 30, 2016 and December 31, 2015, respectively.

At September 30, 2016 and December 31, 2015, loans originated under Small Business Administration (SBA) programs totaling $14,191,000 and $10,704,000, respectively, were included in the real estate and commercial categories, of which, $10,381,000 or 73% and $7,295,000 or 68%, respectively, are secured by government guarantees.

The allowance for credit losses (the "Allowance") is a valuation allowance for probable incurred credit losses in the Company's loan portfolio. The Allowance is established through a provision for credit losses which is charged to expense. Additions to the Allowance are expected to maintain the adequacy of the total Allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the Allowance. Cash received on previously charged-off credits is recorded as a recovery to the Allowance. The overall Allowance consists of two primary components, specific reserves related to impaired loans and general reserves for probable incurred losses related to loans that are not impaired.

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

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The following table shows the summary of activities for the Allowance as of and for the three months ended September 30, 2016 and 2015 by portfolio segment (in thousands):

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
Beginning balance, July 1, 2016	$ 2,972	$ 5,660	$ 948	$ 292	$9,872
(Reversal) Provision charged to operations	(963)	259	(23)	(273)	(1,000)
Losses charged to allowance	(494)	—	(36)	—	(530)
Recoveries	803	131	23	—	957
Ending balance, September 30, 2016	$ 2,318	$ 6,050	$ 912	$ 19	$9,299
Allowance for credit losses:					
Beginning balance, July 1, 2015	$ 3,553	$ 4,429	$ 732	$ —	$8,714
(Reversal) Provision charged to operations	(186)	154	27	105	100
Losses charged to allowance	(11)	—	(22)	—	(33)
Recoveries	267	8	37	—	312
Ending balance, September 30, 2015	$ 3,623	$ 4,591	$ 774	$ 105	$9,093

The following table shows the summary of activities for the allowance for loan losses as of and for the nine months ended September 30, 2016 and 2015 by portfolio segment of loans (in thousands):

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
Beginning balance, January 1, 2016	$ 3,562	$ 5,204	$ 734	$ 110	$9,610
(Reversal) Provision charged to operations	(5,787)	(136)	164	(91)	(5,850)
Losses charged to allowance	(499)	—	(148)	—	(647)
Recoveries	5,042	982	162	—	6,186
Ending balance, September 30, 2016	$ 2,318	$ 6,050	$ 912	$ 19	$9,299
Allowance for credit losses:					
Beginning balance, January 1, 2015	$ 3,130	$ 4,058	$ 1,078	$ 42	$8,308
Provision charged to operations	731	509	(703)	63	600
Losses charged to allowance	(708)	—	(95)	—	(803)
Recoveries	470	24	494	—	988
Ending balance, September 30, 2015	$ 3,623	$ 4,591	$ 774	$ 105	$9,093

The following is a summary of the Allowance by impairment methodology and portfolio segment as of September 30, 2016 and December 31, 2015 (in thousands):

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
Ending balance, September 30, 2016	$ 2,318	$ 6,050	$ 912	$ 19	$9,299
Ending balance: individually evaluated for impairment	$ 13	$ 96	$ 83	$ —	$192
Ending balance: collectively evaluated for impairment	$ 2,305	$ 5,954	$ 829	$ 19	$9,107
Ending balance, December 31, 2015	$ 3,562	$ 5,204	$ 734	$ 110	$9,610
Ending balance: individually evaluated for impairment	$ 1	$ 128	$ 35	$ —	$164
Ending balance: collectively evaluated for impairment	$ 3,561	$ 5,076	$ 699	$ 110	$9,446

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The following table shows the ending balances of loans as of September 30, 2016 and December 31, 2015 by portfolio segment and by impairment methodology (in thousands):

	Commercial	Real Estate	Consumer	Total
Loans:				
Ending balance, September 30, 2016	$ 114,637	$ 449,759	$ 64,458	$ 628,854
Ending balance: individually evaluated for impairment	$ 134	$ 3,898	$ 374	$ 4,406
Ending balance: collectively evaluated for impairment	$ 114,503	$ 445,861	$ 64,084	$ 624,448
Loans:				
Ending balance, December 31, 2015	$ 132,669	$ 410,226	$ 54,799	$ 597,694
Ending balance: individually evaluated for impairment	$ 30	$ 5,199	$ 1,470	$ 6,699
Ending balance: collectively evaluated for impairment	$ 132,639	$ 405,027	$ 53,329	$ 590,995

The following table shows the loan portfolio by class allocated by management's internal risk ratings at September 30, 2016 (in thousands):

	Pass	Special Mention	Sub-Standard	Doubtful	Total
Commercial:					
Commercial and industrial	$ 75,494	$ 7,613	$ 5,930	$ —	$ 89,037
Agricultural land and production	19,631	4,209	1,760	—	25,600
Real Estate:					
Owner occupied	164,295	3,982	1,178	—	169,455
Real estate construction and other land loans	40,384	—	2,255	—	42,639
Commercial real estate	128,184	804			