MidWestOne Financial Group, Inc.
Form 10-Q
October 29, 2015

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015
OR
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 001-35968

MIDWESTONE FINANCIAL GROUP, INC.
(Exact name of Registrant as specified in its charter)

Iowa	42-1206172
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

102 South Clinton Street
Iowa City, IA 52240
(Address of principal executive offices, including zip code)
319-356-5800
(Registrant’s telephone number, including area code)

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. x Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 (Do not check if a smaller reporting company)	Smaller reporting company	o

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

As of October 28, 2015, there were 11,406,431 shares of common stock, $1.00 par value per share, outstanding.

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Form 10-Q Quarterly Report
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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements.

MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share amounts)	September 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Cash and due from banks	$50,793	$23,028
Interest-bearing deposits in banks	41,202	381
Federal funds sold	339	—
Cash and cash equivalents	92,334	23,409
Investment securities:		
Available for sale	415,042	474,942
Held to maturity (fair value of $102,468 as of September 30, 2015 and $51,253 as of December 31, 2014)	102,920	51,524
Loans held for sale	4,111	801
Loans	2,137,212	1,132,519
Allowance for loan losses	(18,871)	(16,363)
Net loans	2,118,341	1,116,156
Loan pool participations, net	—	19,332
Premises and equipment, net	74,989	37,770
Accrued interest receivable	13,230	10,898
Goodwill	63,192	—
Other intangible assets, net	20,276	8,259
Bank-owned life insurance	45,962	38,142
Other real estate owned	8,299	1,916
Deferred income taxes	2,256	3,078
Other assets	20,888	14,075
Total assets	$2,981,840	$1,800,302
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand	$532,058	$214,461
Interest-bearing checking	828,296	618,540
Savings	425,740	102,527
Certificates of deposit under $100,000	368,620	235,395
Certificates of deposit $100,000 and over	313,364	237,619
Total deposits	2,468,078	1,408,542
Federal funds purchased	—	17,408
Securities sold under agreements to repurchase	69,228	60,821
Federal Home Loan Bank borrowings	87,000	93,000
Junior subordinated notes issued to capital trusts	23,560	15,464
Long-term debt	23,750	—
Deferred compensation liability	5,143	3,393
Accrued interest payable	1,578	863
Other liabilities	12,837	8,080
Total liabilities	2,691,174	1,607,571
Shareholders' equity:		

Preferred stock, no par value; authorized 500,000 shares; no shares issued and outstanding at September 30, 2015 and December 31, 2014	$—	$—
Common stock, $1.00 par value; authorized 15,000,000 shares at September 30, 2015 and December 31, 2014; issued 11,713,481 shares at September 30, 2015 and 8,690,398 shares at December 31, 2014; outstanding 11,406,431 shares at September 30, 2015 and 8,355,666 shares at December 31, 2014	11,713	8,690
Additional paid-in capital	163,323	80,537
Treasury stock at cost, 307,050 shares as of September 30, 2015 and 334,732 shares at December 31, 2014	(6,380)	(6,945)
Retained earnings	117,374	105,127
Accumulated other comprehensive income	4,636	5,322
Total shareholders' equity	290,666	192,731
Total liabilities and shareholders' equity	$2,981,840	$1,800,302

See accompanying notes to consolidated financial statements.

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MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited) (dollars in thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest income:				
Interest and fees on loans	$26,697	$12,151	$60,959	$36,096
Interest and discount on loan pool participations	—	325	798	1,137
Interest on bank deposits	13	15	29	24
Interest on investment securities:				
Taxable securities	1,914	2,170	5,721	6,760
Tax-exempt securities	1,365	1,335	4,149	4,076
Total interest income	29,989	15,996	71,656	48,093
Interest expense:				
Interest on deposits:				
Interest-bearing checking	706	532	1,903	1,624
Savings	48	36	128	108
Certificates of deposit under $100,000	995	687	2,112	2,018
Certificates of deposit $100,000 and over	1,165	551	2,158	1,445
Total interest expense on deposits	2,914	1,806	6,301	5,195
Interest on federal funds purchased	19	2	33	8
Interest on securities sold under agreements to repurchase	51	28	124	87
Interest on Federal Home Loan Bank borrowings	334	519	1,086	1,626
Interest on other borrowings	6	5	16	18
Interest on junior subordinated notes issued to capital trusts	191	69	399	210
Interest on subordinated notes	—	—	162	—
Interest on long-term debt	144	—	240	—
Total interest expense	3,659	2,429	8,361	7,144
Net interest income	26,330	13,567	63,295	40,949
Provision for loan losses	2,141	150	3,642	900
Net interest income after provision for loan losses	24,189	13,417	59,653	40,049
Noninterest income:				
Trust, investment, and insurance fees	1,428	1,442	4,642	4,390
Service charges and fees on deposit accounts	1,297	918	3,098	2,394
Mortgage origination and loan servicing fees	1,025	449	2,096	1,204
Other service charges, commissions and fees	1,371	625	2,759	1,796
Bank-owned life insurance income	344	423	964	877
Gain on sale or call of available for sale securities	—	145	1,011	1,119
Gain (loss) on sale of premises and equipment	(5)	4	(15)	(1)
Total noninterest income	5,460	4,006	14,555	11,779
Noninterest expense:				
Salaries and employee benefits	11,762	6,337	28,625	18,531
Net occupancy and equipment expense	2,719	1,546	6,585	4,785
Professional fees	959	724	3,868	2,078
Data processing expense	928	357	2,028	1,172
FDIC insurance expense	431	241	1,058	724
Amortization of intangible assets	800	136	2,136	410
Other operating expense	2,314	1,478	6,638	4,150

Total noninterest expense	19,913	10,819	50,938	31,850
Income before income tax expense	9,736	6,604	23,270	19,978
Income tax expense	2,121	1,715	6,390	5,363
Net income	$7,615	$4,889	$16,880	$14,615
Share and per share information:				
Ending number of shares outstanding	11,406,431	8,348,464	11,406,431	8,348,464
Average number of shares outstanding	11,406,132	8,366,858	10,010,926	8,423,188
Diluted average number of shares	11,434,186	8,391,353	10,038,093	8,449,748
Earnings per common share - basic	$0.67	$0.59	$1.69	$1.74
Earnings per common share - diluted	0.67	0.59	1.68	1.73
Dividends paid per common share	0.150	0.145	0.450	0.435

See accompanying notes to consolidated financial statements.

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MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited) (dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$7,615	$4,889	$16,880	$14,615
Other comprehensive income, available for sale securities:				
Unrealized holding gains (losses) arising during period	2,196	(212)	(78)	6,641
Reclassification adjustment for gains included in net income	—	(145)	(1,011)	(1,119)
Income tax (expense) benefit	(833)	132	403	(2,097)
Other comprehensive income (loss) on available for sale securities	1,363	(225)	(686)	3,425
Other comprehensive income (loss), net of tax	1,363	(225)	(686)	3,425
Comprehensive income	$8,978	$4,664	$16,194	$18,040

See accompanying notes to consolidated financial statements.

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MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(unaudited) (dollars in thousands, except per share amounts)	Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2013	$—	$8,690	$80,506	$(3,702)	$91,473	$ 1,049	$178,016
Net income	—	—	—	—	14,615	—	14,615
Dividends paid on common stock ($0.435 per share)	—	—	—	—	(3,656)	—	(3,656)
Stock options exercised (7,207 shares)	—	—	(8)	140	—	—	132
Release/lapse of restriction on RSUs (27,266 shares)	—	—	(431)	455	—	—	24
Repurchase of common stock (165,766 shares)	—	—	—	(3,987)	—	—	(3,987)
Stock compensation	—	—	371	—	—	—	371
Other comprehensive income, net of tax	—	—	—	—	—	3,425	3,425
Balance at September 30, 2014	$—	$8,690	$80,438	$(7,094)	$102,432	$ 4,474	$188,940
Balance at December 31, 2014	$—	$8,690	$80,537	$(6,945)	$105,127	$ 5,322	$192,731
Net income	—	—	—	—	16,880	—	16,880
Issuance of common stock due to business combination (2,723,083 shares)	—	2,723	75,172	—	—	—	77,895
Issuance of common stock - private placement (300,000 shares), net of expenses	—	300	7,600	—	—	—	7,900
Dividends paid on common stock ($0.45 per share)	—	—	—	—	(4,633)	—	(4,633)
Stock options exercised (5,769 shares)	—	—	(32)	120	—	—	88
Release/lapse of restriction on RSUs (23,123 shares)	—	—	(416)	445	—	—	29
Stock compensation	—	—	462	—	—	—	462
Other comprehensive loss, net of tax	—	—	—	—	—	(686)	(686)
Balance at September 30, 2015	$—	$11,713	$163,323	$(6,380)	$117,374	$ 4,636	$290,666

See accompanying notes to consolidated financial statements.

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MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (dollars in thousands)	Nine Months Ended September 30, 2015	2014
Cash flows from operating activities:		
Net income	$16,880	$14,615
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,642	900
Depreciation, amortization and accretion	5,952	3,237
Loss on sale of premises and equipment	15	1
Deferred income taxes	(169)	2,313
Stock-based compensation	462	371
Net gain on sale or call of available for sale securities	(1,011)	(1,119)
Net loss on sale of other real estate owned	(108)	(59)
Net gain on sale of loans held for sale	(1,240)	(363)
Writedown of other real estate owned	—	49
Origination of loans held for sale	(99,302)	(30,452)
Proceeds from sales of loans held for sale	97,232	30,414
(Increase) decrease in accrued interest receivable	339	(389)
Increase in cash surrender value of bank-owned life insurance	(964)	(877)
(Increase) decrease in other assets	4,734	(476)
Increase (decrease) in deferred compensation liability	94	(64)
Decrease in accrued interest payable, accounts payable, accrued expenses, and other liabilities	(4,489)	(619)
Net cash provided by operating activities	22,067	17,482
Cash flows from investing activities:		
Proceeds from sales of available for sale securities	112,054	28,450
Proceeds from maturities and calls of available for sale securities	64,921	50,760
Purchases of available for sale securities	(11)	(65,653)
Proceeds from maturities and calls of held to maturity securities	3,077	914
Purchase of held to maturity securities	(12,394)	(12,386)
Net increase in loans	(89,521)	(14,447)
Decrease in loan pool participations, net	19,332	5,056
Purchases of premises and equipment	(11,558)	(8,363)
Proceeds from sale of other real estate owned	2,812	585
Proceeds from sale of premises and equipment	33	17
Proceeds of principal and earnings from bank-owned life insurance	—	488
Net cash paid in business acquisition (Note 2)	(35,596)	—
Net cash provided by (used in) investing activities	53,149	(14,579)
Cash flows from financing activities:		
Net increase in deposits	10,369	56,623
Decrease in federal funds purchased	(17,408)	(3,734)
Increase (decrease) in securities sold under agreements to repurchase	(7,717)	210
Proceeds from Federal Home Loan Bank borrowings	24,000	26,000
Repayment of Federal Home Loan Bank borrowings	(30,000)	(32,000)
Stock options exercised	117	156
Redemption of subordinated note	(12,669)	—

Proceeds from long-term debt	25,000	—
Payments on long-term debt	(1,250)	—
Dividends paid	(4,633)	(3,656)
Issuance of common stock, net of expenses	7,900	—
Repurchase of common stock	—	(3,987)
Net cash provided by (used in) financing activities	(6,291)	39,612
Net increase in cash and cash equivalents	68,925	42,515
Cash and cash equivalents at beginning of period	23,409	24,890
Cash and cash equivalents at end of period	$92,334	$67,405

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MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)

(unaudited) (dollars in thousands)	Nine Months Ended September 30,	
	2015	2014
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$7,646	$7,019
Cash paid during the period for income taxes	$4,650	$1,787
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	$667	$641
Supplemental Schedule of non-cash Investing Activities from Acquisition:		
Noncash assets acquired:		
Investment securities	$160,775	—
Loans	916,973	—
Premises and equipment	27,908	—
Goodwill	63,192	—
Core deposit intangible	12,773	—
Trade name intangible	1,380	—
FDIC indemnification asset	3,753	—
Other real estate owned	8,420	—
Other assets	15,944	—
Total noncash assets acquired	1,211,118	—
Liabilities assumed:		
Deposits	1,049,167	—
Short-term borrowings	16,124	—
Junior subordinated notes issued to capital trusts	8,050	—
Subordinated note payable	12,669	—
Other liabilities	11,617	—
Total liabilities assumed	1,097,627	—

See accompanying notes to consolidated financial statements.

MidWestOne Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

1. Principles of Consolidation and Presentation

MidWestOne Financial Group, Inc. (the "Company," which is also referred to herein as "we," "our" or "us") is an Iowa corporation incorporated in 1983, a bank holding company under the Bank Holding Company Act of 1956 and a financial holding company under the Gramm-Leach-Bliley Act of 1999. Our principal executive offices are located at 102 South Clinton Street, Iowa City, Iowa 52240.

On May 1, 2015, the Company completed its merger with Central Bancshares, Inc. ("Central"), pursuant to which Central was merged with and into the Company. In connection with the merger, Central Bank, a Minnesota-chartered commercial bank and wholly-owned subsidiary of Central, became a wholly-owned subsidiary of the Company. The Company issued 2,723,083 shares of common stock and paid $64.0 million in cash, for total consideration of $141.9 million in connection with the merger. The results of operations acquired from Central have been included in the Company's results of operations for the time period since the date of acquisition.

The Company owns all of the common stock of MidWestOne Bank, an Iowa state non-member bank chartered in 1934 with its main office in Iowa City, Iowa, all of the common stock of Central Bank, a Minnesota state non-member bank chartered in 1988 with its main office in Golden Valley, Minnesota, and all of the common stock of MidWestOne Insurance Services, Inc., Oskaloosa, Iowa. We operate primarily through our bank subsidiaries, MidWestOne Bank and Central Bank, and MidWestOne Insurance Services, Inc., our wholly-owned subsidiary that operates an insurance agency business through six offices located in central and east-central Iowa.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all the information and notes necessary for complete financial statements in conformity with U.S. Generally Accepted Accounting Principles ("GAAP"). The information in this Quarterly Report on Form 10-Q is written with the presumption that the users of the interim financial statements have read or have access to the most recent Annual Report on Form 10-K of the Company, which contains the latest audited financial statements and notes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2014 and for the year then ended. Management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the Company's financial position as of September 30, 2015, and the results of operations and cash flows for the three and nine months ended September 30, 2015 and 2014. All significant intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect: (1) the reported amounts of assets and liabilities, (2) the disclosure of contingent assets and liabilities at the date of the financial statements, and (3) the reported amounts of revenues and expenses during the reporting period. These estimates are based on information available to management at the time the estimates are made. Actual results could differ from those estimates. The results for the three and nine months ended September 30, 2015 may not be indicative of results for the year ending December 31, 2015, or for any other period.

All significant accounting policies followed in the preparation of the quarterly financial statements are disclosed in the Annual Report on Form 10-K for the year ended December 31, 2014. In the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks and interest-bearing deposits in banks.

Certain reclassifications have been made to prior periods' consolidated financial statements to present them on a basis comparable with the current period's consolidated financial statements.

2. Business Combination

On May 1, 2015, the Company acquired all of the voting equity interests of Central, a bank holding company and the parent company of Central Bank, a commercial bank headquartered in Golden Valley, Minnesota, through the merger of Central with and into the Company. Among other things, this transaction provides the Company with the

opportunity to expand the business into new markets and grow the size of the business. At the effective time of the merger, each share of common stock of Central converted into a pro rata portion of (1) 2,723,083 shares of common stock of the Company, and (2) $64.0 million in cash.

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This business combination was accounted for under the acquisition method of accounting. Accordingly, the results of operations of the acquired company have been included in the Company’s results of operations since the date of acquisition. Under this method of accounting, assets and liabilities acquired are recorded at their estimated fair values. The excess cost over fair value of net assets acquired is recorded as goodwill. As the consideration paid for Central exceeded the net assets acquired, goodwill of $63.2 million was recorded on the acquisition. Goodwill recorded in this transaction, which reflects the entry into the geographically new markets served by Central, has been provisionally allocated to our Central Bank segment. Goodwill recorded in the transaction is not tax deductible. The fair value of certain assets and liabilities and results recognized in the financial statements for the business combination have been determined only provisionally as of the third quarter of 2015. The following acquired assets and liabilities are included within the consolidated financial statements as of September 30, 2015 as provisional amounts as the Company continues to gather information to estimate the fair value as of the date of acquisition: 1) deferred taxes remain provisional as the Company continues the process of transitioning Central Bank from an S-Corp to a C-Corp. The Company expects to obtain the additional information needed to finalize this amount in the first quarter of 2016, following the filing of the income tax return for pre-merger Central. All other amounts recognized for the business combination in the financial statements have been determined to be final as of September 30, 2015.
Estimated fair values of assets acquired and liabilities assumed in the Central transaction, as of the closing date of the transaction, were as follows:

(in thousands)	May 1, 2015	
ASSETS		
Cash and due from banks	$28,404	
Investment securities	160,775	
Loans	916,973	
Premises and equipment	27,908	
Goodwill	63,192	
Core deposit intangible	12,773	
Trade name intangible	1,380	
FDIC indemnification asset	3,753	
Other real estate owned	8,420	
Other assets	15,944	
Total assets	1,239,522	
LIABILITIES		
Deposits	1,049,167	
Short-term borrowings	16,124	
Junior subordinated notes issued to capital trusts	8,050	
Subordinated notes payable	12,669	
Accrued expenses and other liabilities	11,617	
Total liabilities	1,097,627	
Total identifiable net assets	141,895	
Consideration:		
Market value of common stock at $29.31 per share at May 1, 2015 (2,723,083 shares of common stock issued)	79,814	
Stock illiquidity discount due to restrictions	(1,919	)
Cash paid	64,000	
Total fair value of consideration	$141,895	

Purchased loans acquired in a business combination are recorded and initially measured at their estimated fair value as of the acquisition date. Credit discounts are included in the determination of fair value. An allowance for loan losses is not carried over. These purchased loans are segregated into two types: purchased credit impaired loans and purchased non-credit impaired loans without evidence of significant credit deterioration.

- Purchased credit impaired loans are accounted for in accordance with ASC 310-30 “Loans and Debt Securities Acquired with Deteriorated Credit Quality” as they display significant credit deterioration since origination and it is probable, as of the acquisition date, that the Company will be unable to collect all contractually required payments from the borrower.

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- Purchased non-credit impaired loans are accounted for in accordance with ASC 310-20 “Nonrefundable Fees and Other Costs” as these loans do not have evidence of significant credit deterioration since origination and it is probable all contractually required payments will be received from the borrower.

For purchased non-credit impaired loans, the difference between the estimated fair value of the loans (computed on a loan-by-loan basis) and the principal outstanding is accreted over the remaining life of the loans.

For purchased credit impaired loans the difference between contractually required payments at acquisition and the cash flows expected to be collected is referred to as the non-accretable difference. Further, any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized into interest income over the expected remaining life of the loan if the timing and amount of the future cash flows are reasonably estimable. Subsequent to the purchase date, increases in cash flows over those expected at the purchase date are recognized as interest income prospectively. The present value of any decreases in expected cash flows after the purchase date is recognized by recording an allowance for credit losses and a provision for loan losses.

The following table presents the purchased loans as of the acquisition date:

(in thousands)	Purchased Credit Impaired Loans	Purchased Non-Credit Impaired Loans
Contractually required principal payments	$36,886	$905,314
Nonaccretable difference	(6,675)	—
Principal cash flows expected to be collected	30,211	905,314
Accretable difference	(1,882)	(16,670)
Fair value of acquired loans	$28,329	$888,644

Disclosures required by ASC 805-20-50-1(a) concerning the FDIC indemnification assets have not been included due to the immateriality of the amount involved. See Note 6. “Loans Receivable and the Allowance for Loan Losses” to our consolidated financial statements for additional information related to the FDIC indemnification asset.

ASC 805-30-30-7 requires that the consideration transfered in a business combination should be measured at fair value. Since the common shares issued as part of the consideration of the merger included a restriction on their sale, pledge or other disposition, an illiquidity discount has been assigned to the shares based upon the volatility of the underlying shares’ daily returns and the period of restriction.

The Company recorded $0.2 million and $3.4 million in pre-tax merger-related expenses for the three and nine months ended 2015, respectively, including professional and legal fees of $0.2 million and $1.9 million, respectively, to directly consummate the merger. These amounts are included in professional fees in the Company’s consolidated statements of operations. The remainder of merger-related expenses primarily relate to retention and severance compensation costs, which are included in salaries and employee benefits in the consolidated statements of operations, and service contract termination costs, which are included in other operating expenses.

During the measurement period, specifically the three months ended September 30, 2015, the Company recognized adjustments to the provisional amounts reported at June 30, 2015, which reflect new information that existed as of May 1, 2015 that, if known, would have affected the measurement of the amounts recognized as of that date. In its interim financial statements for the nine months ended September 30, 2015, the Company adjusted the provisional amounts for the trade name, stock illiquidity discount, FDIC indemnification asset and other real estate owned. The results of these adjustments are reflected in the $6.7 million increase to goodwill during the quarter ended September 30, 2015. The provisional adjustments had no significant impact on earnings for the three and six months ending June 30, 2015 and in accordance with ASU 2015-16 were recorded in earnings during the three months ending September 30, 2015.

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The following table provides the unaudited pro forma information for the results of operations for the three and nine months ended September 30, 2015 and 2014, as if the acquisition had occurred January 1, 2014. The pro forma results combine the historical results of Central into the Company's consolidated statement of income including the impact of certain purchase accounting adjustments, including loan discount accretion, investment securities discount accretion, intangible assets amortization, deposit premium accretion and borrowing discount amortization. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2014. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions. The merger-related expenses that have been recognized are included in net income in the table below.

	Pro Forma			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Total revenues (net interest income plus noninterest income)	$31,258	$32,075	$95,175	$96,954
Net income	$6,455	$6,333	$17,052	$17,101

The pro forma information above excludes the impact of any provision recorded related to renewing Central loans. Revenues and earnings included in the consolidated statements of operations of the acquired company since the acquisition date for the three months ended September 30, 2015 were $14.8 million and $2.4 million, respectively, and $25.3 million and $4.5 million for the nine months ended September 30, 2015, respectively.

3. Shareholders' Equity

Preferred Stock: The number of authorized shares of preferred stock for the Company is 500,000. As of September 30, 2015, none were issued or outstanding.

Common Stock: As of September 30, 2015, the number of authorized shares of common stock for the Company was 15,000,000. As of September 30, 2015, 11,406,431 shares were outstanding.

On May 1, 2015, in connection with the Central merger, the Company issued 2,723,083 shares of its common stock.

On June 22, 2015, the Company entered into a Securities Purchase Agreement with certain institutional accredited investors, pursuant to which, on June 23, 2015, the Company sold an aggregate of 300,000 newly issued shares of the Company's common stock, $1.00 par value per share, at a purchase price of $28.00 per share. Each of the purchasers was an existing shareholder of the Company.

On July 17, 2014, the board of directors of the Company approved a share repurchase program, allowing for the repurchase of up to $5.0 million of stock through December 31, 2016. The repurchase program replaced the Company's prior repurchase program, pursuant to which the Company had repurchased approximately $3.7 million of common stock since January 1, 2013. Pursuant to the repurchase program, the Company may continue to repurchase shares from time to time in the open market, and the method, timing and amounts of repurchase will be solely in the discretion of the Company's management. The repurchase program does not require the Company to acquire a specific number of shares. Therefore, the amount of shares repurchased pursuant to the program will depend on several factors, including market conditions, capital and liquidity requirements, and alternative uses for cash available. During the third quarter of 2015 the Company repurchased no common stock. Of the $5.0 million of stock authorized under the repurchase plan, $3.8 million remained available for possible future repurchases as of September 30, 2015.

4. Earnings per Share

Basic per-share amounts are computed by dividing net income (the numerator) by the weighted-average number of common shares outstanding (the denominator). Diluted per-share amounts assume issuance of all common stock issuable upon conversion or exercise of other securities, unless the effect is to reduce the loss or increase the income per common share from continuing operations.

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The following table presents the computation of earnings per common share for the respective periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share amounts)	2015	2014	2015	2014
Basic earnings per common share computation				
Numerator:				
Net income	$7,615	$4,889	$16,880	$14,615
Denominator:				
Weighted average shares outstanding	11,406,132	8,366,858	10,010,926	8,423,188
Basic earnings per common share	$0.67	$0.59	$1.69	$1.74
Diluted earnings per common share computation				
Numerator:				
Net income	$7,615	$4,889	$16,880	$14,615
Denominator:				
Weighted average shares outstanding, including all dilutive potential shares	11,434,186	8,391,353	10,038,093	8,449,748
Diluted earnings per common share	$0.67	$0.59	$1.68	$1.73

5. Investment Securities

The amortized cost and fair value of investment securities available for sale, with gross unrealized gains and losses, are as follows:

	As of September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
U.S. Government agencies and corporations	$26,760	$335	$—	$27,095
State and political subdivisions	172,734	6,696	189	179,241
Mortgage-backed securities	59,766	750	122	60,394
Collateralized mortgage obligations	106,187	613	877	105,923
Corporate debt securities	40,880	262	—	41,142
Total debt securities	406,327	8,656	1,188	413,795
Other equity securities	1,248	28	29	1,247
Total	$407,575	$8,684	$1,217	$415,042

	As of December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
U.S. Government agencies and corporations	$49,392	$248	$265	$49,375
State and political subdivisions	187,276	8,113	190	195,199
Mortgage-backed securities	30,965	1,498	—	32,463
Collateralized mortgage obligations	147,412	813	2,093	146,132
Corporate debt securities	48,656	188	103	48,741
Total debt securities	463,701	10,860	2,651	471,910
Other equity securities	2,686	380	34	3,032
Total	$466,387	$11,240	$2,685	$474,942

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The amortized cost and fair value of investment securities held to maturity, with gross unrealized gains and losses, are as follows:

	As of September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
State and political subdivisions	$57,112	$458	$257	$57,313
Mortgage-backed securities	4,175	6	31	4,150
Collateralized mortgage obligations	24,082	19	239	23,862
Corporate debt securities	17,551	—	408	17,143
Total	$102,920	$483	$935	$102,468

	As of December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
State and political subdivisions	$39,704	$370	$252	$39,822
Mortgage-backed securities	22	3	—	25
Collateralized mortgage obligations	8,531	—	233	8,298
Corporate debt securities	3,267	—	159	3,108
Total	$51,524	$373	$644	$51,253

Investment securities with a carrying value of $291.5 million and $200.7 million at September 30, 2015 and December 31, 2014, respectively, were pledged on public deposits, securities sold under agreements to repurchase and for other purposes, as required or permitted by law.

The summary of investment securities shows that some of the securities in the available for sale and held to maturity investment portfolios had unrealized losses, or were temporarily impaired, as of September 30, 2015 and December 31, 2014. This temporary impairment represents the estimated amount of loss that would be realized if the securities were sold on the valuation date.

The following presents information pertaining to securities with gross unrealized losses as of September 30, 2015 and December 31, 2014, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

		As of September 30, 2015					
	Number	Less than 12 Months		12 Months or More		Total	
Available for Sale	of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(in thousands, except number of securities)							
State and political subdivisions	39	$7,909	$ 81	$3,388	$ 108	$11,297	$ 189
Mortgage-backed securities	20	31,802	122	—	—	31,802	122
Collateralized mortgage obligations	12	15,397	58	35,358	819	50,755	877
Other equity securities	1	—	—	971	29	971	29
Total	72	$55,108	$ 261	$39,717	$ 956	$94,825	$ 1,217

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	Number of Securities	As of December 31, 2014 Less than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
(in thousands, except number of securities)							
U.S. Government agencies and corporations	4	$9,946	$ 11	$15,018	$ 254	$24,964	$ 265
State and political subdivisions	46	3,024	18	10,728	172	13,752	190
Collateralized mortgage obligations	14	14,971	123	68,370	1,970	83,341	2,093
Corporate debt securities	7	23,024	50	3,400	53	26,424	103
Other equity securities	1	—	—	966	34	966	34
Total	72	$50,965	$ 202	$98,482	$ 2,483	$149,447	$ 2,685

Held to Maturity	Number of Securities	As of September 30, 2015 Less than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
(in thousands, except number of securities)							
State and political subdivisions	56	$19,277	$ 227	$1,347	$ 30	$20,624	$ 257
Mortgage-backed securities	5	3,972	31	—	—	3,972	31
Collateralized mortgage obligations	5	12,449	124	7,672	115	20,121	239
Corporate debt securities	6	3,700	223	700	185	4,400	408
Total	72	$39,398	$ 605	$9,719	$ 330	$49,117	$ 935

	Number of Securities	As of December 31, 2014 Less than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
(in thousands, except number of securities)							
State and political subdivisions	29	$5,322	$ 190	$9,144	$ 62	$14,466	$ 252
Collateralized mortgage obligations	1	—	—	8,298	233	8,298	233
Corporate debt securities	2	2,358	27	750	132	3,108	159
Total	32	$7,680	$ 217	$18,192	$ 427	$25,872	$ 644

The Company’s assessment of other-than-temporary impairment (“OTTI”) is based on its reasonable judgment of the specific facts and circumstances impacting each individual security at the time such assessments are made. The Company reviews and considers factual information, including expected cash flows, the structure of the security, the creditworthiness of the issuer, the type of underlying assets, if any, and the current and anticipated market conditions. At September 30, 2015 and December 31, 2014, the Company’s mortgage-backed securities and collateralized mortgage obligations portfolios consisted of securities predominantly backed by one- to four-family mortgage loans and underwritten to the standards of and guaranteed by the following government-sponsored agencies: the Federal Home Loan Mortgage Corporation (“FHLMC”), the Federal National Mortgage Association (“FNMA”), and the Government National Mortgage Association (“GNMA”). The receipt of principal, at par, and interest on mortgage-backed securities is guaranteed by the respective government-sponsored agency guarantor, such that the Company believes that its mortgage-backed securities do not expose the Company to credit-related losses.

At September 30, 2015, approximately 58% of the municipal bonds held by the Company were Iowa-based, and approximately 20% were Minnesota-based. The Company does not intend to sell these municipal obligations, and it is not more likely than not that the Company will be required to sell them before the recovery of their cost. Due to the issuers' continued satisfaction of their obligations under the securities in accordance with their contractual terms and the expectation that they will continue to do so, management's intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery at fair value, as well as the evaluation of the fundamentals of the issuers' financial conditions and other objective evidence, the Company believes that the municipal obligations identified in the tables above were temporarily impaired as of September 30, 2015 and December 31, 2014.

As of September 30, 2015, the Company also owned $1.0 million of equity securities in banks and financial service-related companies, and $1.0 million of mutual funds invested in debt securities and other debt instruments that will cause units of the fund to be deemed to be qualified under the Community Reinvestment Act. Equity securities are considered

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to have OTTI whenever they have been in a loss position, compared to current book value, for twelve consecutive months, and the Company does not expect them to recover to their original cost basis. For the nine months ended September 30, 2015 and the full year of 2014, no impairment charges were recorded, as the affected equity securities were not deemed impaired due to stabilized market prices in relation to the Company's original purchase price.

The following table provides a roll forward of credit losses on fixed maturity securities recognized in net income:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
(in thousands)				
Beginning balance	$—	$—	$—	$6,639
Additional credit losses:				
Reductions to credit losses:				
Securities with other than temporary impairment, due to sale	—	—	—	(6,639)
Ending balance	$—	$—	$—	$—

It is reasonably possible that the fair values of the Company's investment securities could decline in the future if interest rates increase or the overall economy or the financial conditions of the issuers deteriorate. As a result, there is a risk that additional OTTI may be recognized in the future and any such amounts could be material to the Company's consolidated statements of operations.

The contractual maturity distribution of investment debt securities at September 30, 2015, is summarized as follows:

	Available For Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(in thousands)				
Due in one year or less	$35,588	$35,983	$421	$422
Due after one year through five years	76,655	78,800	5,361	5,355
Due after five years through ten years	108,632	112,894	44,256	44,233
Due after ten years	19,499	19,801	24,625	24,446
Debt securities without a single maturity date	165,953	166,317	28,257	28,012
Total	$406,327	$413,795	$102,920	$102,468

Mortgage-backed securities and collateralized mortgage obligations are collateralized by mortgage loans and guaranteed by U.S. government agencies. Our experience has indicated that principal payments will be collected sooner than scheduled because of prepayments. Therefore, these securities are not scheduled in the maturity categories indicated above. Equity securities available for sale with an amortized cost of $1.2 million and a fair value of $1.2 million are also excluded from this table.

Other investment securities include investments in Federal Home Loan Bank ("FHLB") stock. The carrying value of the FHLB stock at September 30, 2015 was $9.8 million and at December 31, 2014 was $8.6 million, which is included in the Other Assets line of the consolidated balance sheets. This security is not readily marketable and ownership of FHLB stock is a requirement for membership in the FHLB-Des Moines. The amount of FHLB stock held is directly related to the amount of FHLB advances borrowed. Because there are no available market values, this security is carried at cost and evaluated for potential impairment each quarter. Redemption of this investment is at the option of the FHLB.

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Realized gains and losses on sales are determined on the basis of specific identification of investments based on the trade date. Realized gains on investments for the three and nine months ended September 30, 2015 and 2014 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(in thousands)				
Available for sale fixed maturity securities:				
Gross realized gains	$—	$235	$1,265	$1,355
Gross realized losses	—	(90)	(442)	(236)
Other-than-temporary impairment	—	—	—	—
	—	145	823	1,119
Equity securities:				
Gross realized gains	—	—	188	—
Gross realized losses	—	—	—	—
Other-than-temporary impairment	—	—	—	—
	—	—	188	—
Total net realized gains and losses	$—	$145	$1,011	$1,119

6. Loans Receivable and the Allowance for Loan Losses

The composition of allowance for loan losses and loans by portfolio segment and based on impairment method are as follows:

Allowance for Loan Losses and Recorded Investment in Loan Receivables
As of September 30, 2015 and December 31, 2014

(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
September 30, 2015							
Allowance for loan losses:							
Individually evaluated for impairment	$58	$400	$ 323	$280	$1	$ —	$1,062
Collectively evaluated for impairment	1,576	5,271	6,298	3,909	383	372	17,809
Total	$1,634	$5,671	$ 6,621	$4,189	$384	$ 372	$18,871
Loans receivable							
Individually evaluated for impairment	$3,078	$2,208	$ 17,447	$4,526	$28	$ —	$27,287
Collectively evaluated for impairment	120,266	449,801	947,193	529,202	37,146	—	2,083,608
Purchased credit impaired loans	—	354	15,695	10,268	—	—	26,317
Total	$123,344	$452,363	$ 980,335	$543,996	$37,174	$ —	$2,137,212

(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
December 31, 2014							
Allowance for loan losses:							
	$ 88	$206	$ 226	$623	$2	$ —	$1,145

Individually evaluated for impairment							
Collectively evaluated for impairment	1,418	5,574	4,173	2,544	321	1,188	15,218
Total	$ 1,506	$ 5,780	$ 4,399	$ 3,167	$ 323	$ 1,188	$ 16,363
Loans receivable							
Individually evaluated for impairment	$ 3,027	$ 3,168	$ 3,916	$ 3,341	$ 34	$ —	$ 13,486
Collectively evaluated for impairment	101,782	301,732	422,605	269,270	23,644	—	1,119,033
Total	$ 104,809	$ 304,900	$ 426,521	$ 272,611	$ 23,678	$ —	$ 1,132,519

Included above as of September 30, 2015, are loans with a contractual balance of $117.3 million and a recorded balance of $110.7 million, which are covered under loss sharing agreements with the FDIC. The agreements cover certain losses and expenses and expire at various dates through October 7, 2021. The related FDIC indemnification asset is reported separately in Note 8. “Other Assets”.
As of September 30, 2015, the purchased credit impaired loans above are $34.3 million, net of a discount of $8.0 million.
Loans with unpaid principal in the amount of $548.1 million and $404.4 million at September 30, 2015 and December 31, 2014, respectively, were pledged to the FHLB as collateral for borrowings.

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The changes in the allowance for loan losses by portfolio segment are as follows:

Allowance for Loan Loss Activity
For the Three Months Ended September 30, 2015 and 2014

(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
2015							
Beginning balance	$1,480	$5,425	$ 5,766	$3,224	$337	$ 935	$17,167
Charge-offs	—	(106)	(239)	(93)	(24)	—	(462)
Recoveries	—	10	—	10	5	—	25
Provision	154	342	1,094	1,048	66	(563)	2,141
Ending balance	$1,634	$5,671	$ 6,621	$4,189	$384	$ 372	$18,871
2014							
Beginning balance	$1,145	$5,183	$ 4,734	$3,029	$229	$ 2,112	$16,432
Charge-offs	(26)	(157)	(12)	(37)	(16)	—	(248)
Recoveries	—	52	38	17	11	—	118
Provision	221	385	31	(129)	48	(406)	150
Ending balance	$1,340	$5,463	$ 4,791	$2,880	$272	$ 1,706	$16,452

Allowance for Loan Loss Activity
For the Nine Months Ended September 30, 2015 and 2014

(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
2015							
Beginning balance	$1,506	$5,780	$ 4,399	$3,167	$323	$ 1,188	$16,363
Charge-offs	—	(397)	(430)	(641)	(76)	—	(1,544)
Recoveries	—	361	6	22	21	—	410
Provision	128	(73)	2,646	1,641	116	(816)	3,642
Ending balance	$1,634	$5,671	$ 6,621	$4,189	$384	$ 372	$18,871
2014							
Beginning balance	$1,358	$4,980	$ 5,294	$3,185	$275	$ 1,087	$16,179
Charge-offs	(26)	(430)	(165)	(238)	(61)	—	(920)
Recoveries	5	206	38	21	23	—	293
Provision	3	707	(376)	(88)	35	619	900
Ending balance	$1,340	$5,463	$ 4,791	$2,880	$272	$ 1,706	$16,452

Loan Portfolio Segment Risk Characteristics

Agricultural - Agricultural loans, most of which are secured by crops, livestock, and machinery, are provided to finance capital improvements and farm operations as well as acquisitions of livestock and machinery. The ability of the borrower to repay may be affected by many factors outside of the borrower's control including adverse weather conditions, loss of livestock due to disease or other factors, declines in market prices for agricultural products and the impact of government regulations. The ultimate repayment of agricultural loans is dependent upon the profitable operation or management of the agricultural entity. Collateral for these loans generally includes accounts receivable, inventory, equipment and real estate. However, depending on the overall financial condition of the borrower, some loans are made on an unsecured basis. The collateral securing these loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Commercial and Industrial - Commercial and industrial loans are primarily made based on the reported cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The collateral support provided by the borrower for most of these loans and the probability of repayment are based on the liquidation of the pledged

collateral and enforcement of a personal guarantee, if any exists. The primary repayment risks of commercial and industrial loans are that the cash flows of the borrower may be unpredictable, and the collateral securing these loans may fluctuate in value. The size of the loans the Company can offer to commercial customers is less than the size of the loans that competitors with larger lending limits can offer. This may limit the Company's ability to establish relationships with the largest businesses in the areas in which the Company operates. As a result, the Company may assume greater lending risks than financial institutions that have a lesser concentration of such loans and tend to make loans to larger businesses. Collateral for these loans generally includes accounts receivable, inventory, equipment and real estate. However, depending on the overall financial condition of the borrower, some loans are made on an unsecured basis. The collateral securing these loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. In addition, if the U.S. economy does not continue to improve, this could harm or continue to harm the businesses of the Company's commercial and industrial customers and reduce the value of the collateral securing these loans.

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Commercial Real Estate - The Company offers mortgage loans to commercial and agricultural customers for the acquisition of real estate used in their businesses, such as offices, warehouses and production facilities, and to real estate investors for the acquisition of apartment buildings, retail centers, office buildings and other commercial buildings. The market value of real estate securing commercial real estate loans can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Adverse developments affecting real estate values in one or more of the Company's markets could increase the credit risk associated with its loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts than other loans, and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of the Company's control or that of the borrower could negatively impact the future cash flow and market values of the affected properties.

Residential Real Estate - The Company generally retains short-term residential mortgage loans that are originated for its own portfolio but sells most long-term loans to other parties while retaining servicing rights on the majority of those loans. The market value of real estate securing residential real estate loans can fluctuate as a result of market conditions in the geographic area in which the real estate is located. Adverse developments affecting real estate values in one or more of the Company's markets could increase the credit risk associated with its loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts than other loans, and the repayment of the loans generally is dependent, in large part, on the borrower's continuing financial stability, and is therefore more likely to be affected by adverse personal circumstances.

Consumer - Consumer loans typically have shorter terms, lower balances, higher yields and higher risks of default than real estate-related loans. Consumer loan collections are dependent on the borrower's continuing financial stability, and are therefore more likely to be affected by adverse personal circumstances. Collateral for these loans generally includes automobiles, boats, recreational vehicles, mobile homes, and real estate. However, depending on the overall financial condition of the borrower, some loans are made on an unsecured basis. The collateral securing these loans may depreciate over time, may be difficult to recover and may fluctuate in value based on condition. In addition, a decline in the United States economy could result in reduced employment, impacting the ability of customers to repay their obligations.

Charge-off Policy

The Company requires a loan to be charged-off as soon as it becomes apparent that some loss will be incurred, or when its collectability is sufficiently questionable that it no longer is considered a bankable asset. The primary considerations when determining if and how much of a loan should be charged-off are as follows: (1) the potential for future cash flows; (2) the value of any collateral; and (3) the strength of any co-makers or guarantors.

When it is determined that a loan requires a partial or full charge-off, a request for approval of a charge-off is submitted to the respective bank's President, Executive Vice President and Chief Credit Officer, and the Senior Regional Loan officer. The respective bank's board of directors formally approves all loan charge-offs. Once a loan is charged-off, it cannot be restructured and returned to the respective bank's books.

The Allowance for Loan and Lease Losses

The Company requires the maintenance of an adequate allowance for loan and lease losses ("ALLL") in order to cover estimated probable losses without eroding the Company's capital base. Calculations are done at each quarter end, or more frequently if warranted, to analyze the collectability of loans and to ensure the adequacy of the allowance. In line with Federal Deposit Insurance Corporation (the "FDIC") directives, the ALLL calculation does not include consideration of loans held for sale or off-balance-sheet credit exposures (such as unfunded letters of credit).

Determining the appropriate level for the ALLL relies on the informed judgment of management, and as such, is subject to inaccuracy. Given the inherently imprecise nature of calculating the necessary ALLL, the Company's policy permits an "unallocated" allowance between 15% above and 5% below the "indicated reserve." These unallocated amounts are due to those overall factors impacting the ALLL that are not captured in detailed loan category calculations.

Loans Reviewed Individually for Impairment

The Company identifies loans to be reviewed and evaluated individually for impairment based on current information and events and the probability that the borrower will be unable to repay all amounts due according to the contractual

terms of the loan agreement. Specific areas of consideration include: size of credit exposure, risk rating, delinquency, nonaccrual status, and loan classification.
The level of individual impairment is measured using one of the following methods: (1) the fair value of the collateral less costs to sell; (2) the present value of expected future cash flows, discounted at the loan’s effective interest rate; or (3) the loan’s observable market price. Loans that are deemed fully collateralized or have been charged down to a level corresponding with any of the three measurements require no assignment of reserves from the ALLL.

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All loans deemed troubled debt restructure or "TDR" are considered impaired. A loan is considered a TDR when, for economic or legal reasons related to a borrower's financial difficulties, a concession is granted to the borrower that would not otherwise be considered. The following factors are potential indicators that a concession has been granted (one or multiple items may be present):

- The borrower receives a reduction of the stated interest rate for the remaining original life of the debt.
- The borrower receives an extension of the maturity date or dates at a stated interest rate lower that the current market interest rate for new debt with similar risk characteristics.
- The borrower receives a reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement.
- The borrower receives a deferral of required payments (principal and/or interest).
- The borrower receives a reduction of the accrued interest.

The following table sets forth information on the Company's TDRs by class of financing receivable occurring during the stated periods:

	Three Months Ended September 30,					
	2015			2014		
(dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings[(1)]:						
Commercial and industrial						
Extended maturity date	—	$ —	$ —	1	$ 1,405	$ 1,405
Residential real estate:						
One- to four- family first liens						
Interest rate reduction	1	236	236	—	—	—
Total	1	$ 236	$ 236	1	$ 1,405	$ 1,405

	Nine Months Ended September 30,					
	2015			2014		
(dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings[(1)]:						
Commercial and industrial						
Extended maturity date	—	$ —	$ —	1	$ 1,405	$ 1,405
Residential real estate:						
One- to four- family first liens						
Interest rate reduction	1	236	236	—	—	—
Total	1	$ 236	$ 236	1	$ 1,405	$ 1,405

(1) TDRs may include multiple concessions and the disclosure classifications are based on the primary concession provided to the borrower.

Loans by class of financing receivable modified as TDRs within the previous 12 months and for which there was a payment default during the stated periods were as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015		2014		2015		2014	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
(dollars in thousands)								
Troubled Debt Restructurings[(1)] That Subsequently Defaulted:								
Total	—	$ —	—	$ —	—	$ —		