MidWestOne Financial Group, Inc.
Form 10-Q
July 31, 2014

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 June 30, 2014
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 July 30, 2014, there were 8,399,414 shares of common stock, $1.00 par value per share, outstanding.

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements.

MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2014	December 31, 2013
(dollars in thousands, except per share amounts)	(unaudited)	
ASSETS		
Cash and due from banks	$21,527	$24,516
Interest-bearing deposits in banks	755	374
Cash and cash equivalents	22,282	24,890
Investment securities:		
Available for sale	472,136	498,561
Held to maturity (fair value of $41,568 as of June 30, 2014 and $30,191 as of December 31, 2013)	42,697	32,625
Loans held for sale	1,947	357
Loans	1,085,921	1,088,412
Allowance for loan losses	(16,432)	(16,179)
Net loans	1,069,489	1,072,233
Loan pool participations, net	21,472	25,533
Premises and equipment, net	32,461	27,682
Accrued interest receivable	9,310	10,409
Intangible assets, net	8,532	8,806
Bank-owned life insurance	30,052	29,598
Other real estate owned	1,820	1,770
Deferred income taxes	3,377	8,194
Other assets	14,332	14,560
Total assets	$1,729,907	$1,755,218
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand	$205,388	$222,359
Interest-bearing checking	578,584	592,673
Savings	103,679	94,559
Certificates of deposit under $100,000	242,096	256,283
Certificates of deposit $100,000 and over	217,905	209,068
Total deposits	1,347,652	1,374,942
Federal funds purchased	4,731	5,482
Securities sold under agreements to repurchase	57,293	61,183
Federal Home Loan Bank borrowings	103,900	106,900
Deferred compensation liability	3,434	3,469
Long-term debt	15,464	15,464
Accrued interest payable	745	765
Other liabilities	10,172	8,997
Total liabilities	1,543,391	1,577,202
Shareholders' equity:		
Preferred stock, no par value; authorized 500,000 shares; no shares issued and outstanding at June 30, 2014 and December 31, 2013	$—	$—

Common stock, $1.00 par value; authorized 15,000,000 shares at June 30, 2014 and December 31, 2013; issued 8,690,398 shares at June 30, 2014 and December 31, 2013; outstanding 8,396,191 shares at June 30, 2014 and 8,481,799 shares at December 31, 2013	8,690	8,690
Additional paid-in capital	80,323	80,506
Treasury stock at cost, 294,207 shares as of June 30, 2014 and 208,599 shares at December 31, 2013	(5,950)	(3,702)
Retained earnings	98,754	91,473
Accumulated other comprehensive income	4,699	1,049
Total shareholders' equity	186,516	178,016
Total liabilities and shareholders' equity	$1,729,907	$1,755,218

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest income:				
Interest and fees on loans	$12,005	$12,277	$23,945	$24,391
Interest and discount on loan pool participations	532	610	812	1,690
Interest on bank deposits	5	1	9	6
Interest on investment securities:				
Taxable securities	2,274	2,546	4,590	5,176
Tax-exempt securities	1,360	1,334	2,741	2,695
Total interest income	16,176	16,768	32,097	33,958
Interest expense:				
Interest on deposits:				
Interest-bearing checking	547	600	1,092	1,271
Savings	36	35	72	71
Certificates of deposit under $100,000	634	1,121	1,331	2,360
Certificates of deposit $100,000 and over	449	569	894	1,202
Total interest expense on deposits	1,666	2,325	3,389	4,904
Interest on federal funds purchased	5	18	6	27
Interest on securities sold under agreements to repurchase	29	29	59	65
Interest on Federal Home Loan Bank borrowings	545	705	1,107	1,397
Interest on other borrowings	7	7	13	15
Interest on long-term debt	69	75	141	150
Total interest expense	2,321	3,159	4,715	6,558
Net interest income	13,855	13,609	27,382	27,400
Provision for loan losses	300	600	750	800
Net interest income after provision for loan losses	13,555	13,009	26,632	26,600
Noninterest income:				
Trust, investment, and insurance fees	1,430	1,423	2,948	2,772
Service charges and fees on deposit accounts	848	743	1,476	1,450
Mortgage origination and loan servicing fees	318	717	755	1,761
Other service charges, commissions and fees	552	596	1,171	1,168
Bank-owned life insurance income	225	230	454	461
Gain on sale or call of available for sale securities (Includes $191 and $4 reclassified from accumulated other comprehensive income for net gains on available for sale securities for the three months ended June 30, 2014 and 2013, respectively, and $974 and $84 reclassified from accumulated other comprehensive income for net gains on available for sale securities for the six months ended June 30, 2014 and 2013, respectively)	191	4	974	84
Loss on sale of premises and equipment	(8)	—	(5)	(2)
Total noninterest income	3,556	3,713	7,773	7,694
Noninterest expense:				
Salaries and employee benefits	6,060	6,173	12,194	12,466
Net occupancy and equipment expense	1,634	1,538	3,239	3,226

Professional fees	779	718	1,354	1,401
Data processing expense	391	337	815	728
FDIC insurance expense	240	296	483	590
Amortization of intangible assets	137	166	274	332
Other operating expense	1,398	1,357	2,672	2,836
Total noninterest expense	10,639	10,585	21,031	21,579
Income before income tax expense	6,472	6,137	13,374	12,715
Income tax expense (Includes $74 and $2 income tax expense reclassified from accumulated other comprehensive income for the three months ended June 30, 2014 and 2013, respectively, and $380 and $33 income tax expense reclassified from accumulated other comprehensive income for the six months ended June 30, 2014 and 2013, respectively)	1,719	1,606	3,648	3,394
Net income	$4,753	$4,531	$9,726	$9,321
Share and per share information:				
Ending number of shares outstanding	8,396,191	8,466,471	8,396,191	8,466,471
Average number of shares outstanding	8,428,307	8,474,925	8,451,819	8,484,100
Diluted average number of shares	8,452,291	8,517,292	8,479,989	8,526,961
Earnings per common share - basic	$0.56	$0.54	$1.15	$1.10
Earnings per common share - diluted	0.56	0.53	1.14	1.09
Dividends paid per common share	0.145	0.125	0.290	0.250

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$4,753	$4,531	$9,726	$9,321
Other comprehensive income (loss), available for sale securities:				
Unrealized holding gains (losses) arising during period	2,965	(11,558)	6,853	(12,968)
Reclassification adjustment for gains included in net income	(191)	(4)	(974)	(84)
Income tax (expense) benefit	(1,052)	4,317	(2,229)	4,876
Other comprehensive income (loss) on available for sale securities	1,722	(7,245)	3,650	(8,176)
Other comprehensive income (loss), net of tax	1,722	(7,245)	3,650	(8,176)
Comprehensive income (loss)	$6,475	$(2,714)	$13,376	$1,145

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, 2012	$ —	$ 8,690	$ 80,383	$ (3,316)	$ 77,125	$ 11,050	$ 173,932
Net income	—	—	—	—	9,321	—	9,321
Dividends paid on common stock ($0.25 per share)	—	—	—	—	(2,121)	—	(2,121)
Stock options exercised (22,193 shares)	—	—	(39)	143	—	—	104
Release/lapse of restriction on RSUs (19,385 shares)	—	—	(259)	282	—	—	23
Repurchase of common stock (40,713 shares)	—	—	—	(967)	—	—	(967)
Stock compensation	—	—	167	—	—	—	167
Other comprehensive loss, net of tax	—	—	—	—	—	(8,176)	(8,176)
Balance at June 30, 2013	$ —	$ 8,690	$ 80,252	$ (3,858)	$ 84,325	$ 2,874	$ 172,283
Balance at December 31, 2013	$ —	$ 8,690	$ 80,506	$ (3,702)	$ 91,473	$ 1,049	$ 178,016
Net income	—	—	—	—	9,726	—	9,726
Dividends paid on common stock ($0.29 per share)	—	—	—	—	(2,445)	—	(2,445)
Stock options exercised (3,310 shares)	—	—	(10)	60	—	—	50
Release/lapse of restriction on RSUs (26,641 shares)	—	—	(418)	443	—	—	25
Repurchase of common stock (113,566 shares)	—	—	—	(2,751)	—	—	(2,751)
Stock compensation	—	—	245	—	—	—	245
Other comprehensive income, net of tax	—	—	—	—	—	3,650	3,650
Balance at June 30, 2014	$ —	$ 8,690	$ 80,323	$ (5,950)	$ 98,754	$ 4,699	$ 186,516

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)	Six Months Ended June 30, 2014	2013
Cash flows from operating activities:		
Net income	$9,726	$9,321
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	750	800
Depreciation, amortization and accretion	2,179	2,709
Loss on sale of premises and equipment	5	2
Deferred income taxes	2,588	(76)
Stock-based compensation	245	167
Net gain on sale or call of available for sale securities	(974)	(84)
Net (gain) loss on sale of other real estate owned	8	(39)
Net gain on sale of loans held for sale	(189)	(838)
Writedown of other real estate owned	49	33
Origination of loans held for sale	(16,381)	(52,325)
Proceeds from sales of loans held for sale	14,980	53,054
Decrease in accrued interest receivable	1,099	754
Increase in cash surrender value of bank-owned life insurance	(454)	(461)
Decrease in other assets	228	3,309
Decrease in deferred compensation liability	(35)	(42)
Increase (decrease) in accrued interest payable, accounts payable, accrued expenses, and other liabilities	1,155	(590)
Net cash provided by operating activities	14,979	15,694
Cash flows from investing activities:		
Proceeds from sales of available for sale securities	15,870	12,205
Proceeds from maturities and calls of available for sale securities	36,210	59,139
Purchases of available for sale securities	(19,606)	(37,243)
Proceeds from maturities and calls of held to maturity securities	465	540
Purchase of held to maturity securities	(10,533)	(1,185)
Decrease (increase) in loans	1,675	(26,372)
Decrease in loan pool participations, net	4,061	5,933
Purchases of premises and equipment	(5,892)	(2,025)
Proceeds from sale of other real estate owned	212	586
Proceeds from sale of premises and equipment	3	12
Proceeds from sale of assets held for sale	—	764
Net cash provided by investing activities	22,465	12,354
Cash flows from financing activities:		
Net decrease in deposits	(27,290)	(62,797)
Increase (decrease) in federal funds purchased	(751)	2,235
Decrease in securities sold under agreements to repurchase	(3,890)	(11,146)
Proceeds from Federal Home Loan Bank borrowings	19,000	94,000
Repayment of Federal Home Loan Bank borrowings	(22,000)	(71,000)
Stock options exercised	75	127
Dividends paid	(2,445)	(2,121)
Repurchase of common stock	(2,751)	(967)
Net cash used in financing activities	(40,052)	(51,669)

Net decrease in cash and cash equivalents	(2,608)	(23,621)
Cash and cash equivalents at beginning of period	24,890	47,191
Cash and cash equivalents at end of period	$22,282	$23,570
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$4,735	$6,786
Cash paid during the period for income taxes	$464	$4,038
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	$319	$76

See accompanying notes to consolidated financial statements.

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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.

The Company owns 100% of the outstanding common stock of MidWestOne Bank, an Iowa state non-member bank chartered in 1934 with its main office in Iowa City, Iowa (the “Bank”), and 100% of the common stock of MidWestOne Insurance Services, Inc., Oskaloosa, Iowa. We operate primarily through our bank subsidiary, MidWestOne 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, 2013 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 financial position as of June 30, 2014, and the results of operations and cash flows for the three and six months ended June 30, 2014 and 2013. 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 six months ended June 30, 2014 may not be indicative of results for the year ending December 31, 2014, 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, 2013. In the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks and interest-bearing deposits in banks.

2.Shareholders' Equity

Preferred Stock: The number of authorized shares of preferred stock for the Company is 500,000. As of June 30, 2014, none were issued or outstanding.

Common Stock: As of June 30, 2014, the number of authorized shares of common stock for the Company was 15,000,000. As of June 30, 2014, 8,396,191 shares were outstanding.

On January 15, 2013, the Company's board of directors announced the renewal of the Company's share repurchase program, extending the expiration of the program to December 31, 2014 and increasing the remaining amount of authorized repurchases under the program to $5.0 million from the approximately $2.4 million of authorized repurchases that had previously remained. As of June 30, 2014 the remaining amount available for share repurchases under the program was $1.3 million.

On July 17, 2014, the board of directors of the Company approved a new share repurchase program, allowing for the repurchase of up to $5.0 million of stock through December 31, 2016. The new repurchase program replaces the Company's prior repurchase program. Pursuant to the 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.

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3.Earnings per Common 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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands, except per share amounts)	2014	2013	2014	2013
Basic earnings per common share computation				
Numerator:				
Net income	$4,753	$4,531	$9,726	$9,321
Denominator:				
Weighted average shares outstanding	8,428,307	8,474,925	8,451,819	8,484,100
Basic earnings per common share	$0.56	$0.54	$1.15	$1.10
Diluted earnings per common share computation				
Numerator:				
Net income	$4,753	$4,531	$9,726	$9,321
Denominator:				
Weighted average shares outstanding, included all dilutive potential shares	8,452,291	8,517,292	8,479,989	8,526,961
Diluted earnings per common share	$0.56	$0.53	$1.14	$1.09

4.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 June 30, 2014			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations	$49,459	$409	$549	$49,319
State and political subdivisions	193,111	7,891	535	200,467
Mortgage-backed securities	39,794	1,888	—	41,682
Collateralized mortgage obligations	145,269	971	3,115	143,125
Corporate debt securities	34,282	291	131	34,442
Total debt securities	461,915	11,450	4,330	469,035
Other equity securities	2,673	467	39	3,101
Total	$464,588	$11,917	$4,369	$472,136

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	As of December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
U.S. Government agencies and corporations	$45,279	$527	$867	$44,939
State and political subdivisions	207,734	5,625	2,563	210,796
Mortgage-backed securities	37,593	1,692	—	39,285
Collateralized mortgage obligations	171,714	1,003	3,494	169,223
Collateralized debt obligations	2,111	190	984	1,317
Corporate debt securities	29,802	284	142	29,944
Total debt securities	494,233	9,321	8,050	495,504
Other equity securities	2,659	453	55	3,057
Total	$496,892	$9,774	$8,105	$498,561

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

	As of June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
State and political subdivisions	$30,403	$61	$469	$29,995
Mortgage-backed securities	23	3	—	26
Collateralized mortgage obligations	9,007	—	487	8,520
Corporate debt securities	3,264	—	237	3,027
Total	$42,697	$64	$1,193	$41,568

	As of December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
State and political subdivisions	$19,888	$—	$1,326	$18,562
Mortgage-backed securities	28	3	—	31
Collateralized mortgage obligations	9,447	—	834	8,613
Corporate debt securities	3,262	—	277	2,985
Total	$32,625	$3	$2,437	$30,191

Investment securities with a carrying value of $173.9 million and $202.8 million at June 30, 2014 and December 31, 2013, 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 June 30, 2014 and December 31, 2013. This temporary impairment represents the estimated amount of loss that would be realized if the securities were sold on the valuation date.

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The following presents information pertaining to securities with gross unrealized losses as of June 30, 2014 and December 31, 2013, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

		As of June 30, 2014					
	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)							
U.S. Government agencies and corporations	3	$—	$ —	$22,259	$ 549	$22,259	$ 549
State and political subdivisions	70	7,189	30	15,865	505	23,054	535
Collateralized mortgage obligations	16	42,577	754	52,778	2,361	95,355	3,115
Corporate debt securities	4	8,333	53	3,620	78	11,953	131
Other equity securities	1	961	39	—	—	961	39
Total	94	$59,060	$ 876	$94,522	$ 3,493	$153,582	$ 4,369

		As of December 31, 2013					
	Number	Less than 12 Months		12 Months or More		Total	
	of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(in thousands, except number of securities)							
U.S. Government agencies and corporations	3	$21,977	$ 867	$—	$ —	$21,977	$ 867
State and political subdivisions	171	54,153	2,331	1,799	232	55,952	2,563
Collateralized mortgage obligations	18	110,142	3,164	5,047	330	115,189	3,494
Collateralized debt obligations	3	—	—	934	984	934	984
Corporate debt securities	3	7,430	93	1,561	49	8,991	142
Other equity securities	1	945	55	—	—	945	55
Total	199	$194,647	$ 6,510	$9,341	$ 1,595	$203,988	$ 8,105

		As of June 30, 2014					
	Number	Less than 12 Months		12 Months or More		Total	
Held to Maturity	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	$3,727	$ 48	$13,313	$ 421	$17,040	$ 469
Collateralized mortgage obligations	1	—	—	8,520	487	8,520	487
Corporate debt securities	2	650	230	237	7	887	237
Total	42	$4,377	$ 278	$22,070	$ 915	$26,447	$ 1,193

		As of December 31, 2013					
	Number	Less than 12 Months		12 Months or More		Total	
	of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(in thousands, except number of securities)							

State and political subdivisions	30	$17,420	$ 1,195	$1,142	$ 131	$18,562	$ 1,326
Collateralized mortgage obligations	1	8,613	834	—	—	8,613	834
Corporate debt securities	2	2,984	277	—	—	2,984	277
Total	33	$29,017	$ 2,306	$1,142	$ 131	$30,159	$ 2,437

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 and the current and anticipated market conditions.

At June 30, 2014 and December 31, 2013, the Company's mortgage-backed securities portfolio 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

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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 June 30, 2014, approximately 61% of the municipal bonds held by the Company were Iowa 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 its 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 in fair value, as well as the evaluation of the fundamentals of the issuers' financial condition and other objective evidence, the Company believes that the municipal obligations identified in the tables above were temporarily depressed as of June 30, 2014 and December 31, 2013.

At December 31, 2013, the Company owned five collateralized debt obligations ("CDOs") backed by pools of trust preferred securities with an original cost basis of $8.8 million. The amortized cost of these securities as of December 31, 2013 totaled $2.1 million, after OTTI charges had been recognized. During the quarter ended March 31, 2014, the Company sold these investment securities at a net gain of $0.8 million.

As of June 30, 2014, the Company also owned $2.1 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 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 six months ended June 30, 2014 and the full year of 2013, 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 June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
(in thousands)				
Beginning balance	$—	$7,379	$6,639	$7,379
Reductions to credit losses:				
Securities with other than temporary impairment, due to sale	—	—	(6,639)	—
Ending balance	$—	$7,379	$—	$7,379

It is reasonably possible that the fair values of the Company's investment securities could decline in the future if the overall economy or the financial condition of the issuers deteriorate or the liquidity of certain securities remains depressed. 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 June 30, 2014, 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	$27,752	$28,201	$185	$185
Due after one year through five years	94,605	96,848	2,726	2,716
Due after five years through ten years	107,401	111,352	12,280	12,228
Due after ten years	47,094	47,827	18,476	17,893
Debt securities without a single maturity date	185,063	184,807	9,030	8,546
Total	$461,915	$469,035	$42,697	$41,568

Mortgage-backed securities and collateralized mortgage obligations are collateralized by mortgage loans guaranteed by U.S. government agencies. 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

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securities available for sale with an amortized cost of $2.7 million and a fair value of $3.1 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 June 30, 2014 was $9.0 million and at December 31, 2013 was $9.2 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 the Bank is required to hold 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.

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 six months ended June 30, 2014 and 2013 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
(in thousands)				
Available for sale fixed maturity securities:				
Gross realized gains	$191	$64	$1,120	$144
Gross realized losses	—	(60)	(146)	(60)
Other-than-temporary impairment	—	—	—	—
	191	4	974	84
Equity securities:				
Gross realized gains	—	—	—	—
Gross realized losses	—	—	—	—
Other-than-temporary impairment	—	—	—	—
	—	—	—	—
Total net realized gains and losses	$191	$4	$974	$84

5.Loans Receivable and the Allowance for Loan Losses

The composition of allowance for loan losses, loans, and loan pool participations by portfolio segment are as follows:

Allowance for Loan Losses and Recorded Investment in Loan Receivables
As of June 30, 2014 and December 31, 2013

(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
June 30, 2014							
Allowance for loan losses:							
Individually evaluated for impairment	$134	$393	$ 259	$175	$1	$ —	$962
Collectively evaluated for impairment	1,011	4,790	4,475	2,854	228	2,112	15,470
Total	$1,145	$5,183	$ 4,734	$3,029	$229	$ 2,112	$16,432
Loans acquired with deteriorated credit quality (loan pool participations)	$1	$50	$ 597	$90	$8	$ 1,388	$2,134
Loans receivable							
Individually evaluated for impairment	$3,052	$3,512	$ 4,617	$1,776	$27	$ —	$12,984

Collectively evaluated for impairment	86,451	279,326	420,347	267,988	18,825	—	1,072,937
Total	$89,503	$282,838	$ 424,964	$269,764	$18,852	$ —	$1,085,921
Loans acquired with deteriorated credit quality (loan pool participations)	$11	$1,099	$ 15,682	$3,467	$13	$ 3,334	$23,606

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(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
December 31, 2013							
Allowance for loan losses:							
Individually evaluated for impairment	$ 125	$ 559	$ 513	$ 220	$ 6	$ —	$ 1,423
Collectively evaluated for impairment	1,233	4,421	4,781	2,965	269	1,087	14,756
Total	$ 1,358	$ 4,980	$ 5,294	$ 3,185	$ 275	$ 1,087	$ 16,179
Loans acquired with deteriorated credit quality (loan pool participations)	$ 3	$ 64	$ 627	$ 88	$ 6	$ 1,346	$ 2,134
Loans receivable							
Individually evaluated for impairment	$ 3,146	$ 3,521	$ 5,079	$ 1,664	$ 50	$ —	$ 13,460
Collectively evaluated for impairment	94,021	260,130	429,345	272,462	18,994	—	1,074,952
Total	$ 97,167	$ 263,651	$ 434,424	$ 274,126	$ 19,044	$ —	$ 1,088,412
Loans acquired with deteriorated credit quality (loan pool participations)	$ 49	$ 1,302	$ 18,168	$ 3,823	$ 18	$ 4,307	$ 27,667

Loans with unpaid principal in the amount of $400.0 million and $408.4 million at June 30, 2014 and December 31, 2013, respectively, were pledged to the FHLB as collateral for borrowings.

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

Allowance for Loan Loss Activity
For the Three Months Ended June 30, 2014 and 2013

(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
2014							
Beginning balance	$ 1,034	$ 5,404	$ 4,490	$ 2,989	$ 294	$ 2,214	$ 16,425
Charge-offs	—	(103)	(80)	(139)	(22)	—	(344)
Recoveries	—	41	—	1	9	—	51
Provision	111	(159)	324	178	(52)	(102)	300
Ending balance	$ 1,145	$ 5,183	$ 4,734	$ 3,029	$ 229	$ 2,112	$ 16,432
2013							
Beginning balance	$ 971	$ 4,396	$ 5,894	$ 3,084	$ 258	$ 1,657	$ 16,260
Charge-offs	—	(203)	(88)	(68)	(22)	—	(381)
Recoveries	31	30	5	21	12	—	99
Provision	(7)	551	(147)	297	31	(125)	600
Ending balance	$ 995	$ 4,774	$ 5,664	$ 3,334	$ 279	$ 1,532	$ 16,578

Allowance for Loan Loss Activity
For the Six Months Ended June 30, 2014 and 2013

(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
2014							
Beginning balance	$1,358	$4,980	$ 5,294	$3,185	$275	$ 1,087	$16,179
Charge-offs	—	(273)	(153)	(201)	(45)	—	(672)
Recoveries	5	154	—	4	12	—	175
Provision	(218)	322	(407)	41	(13)	1,025	750
Ending balance	$1,145	$5,183	$ 4,734	$3,029	$229	$ 2,112	$16,432
2013							
Beginning balance	$1,026	$4,599	$ 5,767	$3,007	$356	$ 1,202	$15,957
Charge-offs	(39)	(376)	(88)	(180)	(71)	—	(754)
Recoveries	36	39	462	23	15	—	575
Provision	(28)	512	(477)	484	(21)	330	800
Ending balance	$995	$4,774	$ 5,664	$3,334	$279	$ 1,532	$16,578

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. 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. 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.

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.

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 non-real estate 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 non-real estate 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.

Loans acquired with deteriorated credit quality (loan pool participations) - The underlying loans in the loan pool participations include both fixed-rate and variable-rate instruments. No amounts for interest due are reflected in the carrying value of the loan pool participations. Based on historical experience, the average period of collectibility for loans underlying loan pool participations, many of which have exceeded contractual maturity dates, is approximately three to five years. Loan pool balances are affected by the payment and refinancing activities of the borrowers resulting in pay-offs of the underlying loans and reduction in the balances. Collections from the individual borrowers are managed by the loan pool servicer and are affected by the borrower's financial ability and willingness to pay, foreclosure and legal action, collateral value, and the economy in general.

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

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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 Bank's President, Executive Vice President and Chief Credit Officer, and the Senior Regional Loan officer. The 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 Bank's books.

The Allowance for Loan and Lease Losses - Bank Loans

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.

All loans deemed troubled debt restructure or “TDR” are considered impaired. A loan is considered a TDR when the Bank, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Bank would not otherwise consider. All of the following factors are potential indicators that the Bank has granted a concession (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.

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

	Three Months Ended June 30,					
	2014			2013		
	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
(dollars in thousands)						
Troubled Debt Restructurings:						
Residential real estate:						
One- to four- family first liens						
Interest rate reduction	—	—	—	1	55	57
Total	—	$ —	$ —	1	$ 55	$ 57

	Six Months Ended June 30,					
	2014			2013		
	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
(dollars in thousands)						
Troubled Debt Restructurings[1]:						
Commercial and industrial						
Amortization or maturity date change	—	$ —	$ —	1	$ 158	$ 158
Commercial real estate:						
Commercial real estate-other						
Amortization or maturity date change	—	—	—	2	165	136
Residential real estate:						
One- to four- family first liens						
Interest rate reduction	—	—	—	2	164	169
One- to four- family junior liens						
Interest rate reduction	—	—	—	1	8	13
Total	—	$ —	$ —	6	$ 495	$ 476

(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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013

	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:								
Commercial and industrial								
Amortization or maturity date change	—	—	1	536	—	$ —	2	$ 688
Commercial real estate:								
Commercial real estate-other								
Amortization or maturity date change	—	—	1	72	—	—	1	72
Residential real estate:								
One- to four- family first liens								
Interest rate reduction	—	—	1	112	—	—	1	112
Total	—	$ —	3	$ 720	—	$ —	4	$ 872

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

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Loans Reviewed Collectively for Impairment

All loans not evaluated individually for impairment are grouped together by type (i.e. commercial, agricultural, consumer, etc.) and further segmented within each subset by risk classification (i.e. pass, special mention, and substandard). Homogeneous loans past due 60-89 days and 90 days and over are classified special mention and substandard, respectively, for allocation purposes.

The Company's historical loss experience for each loan type is calculated using the fiscal quarter-end data for the most recent 20 quarters as a starting point for estimating losses. In addition, other prevailing qualitative or environmental factors likely to cause probable losses to vary from historical data are incorporated in the form of adjustments to increase or decrease the loss rate applied to each group. These adjustments are documented and fully explain how the current information, events, circumstances, and conditions impact the historical loss measurement assumptions.

Although not a comprehensive list, the following are considered key factors and are evaluated with each calculation of the ALLL to determine if adjustments to historical loss rates are warranted:

- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses.
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments.
- Changes in the nature and volume of the portfolio and in the terms of loans.
- Changes in the experience, ability and depth of lending management and other relevant staff.
- Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans.
- Changes in the quality of our loan review system.
- Changes in the value of underlying collateral for collateral-dependent loans.
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations.
- The effect of other external factors, such as competition and legal and regulatory requirements, on the level of estimated credit losses in the Bank's existing portfolio.

The items listed above are used to determine the pass percentage for loans evaluated collectively and, as such, are applied to the loans risk rated pass. Due to the inherent risks associated with special mention risk rated loans (i.e. early stages of financial deterioration, technical exceptions, etc.), this subset is reserved at two times the pass allocation factor to reflect this increased risk exposure. In addition, non-impaired loans classified as substandard loans carry greater risk than special mention loans, and as such, this subset is reserved at six times the pass allocation. Further, non-impaired loans less than $0.2 million that are past due 60 - 89 days or 90 days and over, are respectively classified as special mention or substandard. They are given an increased loan loss allocation of 25% or 50%, respectively, above the five year historical loss rate of the specific loan type.

The Allowance for Loan and Lease Losses - Loan Pool Participations

The Company requires that the loan pool participation ALLL will be at least sufficient to cover the next quarter's estimated charge-offs as presented by the servicer. Currently, charge-offs are netted against the income the Company receives, thus the balance in the loan pool participation reserve is not affected and remains stable. In essence, a provision for loan losses is made that is equal to the quarterly charge-offs, which is deducted from income received from the loan pool participations. By maintaining a sufficient reserve to cover the next quarter's charge-offs, the Company will have sufficient reserves in place should no income be collected from the loan pool participations during the quarter. In the event the estimated charge-offs provided by the servicer are greater than the loan pool participation ALLL, an additional provision is made to cover the difference between the current ALLL and the estimated charge-offs provided by the servicer.

Loans Reviewed Individually for Impairment

The loan servicer reviews the portfolio quarterly on a loan-by-loan basis, and loans that are deemed to be impaired are charged-down to their estimated value. All loans that are to be charged-down are reserved against in the ALLL adequacy calculation. Loans that continue to have an investment basis that have been charged-down are monitored, and if additional impairment is noted, the reserve requirement is increased on the individual loan.

Loans Reviewed Collectively for Impairment

The Company utilizes the annualized average of portfolio loan (not loan pool participations) historical loss per risk category over a two-year period of time. Supporting documentation for the technique used to develop the historical loss rate for each group of loans is required to be maintained. It is management's assessment that the two-year rate is most reflective of the probable credit losses in the current loan pool portfolio.

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The following table sets forth the composition of each class of the Company's loans by internally assigned credit quality indicators at June 30, 2014 and December 31, 2013:

	Pass	Special Mention/ Watch	Substandard	Doubtful	Loss	Total
(in thousands)						
June 30, 2014						
Agricultural	$82,421	$5,609	$1,473	$—	$—	$89,503
Commercial and industrial	250,775	15,674	14,882	—	—	281,331
Credit cards	1,216	5	15	—	—	1,236
Overdrafts	279	77	88	—	—	444
Commercial real estate:						
Construction and development	59,837	9,943	1,305	—	—	71,085
Farmland	78,854	2,159	2,295	—	—	83,308
Multifamily	55,596	185	—	—	—	55,781
Commercial real estate-other	200,948	12,281	1,561	—	—	214,790
Total commercial real estate	395,235	24,568	5,161	—	—	424,964
Residential real estate:						
One- to four- family first liens	209,949	4,552	3,136	—	—	217,637
One- to four- family junior liens	51,891	82	154	—	—	52,127
Total residential real estate	261,840	4,634	3,290	—	—	269,764
Consumer	18,621	29	29	—	—	18,679
Total	$1,010,387	$50,596	$24,938	$—	$—	$1,085,921
Loans acquired with deteriorated credit quality (loan pool participations)	$11,385	$—	$12,213	$—	$8	$23,606

	Pass	Special Mention/ Watch	Substandard	Doubtful	Loss	Total
(in thousands)						
December 31, 2013						
Agricultural	$93,187	$460	$3,520	$—	$—	$97,167
Commercial and industrial	239,485	11,097	11,786	—	—	262,368
Credit cards	1,010	1	17	—	—	1,028
Overdrafts	326	123	88	—	—	537
Commercial real estate:						
Construction and development	56,112	14,984	1,493	—	—	72,589
Farmland	80,044	3,091	2,340	—	—	85,475
Multifamily	53,315	1,732	396	—	—	55,443
Commercial real estate-other	205,914	12,994	2,009	—	—	220,917
Total commercial real estate	395,385	32,801	6,238	—	—	434,424
Residential real estate:						
One- to four- family first liens	213,815	3,994	2,859	—	—	220,668
One- to four- family junior liens	53,225	38	195	—	—	53,458
Total residential real estate	267,040	4,032	3,054	—	—	274,126
Consumer	18,643	57	62	—	—	18,762

Total	$1,015,076	$48,571	$24,765	$—	$—	$1,088,412
Loans acquired with deteriorated credit quality (loan pool participations)	$13,569	$—	$14,093	$—	$5	$27,667

Special Mention/Watch - A special mention/watch asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Special mention/watch assets are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.
Substandard - Substandard loans are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the

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deficiencies are not corrected.
Doubtful - Loans classified doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.
Loss - Loans classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future.

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The following table sets forth the amounts and categories of the Company's impaired loans as of June 30, 2014 and December 31, 2013:

	June 30, 2014			December 31, 2013		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
(in thousands)						
With no related allowance recorded:						
Agricultural	$1,410	$1,910	$—	$1,475	$1,975	$—
Commercial and industrial	2,103	2,204	—	1,919	2,020	—
Credit cards	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—
Commercial real estate:						
Construction and development	90	283	—	132	601	—
Farmland	85	98	—	93	107	—
Multifamily	—	—	—	—	—	—
Commercial real estate-other	417	443	—	587	612	—
Total commercial real estate	592	824	—	812	1,320	—
Residential real estate:						
One- to four- family first liens	791	1,036	—	622	741	—
One- to four- family junior liens	75	75	—	50	50	—
Total residential real estate	866	1,111	—	672	791	—
Consumer	8	24	—	10	26	—
Total	$4,979	$6,073	$—	$4,888	$6,132	$—
With an allowance recorded:						
Agricultural	$1,642	$1,642	$134	$1,671	$1,671	$125
Commercial and industrial	1,409	1,465	393	1,602	1,657	559
Credit cards	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—
Commercial real estate:						
Construction and development	—	—	—	7	7	3
Farmland	2,418	2,418	14	2,311	2,461	219
Multifamily	—	—	—	—	—	—
Commercial real estate-other	1,607	1,821	245	1,949	2,164	291
Total commercial real estate	4,025	4,239	259	4,267	4,632	513
Residential real estate:						
One- to four- family first liens	836	836	139	902	902	170
One- to four- family junior liens	74	74	36	90	90	50
Total residential real estate	910	910	175	992	992	220
Consumer	19	19	1	40	40	6
Total	$8,005	$8,275	$962	$8,572	$8,992	$1,423
Total:						
Agricultural	$3,052	$3,552	$134	$3,146	$3,646	$125
Commercial and industrial	3,512	3,669	393	3,521	3,677	559
Credit cards	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—

Commercial real estate:						
Construction and development	90	283	—	139	608	3
Farmland	2,503	2,516	14	2,404	2,568	219
Multifamily	—	—	—	—	—	—
Commercial real estate-other	2,024	2,264	245	2,536	2,776	291
Total commercial real estate	4,617	5,063	259	5,079	5,952	513
Residential real estate:						
One- to four- family first liens	1,627	1,872	139	1,524	1,643	170
One- to four- family junior liens	149	149	36	140	140	50
Total residential real estate	1,776	2,021	175	1,664	1,783	220
Consumer	27	43	1	50	66	6
Total	$12,984	$14,348	$962	$13,460	$15,124	$1,423

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The following table sets forth the average recorded investment and interest income recognized for each category of the Company's impaired loans during the stated periods:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014		2013		2014		2013	
(in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:								
Agricultural	$1,410	$ 65	$1,491	$ 14	$1,414	$ 80	$1,531	$ 30
Commercial and industrial	2,151	40	1,062	8	2,169	64	1,106	19
Credit cards	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—
Commercial real estate:								
Construction and development	90	1	149	—	90	1	149	—
Farmland	87	3	103	2	89	4	105	4
Multifamily	—	—	—	—	—	—	—	—
Commercial real estate-other	442	1	819	3	450	(7)	818	6
Total commercial real estate	619	5	1,071	5	629	(2)	1,072	10
Residential real estate:								
One- to four- family first liens	798	6	478	—	803	5	482	4
One- to four- family junior liens	75	—	69	1	75	—	70	1
Total residential real estate	873	6	547	1	878	5	552	5
Consumer	8	—	20	—	9	—	21	—
Total	$5,061	$ 116	$4,191	$ 28	$5,099	$ 147	$4,282	$ 64
With an allowance recorded:								
Agricultural	$1,642	$ 63	1,671	13	$1,669	$ 76	$1,688	$ 25
Commercial and industrial	1,446	24	919	11	1,475	38	929	24
Credit cards	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—
Commercial real estate:								
Construction and development	—	—	523	7	—	—	523	15
Farmland	2,418	139	2,316	27	2,433	166	2,316	54
Multifamily	—	—	—	—	—	—	—	—
Commercial real estate-other	1,608	18	791	8	1,612	27	793	15

Total commercial real estate	4,026	157	3,630	42	4,045	193	3,632	84
Residential real estate:								
One- to four- family first liens	838	17	976	5	839	26	978	12
One- to four- family junior liens	74	—	102	(1)	75	—	103	—
Total residential real estate	912	17	1,078	4	914	26	1,081	12
Consumer	20	1	39	1	20	1	39	1
Total	$8,046	$ 262	$7,337	$ 71	$8,123	$ 334	$7,369	$ 146
Total:								
Agricultural	$3,052	$ 128	3,162	27	$3,083	$ 156	$3,219	$ 55
Commercial and industrial	3,597	64	1,981	19	3,644	102	2,035	43
Credit cards	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—
Commercial real estate:								
Construction and development	90	1	672	7	90	1	672	15
Farmland	2,505	142	2,419	29	2,522	170	2,421	58
Multifamily	—	—	—	—	—	—	—	—
Commercial real estate-other	2,050	19	1,610	11	2,062	20	1,611	21
Total commercial real estate	4,645	162	4,701	47	4,674	191	4,704	94
Residential real estate:								
One- to four- family first liens	1,636	23	1,454	5	1,642	31	1,460	16
One- to four- family junior liens	149	—	171	—	150	—	173	1
Total residential real estate	1,785	23	1,625	5	1,792	31	1,633	17
Consumer	28	1	59	1	29	1	60	1
Total	$13,107	$ 378	$11,528	$ 99	$13,222	$ 481	$11,651	$ 210

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The following table sets forth the composition and past due status of the Company's loans at June 30, 2014 and December 31, 2013:

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days Past Due and Accruing
(in thousands)							
June 30, 2014							
Agricultural	$275	$29	$32	$336	$89,167	$89,503	$6
Commercial and industrial	1,016	178	698	1,892	279,439	281,331	—
Credit cards	1	5	15	21	1,215	1,236	—
Overdrafts	45	17	27	89	355	444	—
Commercial real estate:							
Construction and development	72	—	90	162	70,923	71,085	—
Farmland	598	—	—	598	82,710	83,308	—
Multifamily	396	—	—	396	55,385	55,781	—
Commercial real estate-other	178	—	1,482	1,660	213,130	214,790	34
Total commercial real estate	1,244	—	1,572	2,816	422,148	424,964	34
Residential real estate:							
One- to four- family first liens	2,022	724	1,172	3,918	213,719	217,637	582
One- to four- family junior liens	124	82	136	342	51,785	52,127	—
Total residential real estate	2,146	806	1,308	4,260	265,504	269,764	582
Consumer	49	29	10	88	18,591	18,679	2
Total	$4,776	$1,064	$3,662	$9,502	$1,076,419	$1,085,921	$624
December 31, 2013							
Agricultural	$65	$23	$52	$140	$97,027	$97,167	$—
Commercial and industrial	610	876	960	2,446	259,922	262,368	213
Credit cards	—	1	17	18	1,010	1,028	17
Overdrafts	40	1	48	89	448	537	—
Commercial real estate:							
Construction and development	84	—	56	140	72,449	72,589	—
Farmland	—	—	—	—	85,475	85,475	—
Multifamily	—	—					