MidWestOne Financial Group, Inc.
Form 10-Q
April 30, 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 March 31, 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 April 29, 2015, there were 8,374,598 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)	March 31, 2015 (unaudited)	December 31, 2014
ASSETS		
Cash and due from banks	$18,954	$23,028
Interest-bearing deposits in banks	1,013	381
Federal funds sold	1,489	—
Cash and cash equivalents	21,456	23,409
Investment securities:		
Available for sale	408,950	474,942
Held to maturity (fair value of $54,574 as of March 31, 2015 and $51,253 as of December 31, 2014)	54,293	51,524
Loans held for sale	2,281	801
Loans	1,176,327	1,132,519
Allowance for loan losses	(16,526)	(16,363)
Net loans	1,159,801	1,116,156
Loan pool participations, net	18,230	19,332
Premises and equipment, net	39,443	37,770
Accrued interest receivable	9,358	10,898
Intangible assets, net	8,151	8,259
Bank-owned life insurance	38,437	38,142
Other real estate owned	1,652	1,916
Deferred income taxes	2,392	3,078
Other assets	13,533	14,075
Total assets	$1,777,977	$1,800,302
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand	$212,711	$214,461
Interest-bearing checking	628,990	618,540
Savings	106,380	102,527
Certificates of deposit under $100,000	229,543	235,395
Certificates of deposit $100,000 and over	230,629	237,619
Total deposits	1,408,253	1,408,542
Federal funds purchased	8,900	17,408
Securities sold under agreements to repurchase	55,326	60,821
Federal Home Loan Bank borrowings	78,000	93,000
Deferred compensation liability	3,402	3,393
Long-term debt	15,464	15,464
Accrued interest payable	932	863
Other liabilities	10,308	8,080
Total liabilities	1,580,585	1,607,571
Shareholders' equity:		
	$—	$—

Preferred stock, no par value; authorized 500,000 shares; no shares issued and outstanding at March 31, 2015 and December 31, 2014		
Common stock, $1.00 par value; authorized 15,000,000 shares at March 31, 2015 and December 31, 2014; issued 8,690,398 shares at March 31, 2015 and December 31, 2014; outstanding 8,370,309 shares at March 31, 2015 and 8,355,666 shares at December 31, 2014	8,690	8,690
Additional paid-in capital	80,380	80,537
Treasury stock at cost, 320,089 shares as of March 31, 2015 and 334,732 shares at December 31, 2014	(6,651)	(6,945)
Retained earnings	108,667	105,127
Accumulated other comprehensive income	6,306	5,322
Total shareholders' equity	197,392	192,731
Total liabilities and shareholders' equity	$1,777,977	$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 March 31,	
	2015	2014
Interest income:		
Interest and fees on loans	$12,577	$11,940
Interest and discount on loan pool participations	620	280
Interest on bank deposits	1	4
Interest on investment securities:		
Taxable securities	1,894	2,316
Tax-exempt securities	1,390	1,381
Total interest income	16,482	15,921
Interest expense:		
Interest on deposits:		
Interest-bearing checking	535	545
Savings	36	36
Certificates of deposit under $100,000	626	697
Certificates of deposit $100,000 and over	526	445
Total interest expense on deposits	1,723	1,723
Interest on federal funds purchased	12	1
Interest on securities sold under agreements to repurchase	30	30
Interest on Federal Home Loan Bank borrowings	399	562
Interest on other borrowings	4	6
Interest on long-term debt	72	72
Total interest expense	2,240	2,394
Net interest income	14,242	13,527
Provision for loan losses	600	450
Net interest income after provision for loan losses	13,642	13,077
Noninterest income:		
Trust, investment, and insurance fees	1,581	1,518
Service charges and fees on deposit accounts	733	628
Mortgage origination and loan servicing fees	238	437
Other service charges, commissions and fees	603	619
Bank-owned life insurance income	295	229
Gain on sale or call of available for sale securities (Includes $555 and $783 reclassified from accumulated other comprehensive income for net gains on available for sale securities for the three months ended March 31, 2015 and 2014, respectively)	555	783
Gain on sale of premises and equipment	3	3
Total noninterest income	4,008	4,217
Noninterest expense:		
Salaries and employee benefits	6,869	6,134
Net occupancy and equipment expense	1,524	1,605
Professional fees	680	575
Data processing expense	432	424
FDIC insurance expense	239	243
Amortization of intangible assets	108	137
Other operating expense	1,327	1,274

Total noninterest expense	11,179	10,392
Income before income tax expense	6,471	6,902
Income tax expense (Includes $216 and $305 income tax expense reclassified from accumulated other comprehensive income for the three months ended March 31, 2015 and 2014, respectively)	1,675	1,929
Net income	$4,796	$4,973
Share and per share information:		
Ending number of shares outstanding	8,370,309	8,471,761
Average number of shares outstanding	8,363,861	8,475,593
Diluted average number of shares	8,394,026	8,507,973
Earnings per common share - basic	$0.57	$0.59
Earnings per common share - diluted	0.57	0.58
Dividends paid per common share	0.150	0.145

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 March 31,	
	2015	2014
Net income	$4,796	$4,973
Other comprehensive income, available for sale securities:		
Unrealized holding gains arising during period	2,156	3,888
Reclassification adjustment for gains included in net income	(555)	(783)
Income tax expense	(617)	(1,177)
Other comprehensive income on available for sale securities	984	1,928
Other comprehensive income, net of tax	984	1,928
Comprehensive income	$5,780	$6,901

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	—	—	—	—	4,973	—	4,973
Dividends paid on common stock ($0.145 per share)	—	—	—	—	(1,228)	—	(1,228)
Stock options exercised (2,310 shares)	—	—	(1)	42	—	—	41
Release/lapse of restriction on RSUs (19,111 shares)	—	—	(276)	296	—	—	20
Repurchase of common stock (29,466 shares)	—	—	—	(716)	—	—	(716)
Stock compensation	—	—	109	—	—	—	109
Other comprehensive income, net of tax	—	—	—	—	—	1,928	1,928
Balance at March 31, 2014	$ —	$ 8,690	$ 80,338	$ (4,080)	$ 95,218	$ 2,977	$ 183,143
Balance at December 31, 2014	$ —	$ 8,690	$ 80,537	$ (6,945)	$ 105,127	$ 5,322	$ 192,731
Net income	—	—	—	—	4,796	—	4,796
Dividends paid on common stock ($0.15 per share)	—	—	—	—	(1,256)	—	(1,256)
Release/lapse of restriction on RSUs (15,853 shares)	—	—	(283)	294	—	—	11
Stock compensation	—	—	126	—	—	—	126
Other comprehensive income, net of tax	—	—	—	—	—	984	984
Balance at March 31, 2015	$ —	$ 8,690	$ 80,380	$ (6,651)	$ 108,667	$ 6,306	$ 197,392

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)	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income	$4,796	$4,973
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	600	450
Depreciation, amortization and accretion	929	1,149
Loss on sale of premises and equipment	(3)	(3)
Deferred income taxes	69	2,852
Stock-based compensation	126	109
Net gain on sale or call of available for sale securities	(555)	(783)
Net gain on sale of other real estate owned	(16)	(5)
Net gain on sale of loans held for sale	(80)	(76)
Origination of loans held for sale	(13,791)	(4,184)
Proceeds from sales of loans held for sale	12,391	4,528
Decrease in accrued interest receivable	1,540	1,120
Increase in cash surrender value of bank-owned life insurance	(295)	(229)
(Increase) decrease in other assets	542	(1,370)
Increase (decrease) in deferred compensation liability	9	(22)
Increase (decrease) in accrued interest payable, accounts payable, accrued expenses, and other liabilities	2,297	(2,772)
Net cash provided by operating activities	8,559	5,737
Cash flows from investing activities:		
Proceeds from sales of available for sale securities	48,261	3,250
Proceeds from maturities and calls of available for sale securities	19,581	13,368
Purchases of available for sale securities	(7)	(11,529)
Proceeds from maturities and calls of held to maturity securities	257	228
Purchase of held to maturity securities	(3,034)	(1,564)
(Increase) decrease in loans	(44,245)	15,029
Decrease in loan pool participations, net	1,102	2,133
Purchases of premises and equipment	(2,180)	(2,775)
Proceeds from sale of other real estate owned	280	7
Proceeds from sale of premises and equipment	10	3
Net cash provided by investing activities	20,025	18,150
Cash flows from financing activities:		
Net increase (decrease) in deposits	(289)	734
Decrease in federal funds purchased	(8,508)	(5,482)
Decrease in securities sold under agreements to repurchase	(5,495)	(8,890)
Proceeds from Federal Home Loan Bank borrowings	—	12,000
Repayment of Federal Home Loan Bank borrowings	(15,000)	(10,000)
Stock options exercised	11	61
Dividends paid	(1,256)	(1,228)
Repurchase of common stock	—	(716)
Net cash used in financing activities	(30,537)	(13,521)
Net increase (decrease) in cash and cash equivalents	(1,953)	10,366

Cash and cash equivalents at beginning of period	23,409	24,890
Cash and cash equivalents at end of period	$21,456	$35,256
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$2,171	$2,459
Cash paid during the period for income taxes	$200	$150
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	$—	$228

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, 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 March 31, 2015, and the results of operations and cash flows for the three months ended March 31, 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 months ended March 31, 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.

On April 23, 2015, the Company held a special meeting of shareholders, at which the Company’s shareholders voted to approve the merger agreement with Central Bancshares, Inc., a Minnesota corporation ("Central Bancshares"), pursuant to which Central Bancshares will merge with and into the Company. In connection with the merger, Central Bank, a Minnesota-chartered commercial bank and wholly-owned subsidiary of Central Bancshares, will become a wholly-owned subsidiary of the Company. The corporate headquarters of the combined company will be in Iowa City, Iowa.

Subject to the terms and conditions of the merger agreement, each share of common stock of Central Bancshares will automatically be converted into the right to receive a pro rata portion of (i) 2,723,083 shares of common stock of the Company and (ii) $64.0 million in cash, subject to certain adjustments as described in the merger agreement. The transaction is expected to be completed in May 2015.

2. Shareholders' Equity

Preferred Stock: The number of authorized shares of preferred stock for the Company is 500,000. As of March 31, 2015, none were issued or outstanding.

Common Stock: As of March 31, 2015, the number of authorized shares of common stock for the Company was 15,000,000. As of March 31, 2015, 8,370,309 shares were outstanding.
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 replaced the Company's prior repurchase program, pursuant to which the Company had repurchased approximately $3.7 million of

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common stock since January 1, 2013. Pursuant to the new 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 first quarter 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 March 31, 2015.

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 March 31,	
(dollars in thousands, except per share amounts)	2015	2014
Basic earnings per common share computation		
Numerator:		
Net income	$4,796	$4,973
Denominator:		
Weighted average shares outstanding	8,363,861	8,475,593
Basic earnings per common share	$0.57	$0.59
Diluted earnings per common share computation		
Numerator:		
Net income	$4,796	$4,973
Denominator:		
Weighted average shares outstanding, including all dilutive potential shares	8,394,026	8,507,973
Diluted earnings per common share	$0.57	$0.58

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 March 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
U.S. Government agencies and corporations	$26,766	$229	$28	$26,967
State and political subdivisions	182,978	8,558	114	191,422
Mortgage-backed securities	28,971	1,522	—	30,493
Collateralized mortgage obligations	115,443	808	1,191	115,060
Corporate debt securities	43,392	373	24	43,741
Total debt securities	397,550	11,490	1,357	407,683
Other equity securities	1,243	46	22	1,267
Total	$398,793	$11,536	$1,379	$408,950

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(in thousands)	As of December 31, 2014 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
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

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

(in thousands)	As of March 31, 2015 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
State and political subdivisions	$42,252	$654	$147	$42,759
Mortgage-backed securities	21	3	—	24
Collateralized mortgage obligations	8,288	—	91	8,197
Corporate debt securities	3,732	—	138	3,594
Total	$54,293	$657	$376	$54,574

(in thousands)	As of December 31, 2014 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
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 $182.1 million and $200.7 million at March 31, 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 March 31, 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.

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The following presents information pertaining to securities with gross unrealized losses as of March 31, 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 March 31, 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)							
U.S. Government agencies and corporations	1	$—	$ —	$7,726	$ 28	$7,726	$ 28
State and political subdivisions	26	3,209	31	2,946	83	6,155	114
Collateralized mortgage obligations	10	11,952	81	48,729	1,110	60,681	1,191
Corporate debt securities	3	5,117	3	3,308	21	8,425	24
Other equity securities	1	—	—	978	22	978	22
Total	41	$20,278	$ 115	$63,687	$ 1,264	$83,965	$ 1,379

	As of December 31, 2014						
	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	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

	As of March 31, 2015						
	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	19	$4,375	$ 135	$1,687	$ 12	$6,062	$ 147
Collateralized mortgage obligations	1	8,197	91	—	—	8,197	91
Corporate debt securities	2	2,379	5	750	133	3,129	138
Total	22	$14,951	$ 231	$2,437	$ 145	$17,388	$ 376

	As of December 31, 2014						
	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	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 March 31, 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

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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 March 31, 2015, approximately 60% 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 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 in 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 depressed as of March 31, 2015 and December 31, 2014.

As of March 31, 2015, the Company also owned \$0.3 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 three months ended March 31, 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 March 31,	
	2015	2014
(in thousands)		
Beginning balance	$—	$6,639
Additional credit losses:		
Reductions to credit losses:		
Securities with other than temporary impairment, due to liquidation	—	—
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 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 March 31, 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	$25,853	$26,079	$190	$190
Due after one year through five years	91,538	93,854	3,030	3,026
Due after five years through ten years	102,394	107,758	20,111	20,410
Due after ten years	33,351	34,439	22,653	22,727
Debt securities without a single maturity date	144,414	145,553	8,309	8,221
Total	$397,550	$407,683	$54,293	$54,574

Mortgage-backed securities and collateralized mortgage obligations are collateralized by mortgage loans and 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 securities available for sale with an amortized cost of $1.2 million and a fair value of $1.3 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 March 31, 2015 was $8.0 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

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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 months ended March 31, 2015 and 2014 are as follows:

	Three Months Ended March 31,	
	2015	2014
(in thousands)		
Available for sale fixed maturity securities:		
Gross realized gains	$441	$929
Gross realized losses	(74)	(146)
Other-than-temporary impairment	—	—
	367	783
Equity securities:		
Gross realized gains	188	—
Gross realized losses	—	—
Other-than-temporary impairment	—	—
	188	—
Total net realized gains and losses	$555	$783

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 March 31, 2015 and December 31, 2014						
(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
March 31, 2015							
Allowance for loan losses:							
Individually evaluated for impairment	$78	$261	$ 185	$323	$1	$—	$848
Collectively evaluated for impairment	1,534	5,257	5,571	2,760	284	272	15,678
Total	$1,612	$5,518	$ 5,756	$3,083	$285	$ 272	$16,526
Loans acquired with deteriorated credit quality (loan pool participations)	$—	$62	$ 637	$77	$2	$ 1,356	$2,134
Loans receivable							
Individually evaluated for impairment	$2,901	$2,850	$ 3,941	$2,692	$31	$—	$12,415
Collectively evaluated for impairment	108,058	319,271	439,508	272,374	24,701	—	1,163,912
Total	$110,959	$322,121	$ 443,449	$275,066	$24,732	$—	$1,176,327
Loans acquired with deteriorated credit quality (loan pool participations)	$3	$806	$ 13,397	$3,131	$4	$ 3,023	$20,364

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(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
December 31, 2014							
Allowance for loan losses:							
Individually evaluated for impairment	$ 88	$ 206	$ 226	$ 623	$ 2	$ —	$ 1,145
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 acquired with deteriorated credit quality (loan pool participations)	$ —	$ 70	$ 669	$ 82	$ 9	$ 1,304	$ 2,134
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
Loans acquired with deteriorated credit quality (loan pool participations)	$ 4	$ 935	$ 14,246	$ 3,340	$ 12	$ 2,929	$ 21,466

Loans with unpaid principal in the amount of $401.7 million and $404.4 million at March 31, 2015 and December 31, 2014, 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 March 31, 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	—	(247)	—	(510)	(33)	—	(790)
Recoveries	—	339	—	4	10	—	353
Provision	106	(354)	1,357	422	(15)	(916)	600
Ending balance	$ 1,612	$ 5,518	$ 5,756	$ 3,083	$ 285	$ 272	$ 16,526
2014							
Beginning balance	$ 1,358	$ 4,980	$ 5,294	$ 3,185	$ 275	$ 1,087	$ 16,179
Charge-offs	—	(170)	(73)	(62)	(23)	—	(328)
Recoveries	5	113	—	3	3	—	124
Provision	(329)	481	(731)	(137)	39	1,127	450
Ending balance	$ 1,034	$ 5,404	$ 4,490	$ 2,989	$ 294	$ 2,214	$ 16,425

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,

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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 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.

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 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

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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. 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.

The following table sets forth information on the Company's TDRs[(1)] by class of financing receivable occurring during the stated periods:

	Three Months Ended March 31,					
	2015			2014		
	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)						
Total	—	$ —	$ —	—	$ —	$ —

(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[(1)] within the previous 12 months and for which there was a payment default during the stated periods were:

Three Months Ended March 31,			
2015		2014	
Number of	Recorded Investment	Number of	Recorded Investment

	Contracts		Contracts	
(dollars in thousands)				
Total	—	$ —	—	$ —

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

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.

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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 the maintenance of an adequate allowance for loan pool participation losses in order to cover estimated probable losses. Currently, charge-offs are netted against the income the Company receives, so the balance in the loan pool 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 pools. 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 pools during the quarter. In the event the estimated charge-offs provided by the servicer are greater than the loan pool 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 during the next calendar quarter. All loans that are to be charged-down are reserved against in the ALLL adequacy calculation. Loans that continue to have an investment basis and 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 participation) 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 estimated 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 March 31, 2015 and December 31, 2014:

	Pass	Special Mention/ Watch	Substandard	Doubtful	Loss	Total
(in thousands)						
March 31, 2015						
Agricultural	$102,694	$6,732	$1,533	$—	$—	$110,959
Commercial and industrial	295,655	5,627	19,245	—	—	320,527
Credit cards	1,309	8	—	—	—	1,317
Overdrafts	264	169	88	—	—	521
Commercial real estate:						
Construction and development	66,811	945	1,499	—	—	69,255
Farmland	82,767	1,716	2,232	—	—	86,715
Multifamily	54,050	177	—	—	—	54,227
Commercial real estate-other	213,778	11,405	8,069	—	—	233,252
Total commercial real estate	417,406	14,243	11,800	—	—	443,449
Residential real estate:						
One- to four- family first liens	214,703	3,649	3,474	—	—	221,826
One- to four- family junior liens	53,030	—	210	—	—	53,240
Total residential real estate	267,733	3,649	3,684	—	—	275,066
Consumer	24,438	16	34	—	—	24,488
Total	$1,109,499	$30,444	$36,384	$—	$—	$1,176,327
Loans acquired with deteriorated credit quality (loan pool participations)	$9,446	$—	$10,917	$—	$1	$20,364

	Pass	Special Mention/ Watch	Substandard	Doubtful	Loss	Total
(in thousands)						
December 31, 2014						
Agricultural	$98,096	$5,032	$1,681	$—	$—	$104,809
Commercial and industrial	273,290	7,468	22,350	—	—	303,108
Credit cards	1,240	6	—	—	—	1,246
Overdrafts	373	262	109	—	—	744
Commercial real estate:						
Construction and development	56,963	1,151	1,269	—	—	59,383
Farmland	79,629	1,778	2,293	—	—	83,700
Multifamily	54,708	178	—	—	—	54,886
Commercial real estate-other	215,268	11,216	2,068	—	—	228,552
Total commercial real estate	406,568	14,323	5,630	—	—	426,521
Residential real estate:						
One- to four- family first liens	211,390	3,933	3,991	—	—	219,314
One- to four- family junior liens	53,039	48	210	—	—	53,297
Total residential real estate	264,429	3,981	4,201	—	—	272,611
Consumer	23,431	8	41	—	—	23,480
Total	$1,067,427	$31,080	$34,012	$—	$—	$1,132,519

Loans acquired with deteriorated credit quality (loan pool participations)	$10,256	$—	$11,202	$—	$8	$21,466

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 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 March 31, 2015 and December 31, 2014:

	March 31, 2015			December 31, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
(in thousands)						
With no related allowance recorded:						
Agricultural	$1,340	$1,840	$—	$1,410	$1,910	$—
Commercial and industrial	1,865	1,865	—	2,169	2,270	—
Credit cards	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—
Commercial real estate:						
Construction and development	49	176	—	49	176	—
Farmland	2,211	2,374	—	2,270	2,433	—
Multifamily	—	—	—	—	—	—
Commercial real estate-other	1,030	1,155	—	939	1,064	—
Total commercial real estate	3,290	3,705	—	3,258	3,673	—
Residential real estate:						
One- to four- family first liens	1,421	1,997	—	535	773	—
One- to four- family junior liens	134	157	—	134	157	—
Total residential real estate	1,555	2,154	—	669	930	—
Consumer	22	38	—	6	22	—
Total	$8,072	$9,602	$—	$7,512	$8,805	$—
With an allowance recorded:						
Agricultural	$1,561	$1,561	$78	$1,617	$1,617	$88
Commercial and industrial	985	1,015	261	999	999	206
Credit cards	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—
Commercial real estate:						
Construction and development	34	34	34	34	34	34
Farmland	69	69	3	74	74	4
Multifamily	—	—	—	—	—	—
Commercial real estate-other	548	548	148	550	550	188
Total commercial real estate	651	651	185	658	658	226
Residential real estate:						
One- to four- family first liens	1,066	1,066	294	2,600	2,600	594
One- to four- family junior liens	71	71	29	72	72	29
Total residential real estate	1,137	1,137	323	2,672	2,672	623
Consumer	9	9	1	28	28	2
Total	$4,343	$4,373	$848	$5,974	$5,974	$1,145
Total:						
Agricultural	$2,901	$3,401	$78	$3,027	$3,527	$88
Commercial and industrial	2,850	2,880	261	3,168	3,269	206
Credit cards	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—
Commercial real estate:						
Construction and development	83	210	34	83	210	34

Farmland	2,280	2,443	3	2,344	2,507	4
Multifamily	—	—	—	—	—	—
Commercial real estate-other	1,578	1,703	148	1,489	1,614	188
Total commercial real estate	3,941	4,356	185	3,916	4,331	226
Residential real estate:						
One- to four- family first liens	2,487	3,063	294	3,135	3,373	594
One- to four- family junior liens	205	228	29	206	229	29
Total residential real estate	2,692	3,291	323	3,341	3,602	623
Consumer	31	47	1	34	50	2
Total	$12,415	$13,975	$848	$13,486	$14,779	$1,145

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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 March 31,			
	2015		2014	
(in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Agricultural	$1,375	$ 14	$1,416	$ 14
Commercial and industrial	1,872	29	1,874	20
Credit cards	—	—	—	—
Overdrafts	—	—	—	—
Commercial real estate:				
Construction and development	49	—	90	1
Farmland	2,241	27	91	2
Multifamily	—	—	—	—
Commercial real estate-other	1,036	—	551	(7)
Total commercial real estate	3,326	27	732	(4)
Residential real estate:				
One- to four- family first liens	1,417	—	645	4
One- to four- family junior liens	134	—	85	—
Total residential real estate	1,551	—	730	4
Consumer	23	—	9	—
Total	$8,147	$ 70	$4,761	$ 34
With an allowance recorded:				
Agricultural	$1,589	$ 12	$1,738	$ 12
Commercial and industrial	1,022	9	1,910	17
Credit cards	—	—	—	—
Overdrafts	—	—	—	—
Commercial real estate:				
Construction and development	34	—	—	—
Farmland	72	1	2,440	26
Multifamily	—	—	—	—
Commercial real estate-other	549	4	1,852	8
Total commercial real estate	655	5	4,292	34
Residential real estate:				
One- to four- family first liens	1,068	9	1,005	1
One- to four- family junior liens	72	—	89	—
Total residential real estate	1,140	9	1,094	1
Consumer	10	—	20	1
Total	$4,416	$ 35	$9,054	$ 65
Total:				
Agricultural	$2,964	$ 26	$3,154	$ 26
Commercial and industrial	2,894	38	3,784	37
Credit cards	—	—	—	—
Overdrafts	—	—	—	—
Commercial real estate:				
Construction and development	83	—	90	1

Farmland	2,313	28	2,531	28
Multifamily	—	—	—	—
Commercial real estate-other	1,585	4	2,403	1
Total commercial real estate	3,981	32	5,024	30
Residential real estate:				
One- to four- family first liens	2,485	9	1,650	5
One- to four- family junior liens	206	—	174	—
Total residential real estate	2,691	9	1,824	5
Consumer	33	—	29	1
Total	$12,563	$ 105	$13,815	$ 99

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The following table sets forth the composition and past due status of the Company's loans at March 31, 2015 and December 31, 2014:

(in thousands)	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
March 31, 2015							
Agricultural	$285	$—	$—	$285	$110,674	$110,959	$—
Commercial and industrial	1,091	77	408	1,576	318,951	320,527	—
Credit cards	3	5	—	8	1,309	1,317	—
Overdrafts	85	—	4	89	432	521	—
Commercial real estate:							
Construction and development	—	—	83	83	69,172	69,255	—
Farmland	123	—	—	123	86,592	86,715	—
Multifamily	—	—	—	—	54,227	54,227	—
Commercial real estate-other	—	76	2,214	2,290	230,962	233,252	924
Total commercial real estate	123	76	2,297	2,496	440,953	443,449	924
Residential real estate:							
One- to four- family first liens	1,831	137	1,541	3,509	218,317	221,826	111
One- to four- family junior liens	351	—	192	543	52,697	53,240	—
Total residential real estate	2,182	137	1,733	4,052	271,014	275,066	111
Consumer	82	16	16	114	24,374	24,488	2
Total	$3,851	$311	$4,458	$8,620	$1,167,707	$1,176,327	$1,037
December 31, 2014							
Agricultural	$58	$30	$—	$88	$104,721	$104,809	$—
Commercial and industrial	897	603	515	2,015	301,093	303,108	66
Credit cards	3	3	—	6	1,240	1,246	—
Overdrafts	104	2	4	110	634	744	—
Commercial real estate:							
Construction and development	—	—	83	83	59,300	59,383	—
Farmland	503	—	—	503	83,197	83,700	—
Multifamily	—	—	—	—	54,886	54,886	—
Commercial real estate-other	168	57	1,200	1,425	227,127	228,552	—
Total commercial real estate	671	57	1,283	2,011	424,510	426,521	—
Residential real estate:							
One- to four- family first liens	1,481	581	2,023	4,085	215,229	219,314	780
One- to four- family junior liens	105	48	192	345	52,952	53,297	—
Total residential real estate	1,586	629	2,215	4,430	268,181	272,611	780

Consumer	35	8	23	66	23,414	23,480	2
Total	$3,354	$1,332	$4,040	$8,726	$1,123,793	$1,132,519	$848

Non-accrual and Delinquent Loans

Loans are placed on non-accrual when (1) payment in full of principal and interest is no longer expected or (2) principal or interest has been in default for 90 days or more (unless the loan is both well secured with marketable collateral and in the process of collection). All loans rated doubtful or worse, and certain loans rated substandard, are placed on non-accrual.

A non-accrual asset may be restored to an accrual status when (1) all past due principal and interest has been paid (excluding renewals and modifications that involve the capitalizing of interest) or (2) the loan becomes well secured with marketable collateral and is in the process of collection. An established track record of performance is also considered when determining accrual status.

Delinquency status of a loan is determined by the number of days that have elapsed past the loan's payment due date, using the following classification groupings: 30-59 days, 60-89 days and 90 days or more. Loans shown in the 30-59 days and 60-89 days columns in the table above reflect contractual delinquency status of loans not considered nonperforming due to classification as a TDR or being placed on non-accrual.

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The following table sets forth the composition of the Company's recorded investment in loans on nonaccrual status as of March 31, 2015 and December 31, 2014:

(in thousands)	March 31, 2015	December 31, 2014
Agricultural	$—	$—
Commercial and industrial	430	479
Credit cards	—	—
Overdrafts	—	—
Commercial real estate:		
Construction and development	83	83
Farmland	23	24
Multifamily	—	—
Commercial real estate-other	1,291	1,200
Total commercial real estate	1,397	1,307
Residential real estate:		
One- to four- family first liens	1,430	1,261
One- to four- family junior liens	192	192
Total residential real estate	1,622	1,453
Consumer	14	16
Total	$3,463	$3,255

As of March 31, 2015, the Company had no commitments to lend additional funds to any borrowers who have had a TDR.

Loan Pool Participations

ASC Topic 310 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. The loans underlying the loan pool participations were evaluated individually when purchased for application of ASC Topic 310, utilizing various criteria including: past-due status, late payments, legal status of the loan (not in foreclosure, judgment against the borrower, or referred to legal counsel), frequency of payments made, collateral adequacy and the borrower's financial condition. If all the criteria were met, the individual loan utilized the accounting treatment required by ASC Topic 310 with the accretable yield difference between the expected cash flows and the purchased basis accreted into income on the level yield basis over the anticipated life of the loan. If any of the six criteria were not met at the time of purchase, the loan was accounted for on the cash basis of accounting.

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. As of March 31, 2015, approximately 71% of the loans were contractually current or less than 90 days past due, while 29% were contractually past due 90 days or more. Many of the loans were acquired in a contractually past due status, which was reflected in the discounted purchase price of the loans. Performance status is monitored on a monthly basis. The 29% of loans contractually past due includes loans in litigation and foreclosed property.

6. Income Taxes

Federal income tax expense for the three months ended March 31, 2015 and 2014 was computed using the consolidated effective federal tax rate. The Company also recognized income tax expense pertaining to state franchise taxes payable by the subsidiary bank.

7. Fair Value Measurements

Fair value is the price that would be received in selling an asset or paid in transferring a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability is not adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

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GAAP requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, GAAP establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 Inputs – Unadjusted quoted prices for identical assets or liabilities in active markets that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
- Level 3 Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

It is the Company's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements. The Company is required to use observable inputs, to the extent available, in the fair value estimation process unless that data results from forced liquidations or distressed sales. A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Valuation methods for instruments measured at fair value on a recurring basis.

Securities Available for Sale - The Company's investment securities classified as available for sale include: debt securities issued by the U.S. Treasury and other U.S. Government agencies and corporations, debt securities issued by state and political subdivisions, mortgage-backed securities, collateralized mortgage obligations, corporate debt securities, and equity securities. Quoted exchange prices are available for equity securities, which are classified as Level 1. The Company utilizes an independent pricing service to obtain the fair value of debt securities. On a quarterly basis, the Company selects a sample of 30 securities from its primary pricing service and compares them to a secondary independent pricing service to validate value. In addition, the Company periodically reviews the pricing methodology utilized by the primary independent service for reasonableness. Debt securities issued by the U.S. Treasury and other U.S. Government agencies and corporations and mortgage-backed obligations are priced utilizing industry-standard models that consider various assumptions, including time value, yield curves, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace and are classified as Level 2. Municipal securities are valued using a type of matrix, or grid, pricing in which securities are benchmarked against the treasury rate based on credit rating. These model and matrix measurements are classified as Level 2 in the fair value hierarchy. On an annual basis, a group of selected municipal securities are priced by a securities dealer and that price is used to verify the primary independent service's valuation.

Mortgage Servicing Rights - The Company recognizes the rights to service mortgage loans for others on residential real estate loans internally originated and then sold. Mortgage servicing rights are recorded at fair value based on assumptions through a third-party valuation service. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the servicing cost per loan, the discount rate, the escrow float rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Because many of these inputs are unobservable, the valuations are classified as Level 3.

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The following table summarizes assets measured at fair value on a recurring basis as of March 31, 2015 and December 31, 2014. There were no liabilities subject to fair value measurement as of these dates. The assets are segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value Measurement at March 31, 2015 Using			
(in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale debt securities:				
U.S. Government agencies and corporations	$26,967	$ —	$26,967	$—
State and political subdivisions	191,422	—	191,422	—
Mortgage-backed securities	30,493	—	30,493	—
Collateralized mortgage obligations	115,060	—	115,060	—
Corporate debt securities	43,741	—	43,741	—
Total available for sale debt securities	407,683	—	407,683	—
Available for sale equity securities:				
Other equity securities	1,267	1,267	—	—
Total available for sale equity securities	1,267	1,267	—	—
Total securities available for sale	$408,950	$ 1,267	$407,683	$—
Mortgage servicing rights	$2,181	$ —	$—	$ 2,181

	Fair Value Measurement at December 31, 2014 Using			
(in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale debt securities:				
U.S. Government agencies and corporations	$49,375	$ —	$ 49,375	$—
State and political subdivisions	195,199	—	195,199	—
Mortgage-backed securities	32,463	—	32,463	—
Collateralized mortgage obligations	146,132	—	146,132	—
Corporate debt securities	48,741	—	48,741	—
Total available for sale debt securities	471,910	—	471,910	—
Available for sale equity securities:				
Other equity securities	3,032	3,032	—	—
Total available for sale equity securities	3,032	3,032	—	—
Total securities available for sale	$474,942	$ 3,032	$ 471,910	$—
Mortgage servicing rights	$2,308	$ —	$ —	$ 2,308

There were no transfers of assets between levels of the fair value hierarchy during the three months ended March 31, 2015 or the year ended December 31, 2014.

There have been no changes in valuation techniques used for any assets measured at fair value during the three months ended March 31, 2015 or the year ended December 31, 2014.

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The following table presents additional information about assets measured at fair market value on a recurring basis for which the Company has utilized Level 3 inputs to determine fair value for the three months ended March 31, 2015 and 2014:

	For the Three Months Ended March 31,			
	2015		2014	
	Collateralized Debt Obligations	Mortgage Servicing Rights	Collateralized Debt Obligations	Mortgage Servicing Rights
(in thousands)				
Beginning balance	$—	$2,308	$1,317	$2,298
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Total gains (losses):				
Included in earnings	—	(172)	782	51
Included in other comprehensive income	—	—	794	—
Purchases, issuances, sales, and settlements:				
Purchases	—	—	—	—
Issuances	—	45	—	40
Sales	—	—	(2,893)	—
Settlements	—	—	—	—
Ending balance	$—	$2,181	$—	$2,389

The following table presents the amount of gains and losses on Level 3 assets noted above which were included in earnings and other comprehensive income for the three months ended March 31, 2015 and 2014 that are attributable to the change in unrealized gains and losses relating to those assets still held, and the line item in the consolidated financial statements in which they are included:

	For the Three Months Ended March 31,			
	2015		2014	
	Collateralized Debt Obligations	Mortgage Servicing Rights	Collateralized Debt Obligations	Mortgage Servicing Rights
(in thousands)				
Total gains (losses) for the period in earnings*	$—	$(127)	$782	$91
Change in unrealized gains for the period included in other comprehensive income	—	—	794	—

* Gains on collateralized debt obligations are included in gain on sale or call of available for sale securities, while gains on mortgage servicing rights are included in mortgage origination and loan servicing fees, both in the consolidated statements of operations.

Changes in the fair value of available for sale securities are included in other comprehensive income to the extent the changes are not considered OTTI. OTTI tests are performed on a quarterly basis and any decline in the fair value of an individual security below its cost that is deemed to be other-than-temporary results in a write-down that is reflected directly in the Company's consolidated statements of operations.

Valuation methods for instruments measured at fair value on a nonrecurring basis

Collateral Dependent Impaired Loans - From time to time, a loan is considered impaired and an allowance for credit losses is established. The specific reserves for collateral dependent impaired loans are based on the fair value of the collateral less estimated costs to sell. The fair value of collateral is determined based on appraisals. In some cases, adjustments are made to the appraised values due to various factors, including age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in the collateral. Because many of these inputs are unobservable, the valuations are classified as Level 3.

Other Real Estate Owned ("OREO") - OREO represents property acquired through foreclosures and settlements of loans. Property acquired through or in lieu of foreclosure are initially recorded at fair value less estimated selling cost at the date of foreclosure, establishing a new cost basis. The Company considers third party appraisals as well as independent fair value assessments from real estate brokers or persons involved in selling OREO in determining the fair value of particular properties. Accordingly, the valuation of OREO is subject to significant external and internal judgment. The Company also periodically reviews OREO to determine whether the property continues to be carried at the lower of its

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recorded book value or fair value of the property, less disposal costs. Because many of these inputs are unobservable, the valuations are classified as Level 3.

The following table discloses the Company's estimated fair value amounts of its assets recorded at fair value on a nonrecurring basis. It is management's belief that the fair values presented below are reasonable based on the valuation techniques and data available to the Company as of March 31, 2015 and December 31, 2014, as more fully described above.

	Fair Value Measurement at March 31, 2015 Using			
(in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Collateral dependent impaired loans:				
Agricultural	$—	$ —	$—	$ —
Commercial and industrial	725	—	—	725
Commercial real estate:				
Construction and development	49	—	—	49
Farmland	48	—	—	48
Multifamily	—	—	—	—
Commercial real estate-other	1,037	—	—	1,037
Total commercial real estate	1,134	—	—	1,134
Residential real estate:				
One- to four- family first liens	1,334	—	—	1,334
One- to four- family junior liens	47	—	—	47
Total residential real estate	1,381	—	—	1,381
Consumer	8	—	—	8
Collateral dependent impaired loans	$3,248	$ —	$—	$ 3,248
Other real estate owned	$1,652	$ —	$—	$ 1,652

	Fair Value Measurement at December 31, 2014 Using			
(in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Collateral dependent impaired loans:				
Agricultural	$—	$ —	$—	$ —
Commercial and industrial	793	—	—	793
Commercial real estate:				
Construction and development	49	—		