

MidWestOne Financial Group, Inc.  
Form 10-Q  
May 05, 2016

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

FORM 10-Q

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 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.  Yes  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).  Yes  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  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

As of May 3, 2016, there were 11,427,560 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

	March 31, 2016	December 31, 2015
	(unaudited)	
(dollars in thousands, except per share amounts)		
<b>ASSETS</b>		
Cash and due from banks	\$40,021	\$ 44,199
Interest-bearing deposits in banks	20,512	2,731
Federal funds sold	172	167
Cash and cash equivalents	60,705	47,097
Investment securities:		
Available for sale	387,494	427,241
Held to maturity (fair value of \$119,414 as of March 31, 2016 and \$118,234 as of December 31, 2015)	118,248	118,423
Loans held for sale	1,167	3,187
Loans	2,172,391	2,151,942
Allowance for loan losses	(20,245 )	(19,427 )
Net loans	2,152,146	2,132,515
Premises and equipment, net	75,469	76,202
Accrued interest receivable	11,963	13,736
Goodwill	64,654	64,548
Other intangible assets, net	18,080	19,141
Bank-owned life insurance	46,253	46,295
Other real estate owned	6,169	8,834
Deferred income taxes	144	947
Other assets	21,726	21,809
Total assets	\$2,964,218	\$ 2,979,975
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Non-interest-bearing demand	\$513,013	\$ 559,586
Interest-bearing checking	1,075,427	1,064,350
Savings	194,513	189,489
Certificates of deposit under \$100,000	337,859	348,268
Certificates of deposit \$100,000 and over	308,795	301,828
Total deposits	2,429,607	2,463,521
Federal funds purchased	—	1,500
Securities sold under agreements to repurchase	57,869	67,463
Federal Home Loan Bank borrowings	112,000	87,000
Junior subordinated notes issued to capital trusts	23,614	23,587
Long-term debt	21,250	22,500
Deferred compensation liability	5,186	5,132
Accrued interest payable	1,509	1,507
Deferred income taxes	—	—
Other liabilities	11,406	11,587
Total liabilities	2,662,441	2,683,797
Shareholders' equity:		

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Preferred stock, no par value; authorized 500,000 shares; no shares issued and outstanding at March 31, 2016 and December 31, 2015	\$—	\$—
Common stock, \$1.00 par value; authorized 15,000,000 shares at March 31, 2016 and December 31, 2015; issued 11,713,481 shares at March 31, 2016 and at December 31, 2015; outstanding 11,425,035 shares at March 31, 2016 and 11,408,773 shares at December 31, 2015	11,713	11,713
Additional paid-in capital	163,321	163,487
Treasury stock at cost, 288,446 shares as of March 31, 2016 and 304,708 shares at December 31, 2015	(6,001	) (6,331 )
Retained earnings	127,618	123,901
Accumulated other comprehensive income	5,126	3,408
Total shareholders' equity	301,777	296,178
Total liabilities and shareholders' equity	\$2,964,218	\$ 2,979,975
See accompanying notes to consolidated financial statements.		

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CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited) (dollars in thousands, except per share amounts)	Three Months Ended March 31,	
	2016	2015
Interest income:		
Interest and fees on loans	\$25,116	\$ 12,577
Interest and discount on loan pool participations	—	620
Interest on bank deposits	8	1
Interest on investment securities:		
Taxable securities	1,924	1,894
Tax-exempt securities	1,437	1,390
Total interest income	28,485	16,482
Interest expense:		
Interest on deposits:		
Interest-bearing checking	760	535
Savings	106	36
Certificates of deposit under \$100,000	569	626
Certificates of deposit \$100,000 and over	639	526
Total interest expense on deposits	2,074	1,723
Interest on federal funds purchased	25	12
Interest on securities sold under agreements to repurchase	53	30
Interest on Federal Home Loan Bank borrowings	451	399
Interest on other borrowings	6	4
Interest on junior subordinated notes issued to capital trusts	197	72
Interest on long-term debt	124	—
Total interest expense	2,930	2,240
Net interest income	25,555	14,242
Provision for loan losses	1,065	600
Net interest income after provision for loan losses	24,490	13,642
Noninterest income:		
Trust, investment, and insurance fees	1,498	1,581
Service charges and fees on deposit accounts	1,258	733
Mortgage origination and loan servicing fees	549	238
Other service charges, commissions and fees	2,618	603
Bank-owned life insurance income	384	295
Gain on sale or call of available for sale securities	244	555
Gain (loss) on sale of premises and equipment	(146 )	3
Total noninterest income	6,405	4,008
Noninterest expense:		
Salaries and employee benefits	12,645	6,869
Net occupancy and equipment expense	3,251	1,524
Professional fees	946	680
Data processing expense	2,573	432
FDIC insurance expense	421	239
Amortization of intangible assets	1,061	108
Other operating expense	2,549	1,327
Total noninterest expense	23,446	11,179

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Income before income tax expense	7,449	6,471
Income tax expense	1,905	1,675
Net income	\$5,544	\$ 4,796
Share and per share information:		
Ending number of shares outstanding	11,425,038	<del>8,370,309</del>
Average number of shares outstanding	11,416,993	<del>8,363,861</del>
Diluted average number of shares	11,442,938	<del>8,394,026</del>
Earnings per common share - basic	\$0.49	\$ 0.57
Earnings per common share - diluted	0.48	0.57
Dividends paid per common share	0.16	0.15
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,	
	2016	2015
Net income	\$5,544	\$4,796
Other comprehensive income, available for sale securities:		
Unrealized holding gains arising during period	2,978	2,156
Reclassification adjustment for gains included in net income	(244 )	(555 )
Income tax expense	(1,016 )	(617 )
Other comprehensive income on available for sale securities	1,718	984
Other comprehensive income, net of tax	1,718	984
Comprehensive income	\$7,262	\$5,780
See accompanying notes to consolidated financial statements.		



Table of ContentsMIDWESTONE 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, 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
Balance at December 31, 2015	\$ —	—\$11,713	\$163,487	\$(6,331)	\$123,901	\$ 3,408	\$296,178
Net income	—	—	—	—	5,544	—	5,544
Dividends paid on common stock (\$0.16 per share)	—	—	—	—	(1,827 )	—	(1,827 )
Release/lapse of restriction on RSUs (17,708 shares)	—	—	(352 )	330	—	—	(22 )
Stock compensation	—	—	186	—	—	—	186
Other comprehensive income, net of tax	—	—	—	—	—	1,718	1,718
Balance at March 31, 2016	\$ —	—\$11,713	\$163,321	\$(6,001)	\$127,618	\$ 5,126	\$301,777

See accompanying notes to consolidated financial statements.

Table of ContentsMIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (dollars in thousands)	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net income	\$5,544	\$4,796
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,065	600
Depreciation, amortization and accretion	2,675	929
(Gain) loss on sale of premises and equipment	146	(3 )
Deferred income taxes	(319 )	69
Stock-based compensation	186	126
Net gain on sale or call of available for sale securities	(244 )	(555 )
Net gain on sale of other real estate owned	(408 )	(16 )
Net gain on sale of loans held for sale	(431 )	(80 )
Origination of loans held for sale	(23,365 )	(13,791 )
Proceeds from sales of loans held for sale	25,816	12,391
Decrease in accrued interest receivable	1,773	1,540
Increase in cash surrender value of bank-owned life insurance	(384 )	(295 )
Decrease in other assets	83	542
Increase in deferred compensation liability	54	9
Increase (decrease) in accrued interest payable, accounts payable, accrued expenses, and other liabilities	(179 )	2,297
Net cash provided by operating activities	12,012	8,559
Cash flows from investing activities:		
Proceeds from sales of available for sale securities	19,690	48,261
Proceeds from maturities and calls of available for sale securities	22,633	19,581
Purchases of available for sale securities	(2 )	(7 )
Proceeds from maturities and calls of held to maturity securities	2,494	257
Purchase of held to maturity securities	(2,399 )	(3,034 )
Net increase in loans	(21,104 )	(44,245 )
Decrease in loan pool participations, net	—	1,102
Purchases of premises and equipment	(1,854 )	(2,180 )
Proceeds from sale of other real estate owned	3,481	280
Proceeds from sale of premises and equipment	1,338	10
Proceeds of principal and earnings from bank-owned life insurance	426	—
Net cash provided by investing activities	24,703	20,025
Cash flows from financing activities:		
Net decrease in deposits	(33,914 )	(289 )
Decrease in federal funds purchased	(1,500 )	(8,508 )
Decrease in securities sold under agreements to repurchase	(9,594 )	(5,495 )
Proceeds from Federal Home Loan Bank borrowings	30,000	—
Repayment of Federal Home Loan Bank borrowings	(5,000 )	(15,000 )
Proceeds and effect of tax from share-based compensation	(22 )	11
Payments on long-term debt	(1,250 )	—
Dividends paid	(1,827 )	(1,256 )
Net cash used in financing activities	(23,107 )	(30,537 )

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Net increase (decrease) in cash and cash equivalents		13,608	(1,953 )
Cash and cash equivalents at beginning of period		47,097	23,409
Cash and cash equivalents at end of period		\$60,705	\$21,456
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$2,928	\$2,171	
Cash paid during the period for income taxes	\$10	\$200	
Supplemental schedule of non-cash investing activities:			
Transfer of loans to other real estate owned	\$408	\$—	
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.

On May 1, 2015, the Company completed its merger with Central Bancshares, Inc. (“Central”), pursuant to which Central was merged with and into the Company. In connection with the merger, Central Bank, a Minnesota-chartered commercial bank and wholly-owned subsidiary of Central, became a wholly-owned subsidiary of the Company. On April 2, 2016, Central Bank merged with and into MidWestOne Bank.

The Company issued 2,723,083 shares of common stock and paid \$64.0 million in cash, for total consideration of \$141.9 million, in connection with the holding company merger. The results of operations acquired from Central have been included in the Company’s results of operations for the time period since the date of acquisition.

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all the information and notes necessary for complete financial statements in conformity with U.S. Generally Accepted Accounting Principles (“GAAP”). The information in this Quarterly Report on Form 10-Q is written with the presumption that the users of the interim financial statements have read or have access to the most recent Annual Report on Form 10-K of the Company, which contains the latest audited financial statements and notes thereto, together with Management’s Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2015 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, 2016, and the results of operations and cash flows for the three months ended March 31, 2016 and 2015. 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, 2016 may not be indicative of results for the year ending December 31, 2016, 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, 2015. In the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits in banks, and federal funds sold. Certain reclassifications have been made to prior periods’ consolidated financial statements to present them on a basis comparable with the current period’s consolidated financial statements.

2. Business Combination

On May 1, 2015, the Company acquired all of the voting equity interests of Central, a bank holding company and the parent company of Central Bank, a commercial bank headquartered in Golden Valley, Minnesota, through the merger of Central with and into the Company. Among other things, this transaction provided the Company with the opportunity to expand its business into new markets and grow the size of the business. At the effective time of the merger, each share of common stock of Central converted into a pro rata portion of (1) 2,723,083 shares of common stock of the Company, and (2) \$64.0 million in cash.

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This business combination was accounted for under the acquisition method of accounting. Accordingly, the results of operations of the acquired company have been included in the Company's results of operations since the date of acquisition. Under this method of accounting, assets and liabilities acquired are recorded at their estimated fair values. The excess cost over fair value of net assets acquired is recorded as goodwill. As the consideration paid for Central exceeded the net assets acquired, goodwill of \$64.7 million has been recorded on the acquisition. Goodwill recorded in this transaction, which reflects the entry into the geographically new markets served by Central, has been allocated to our Central Bank segment. Goodwill recorded in the transaction is not tax deductible. The amounts recognized for the business combination in the financial statements have been determined to be final as of March 31, 2016.

Estimated fair values of assets acquired and liabilities assumed in the Central transaction, as of the closing date of the transaction, were as follows:

(in thousands)	May 1, 2015
<b>ASSETS</b>	
Cash and due from banks	\$28,404
Investment securities	160,775
Loans	916,973
Premises and equipment	27,908
Goodwill	64,654
Core deposit intangible	12,773
Trade name intangible	1,380
FDIC indemnification asset	3,753
Other real estate owned	8,420
Other assets	14,482
Total assets	1,239,522
<b>LIABILITIES</b>	
Deposits	1,049,167
Short-term borrowings	16,124
Junior subordinated notes issued to capital trusts	8,050
Subordinated notes payable	12,669
Accrued expenses and other liabilities	11,617
Total liabilities	1,097,627
Total identifiable net assets	141,895

## Consideration:

Market value of common stock at \$29.31 per share at May 1, 2015 (2,723,083 shares of common stock issued), net of stock illiquidity discount due to restrictions	77,895
Cash paid	64,000
Total fair value of consideration	\$141,895

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

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

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

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

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

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

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

(1) Included in the accretable discount for purchased non-credit impaired loans is approximately \$10.4 million of estimated undiscounted principal losses.

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

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

The Company recorded \$2.2 million and \$0.5 million in pre-tax merger-related expenses for the three months ended March 31, 2016 and 2015, respectively, including professional and legal fees of \$0.1 million and \$0.2 million, respectively, to directly consummate the bank merger and the holding company merger, respectively. These amounts are included in professional fees in the Company's consolidated statements of operations. The remainder of merger-related expenses primarily relate to retention and severance compensation costs in the amount of \$0.3 million and \$0.3 million, for the three months ended March 31, 2016 and 2015, respectively, which are included in salaries and employee benefits in the consolidated statements of operations, and \$1.8 million of data processing service contract termination costs for the three months ended March 31, 2016, which are included in data processing expense. During the measurement period, specifically the three months ended March 31, 2016, the Company recognized adjustments to the provisional amounts reported at December 31, 2015, which reflect new information that existed as of May 1, 2015 that, if known, would have affected the measurement of the amounts recognized as of that date. In its interim financial statements for the three months ended March 31, 2016, the Company adjusted the provisional amounts for deferred taxes. The results of these adjustments are reflected in the \$0.1 million increase to goodwill during the quarter ended March 31, 2016. The final adjustments had no impact on earnings, and in accordance with ASU 2015-16 were recorded during the three months ending March 31, 2016.



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The following table provides the unaudited pro forma information for the results of operations for the three months ended March 31, 2015, as if the acquisition had occurred January 1, 2015. The pro forma results combine the historical results of Central into the Company's consolidated statement of income including the impact of certain purchase accounting adjustments, including loan discount accretion, investment securities discount accretion, intangible assets amortization, deposit premium accretion and borrowing discount amortization. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2015. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions. Net income in the table below includes merger expenses.

	Pro Forma Three Months Ended March 31, 2015
(in thousands)	
Total revenues (net interest income plus noninterest income)	\$34,338
Net income	\$6,497

The pro forma information above excludes the impact of any provision recorded related to renewing Central loans. Revenues and earnings included in the consolidated statements of operations of the acquired company were \$15.6 million and \$1.9 million for the three months ended March 31, 2016.

### 3. Shareholders' Equity

**Preferred Stock:** The number of authorized shares of preferred stock for the Company is 500,000. As of March 31, 2016, none were issued or outstanding.

**Common Stock:** As of March 31, 2016, the number of authorized shares of common stock for the Company was 15,000,000. As of March 31, 2016, 11,425,035 shares were outstanding.

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

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

On July 17, 2014, the board of directors of the Company approved a share repurchase program, allowing for the repurchase of up to \$5.0 million of stock through December 31, 2016. The repurchase program replaced the Company's prior repurchase program. Pursuant to the repurchase program, the Company may continue to repurchase shares from time to time in the open market, and the method, timing and amounts of repurchase will be solely in the discretion of the Company's management. The repurchase program does not require the Company to acquire a specific number of shares. Therefore, the amount of shares repurchased pursuant to the program will depend on several factors, including market conditions, capital and liquidity requirements, and alternative uses for cash available. During the first quarter of 2016 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, 2016.

### 4. Earnings per Share

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



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

(dollars in thousands, except per share amounts)	Three Months Ended March 31,	
	2016	2015
Basic earnings per common share computation		
Numerator:		
Net income	\$5,544	\$ 4,796
Denominator:		
Weighted average shares outstanding	11,416,983	11,363,861
Basic earnings per common share	\$0.49	\$ 0.57
Diluted earnings per common share computation		
Numerator:		
Net income	\$5,544	\$ 4,796
Denominator:		
Weighted average shares outstanding, including all dilutive potential shares	11,442,983	11,194,026
Diluted earnings per common share	\$0.48	\$ 0.57

## 5. Investment Securities

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

(in thousands)	As of March 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations	\$11,433	\$ 113	\$ —	\$11,546
State and political subdivisions	172,127	7,116	15	179,228
Mortgage-backed securities	52,213	806	6	53,013
Collateralized mortgage obligations	101,872	596	618	101,850
Corporate debt securities	40,363	248	19	40,592
Total debt securities	378,008	8,879	658	386,229
Other equity securities	1,252	40	27	1,265
Total	\$379,260	\$ 8,919	\$ 685	\$387,494

(in thousands)	As of December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	\$6,931	\$ —	\$ 21	\$6,910
U.S. Government agencies and corporations	26,600	99	46	26,653
State and political subdivisions	176,794	6,662	72	183,384
Mortgage-backed securities	56,950	569	457	57,062
Collateralized mortgage obligations	107,613	321	1,530	106,404
Corporate debt securities	45,602	50	86	45,566
Total debt securities	420,490	7,701	2,212	425,979
Other equity securities	1,250	50	38	1,262
Total	\$421,740	\$ 7,751	\$ 2,250	\$427,241



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

	As of March 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
State and political subdivisions	\$68,288	\$ 1,509	\$ 17	\$ 69,780
Mortgage-backed securities	2,914	9	6	2,917
Collateralized mortgage obligations	29,508	106	176	29,438
Corporate debt securities	17,538	101	360	17,279
Total	\$118,248	\$ 1,725	\$ 559	\$ 119,414

	As of December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
State and political subdivisions	\$66,454	\$ 928	\$ 110	\$ 67,272
Mortgage-backed securities	3,920	4	38	3,886
Collateralized mortgage obligations	30,505	1	459	30,047
Corporate debt securities	17,544	—	515	17,029
Total	\$118,423	\$ 933	\$ 1,122	\$ 118,234

Investment securities with a carrying value of \$290.2 million and \$321.6 million at March 31, 2016 and December 31, 2015, 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, 2016 and December 31, 2015. This temporary impairment represents the estimated amount of loss that would be realized if the securities were sold on the valuation date.

The following presents information pertaining to securities with gross unrealized losses as of March 31, 2016 and December 31, 2015, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

	As of March 31, 2016						
	Number of Securities	Less than 12 Months		12 Months or More		Total	
Available for Sale		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(in thousands, except number of securities)							
State and political subdivisions	5	\$929	\$ 2	\$813	\$ 13	\$1,742	\$ 15
Mortgage-backed securities	9	972	6	—	—	972	6
Collateralized mortgage obligations	9	16,736	47	20,103	571	36,839	618
Corporate debt securities	2	7,576	19	—	—	7,576	19
Other equity securities	1	—	—	973	27	973	27
Total	26	\$26,213	\$ 74	\$21,889	\$ 611	\$48,102	\$ 685

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		As of December 31, 2015						
		Number of Securities	Less than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
(in thousands, except number of securities)								
U.S. Treasury securities	1	\$6,910	\$ 21	\$—	\$ —	\$6,910	\$ 21	
U.S. Government agencies and corporations	1	4,890	46	—	—	4,890	46	
State and political subdivisions	22	8,419	24	3,177	48	11,596	72	
Mortgage-backed securities	27	37,753	457	—	—	37,753	457	
Collateralized mortgage obligations	23	56,447	420	31,253	1,110	87,700	1,530	
Corporate debt securities	8	30,496	86	—	—	30,496	86	
Other equity securities	1	—	—	962	38	962	38	
<b>Total</b>	<b>83</b>	<b>\$144,915</b>	<b>\$ 1,054</b>	<b>\$35,392</b>	<b>\$ 1,196</b>	<b>\$180,307</b>	<b>\$ 2,250</b>	

		As of March 31, 2016						
		Number of Securities	Less than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Held to Maturity								
(in thousands, except number of securities)								
State and political subdivisions	10	\$2,145	\$ 16	\$98	\$ 1	\$2,243	\$ 17	
Mortgage-backed securities	2	893	6	—	—	893	6	
Collateralized mortgage obligations	5	11,504	66	7,256	110	18,760	176	
Corporate debt securities	3	4,231	153	680	207	4,911	360	
<b>Total</b>	<b>20</b>	<b>\$18,773</b>	<b>\$ 241</b>	<b>\$8,034</b>	<b>\$ 318</b>	<b>\$26,807</b>	<b>\$ 559</b>	

		As of December 31, 2015						
		Number of Securities	Less than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
(in thousands, except number of securities)								
State and political subdivisions	32	\$9,345	\$ 93	\$2,040	\$ 17	\$11,385	\$ 110	
Mortgage-backed securities	5	3,723	38	—	—	3,723	38	
Collateralized mortgage obligations	7	22,571	320	7,416	139	29,987	459	
Corporate debt securities	6	15,606	309	680	206	16,286	515	
<b>Total</b>	<b>50</b>	<b>\$51,245</b>	<b>\$ 760</b>	<b>\$10,136</b>	<b>\$ 362</b>	<b>\$61,381</b>	<b>\$ 1,122</b>	

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 March 31, 2016 and December 31, 2015, 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, the Federal National Mortgage Association, and the Government National Mortgage Association. 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 and collateralized mortgage obligations do not expose the Company to credit-related losses.

At March 31, 2016, approximately 58% of the municipal bonds held by the Company were Iowa-based, and approximately 20% were Minnesota-based. The Company does not intend to sell these municipal obligations, and it is more likely than not that the Company will not be required to sell them until 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 impaired as of March 31, 2016 and December 31, 2015.

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As of March 31, 2016, 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, 2016 and the full year of 2015, 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.

It is reasonably possible that the fair values of the Company's investment securities could decline in the future if interest rates increase or the overall economy or the financial conditions of the issuers deteriorate. As a result, there is a risk that 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, 2016, 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	\$20,886	\$ 20,986	\$—	\$—
Due after one year through five years	86,325	88,511	6,117	6,149
Due after five years through ten years	100,431	105,087	51,082	52,116
Due after ten years	16,281	16,782	28,627	28,794
Debt securities without a single maturity date	154,085	154,863	32,422	32,355
Total	\$378,008	\$ 386,229	\$ 118,248	\$ 119,414

Mortgage-backed securities and collateralized mortgage obligations are collateralized by mortgage loans and guaranteed by U.S. government agencies. Our experience has indicated that principal payments will be collected sooner than scheduled because of prepayments. Therefore, these securities are not scheduled in the maturity categories indicated above. Equity securities available for sale with an amortized cost of \$1.3 million and a fair value of \$1.3 million are also excluded from this table.

Proceeds from the sales of investment securities available for sale during the three months ended March 31, 2016 and March 31, 2015 were \$19.7 million and \$48.3 million, respectively.

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, 2016 and 2015 are as follows:

	Three Months Ended March 31, 2016 2015	
(in thousands)		
Available for sale fixed maturity securities:		
Gross realized gains	\$244	\$441
Gross realized losses	—	(74 )
Other-than-temporary impairment	—	—
	244	367
Equity securities:		
Gross realized gains	—	188
Gross realized losses	—	—
Other-than-temporary impairment	—	—
	—	188
Total net realized gains and losses	\$244	\$555





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## 6. Loans Receivable and the Allowance for Loan Losses

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

Allowance for Loan Losses and Recorded Investment in Loan Receivables							
As of March 31, 2016 and December 31, 2015							
(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Total	
March 31, 2016							
Allowance for loan losses:							
Individually evaluated for impairment	\$41	\$ 618	\$2,712	\$ 362	\$ 1	\$3,734	
Collectively evaluated for impairment	2,194	4,062	6,803	2,912	187	16,158	
Purchased credit impaired loans	—	—	198	155	—	353	
Total	\$2,235	\$ 4,680	\$ 9,713	\$ 3,429	\$ 188	\$20,245	
Loans receivable							
Individually evaluated for impairment	\$3,014	\$ 7,880	\$ 16,621	\$ 5,570	\$ 25	\$33,110	
Collectively evaluated for impairment	120,481	465,363	986,109	506,407	36,427	2,114,787	
Purchased credit impaired loans	—	75	17,519	6,900	—	24,494	
Total	\$123,495	\$ 473,318	\$ 1,020,249	\$ 518,877	\$ 36,452	\$2,172,391	
(in thousands)	Agricultural and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total	
December 31, 2015							
Allowance for loan losses:							
Individually evaluated for impairment	\$ 51	\$ 489	\$ 2,786	\$ 387	\$ 1	\$ —	\$3,714
Collectively evaluated for impairment	1,366	4,962	5,718	3,539	408	(374 )	15,619
Purchased credit impaired loans	—	—	52	42	—	—	94
Total	\$ 1,417	\$ 5,451	\$ 8,556	\$ 3,968	\$ 409	\$ (374 )	\$19,427
Loans receivable							
Individually evaluated for impairment	\$ 3,072	\$ 7,718	\$ 23,697	\$ 5,725	\$ 26	\$ —	\$40,238
Collectively evaluated for impairment	118,642	461,275	950,207	517,482	38,506	—	2,086,112
Purchased credit impaired loans	—	256	18,037	7,299	—	—	25,592
Total	\$ 121,714	\$ 469,249	\$ 991,941	\$ 530,506	\$ 38,532	\$ —	\$2,151,942

Included above as of March 31, 2016, are loans with a contractual balance of \$95.7 million and a recorded balance of \$90.6 million, which are covered under loss sharing agreements with the FDIC. The agreements cover certain losses and expenses and expire at various dates through October 7, 2021. The related FDIC indemnification asset is reported separately in Note 8. "Other Assets".

As of March 31, 2016, the purchased credit impaired loans included above are \$31.3 million, net of a discount of \$6.8 million.

Loans with unpaid principal in the amount of \$568.3 million and \$558.8 million at March 31, 2016 and December 31, 2015, respectively, were pledged to the Federal Home Loan Bank (the "FHLB") as collateral for borrowings.

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

(in thousands)	Allowance for Loan Loss Activity						Total
	For the Three Months Ended March 31, 2016 and 2015						
	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	
<b>2016</b>							
Beginning balance	\$1,417	\$ 5,451	\$ 8,556	\$ 3,968	\$ 409	\$ (374 )	\$19,427
Charge-offs	(125 )	(10 )	(40 )	(159 )	(50 )	—	(384 )
Recoveries	6	12	53	64	2	—	137
Provision	937	(773 )	1,144	(444 )	(173 )	374	1,065
Ending balance	\$2,235	\$ 4,680	\$ 9,713	\$ 3,429	\$ 188	\$ —	\$20,245
<b>2015</b>							
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

As part of the merger between MidWestOne Bank and Central Bank, management developed a single methodology for determining the amount of the ALLL that would be needed at the combined bank. The new methodology is a hybrid of the methods used at MidWestOne Bank and Central Bank prior to the bank merger and the results from the new ALLL model are consistent with the results that the two banks calculated individually. The refined allowance calculation allocates the portion of allowance that was previously deemed to be unallocated to instead be included in management's determination of appropriate qualitative factors. These qualitative factors include (i) national and local economic conditions, (ii) the quality and experience of lending staff and management, (iii) changes in lending policies and procedures, (iv) changes in volume and severity of past due loans, classified loans and non-performing loans, (v) potential impact of any concentrations of credit, (vi) changes in the nature and terms of loans such as growth rates and utilization rates, (vii) changes in the value of underlying collateral for collateral-dependent loans, considering the Company's disposition bias, and (viii) the effect of other external factors such as the legal and regulatory environment. The Company may also consider other qualitative factors for additional allowance allocations, including changes in the Company's loan review process. Changes in the criteria used in this evaluation or the availability of new information could cause the allowance to be increased or decreased in future periods. In addition, bank regulatory agencies, as part of their examination process, may require adjustments to the allowance for loan losses based on their judgments and estimates.

#### Loan Portfolio Segment Risk Characteristics

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

**Commercial and Industrial** - Commercial and industrial loans are primarily made based on the reported cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The collateral support provided

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

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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.

**Purchased Loans Policy**

All purchased loans (nonimpaired and impaired) are initially measured at fair value as of the acquisition date in accordance with applicable authoritative accounting guidance. Credit discounts are included in the determination of fair value. An allowance for loan losses is not recorded at the acquisition date for loans purchased.

Individual loans acquired through the completion of a transfer, including loans that have evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable, are referred to herein as "purchased credit impaired loans." In determining the acquisition date fair value and estimated credit losses of purchased credit impaired loans, and in subsequent accounting, the Company accounts for loans individually. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "nonaccretable difference," are not recognized as a yield adjustment or as a loss accrual or valuation allowance. Expected cash flows at the purchase date in excess of the fair value of loans, if any, are recorded as interest income over the expected life of the loans if the timing and amount of future cash flows are reasonably estimable. Subsequent to the purchased date, increases in cash flows over those expected at the purchase date are recognized as interest income prospectively. The present value of any decreases in expected cash flows after the purchase date is recognized by recording an allowance for loan losses and a provision for loan losses. If the Company does not have the information necessary to reasonably estimate cash flows to be expected, it may use the cost-recovery method or cash-basis method of income recognition.

Subsequent to the purchase date, increases in cash flows over those expected at the purchase date are recognized as interest income prospectively. Subsequent to the purchase date, the methods utilized to estimate the required allowance for loan losses for these loans are similar to originated loans. The remaining differences between the

purchase price and the unpaid balance at the date of acquisition are recorded in interest income over the life of the loan.

**Charge-off Policy**

The Company requires a loan to be charged-off, in whole or in part, 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.

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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 Company'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 Company's books.

### The Allowance for Loan and Lease Losses

The Company requires the maintenance of an adequate allowance for loan and lease losses ("ALLL") in order to cover estimated probable losses without eroding the Company's capital base. Calculations are done at each quarter end, or more frequently if warranted, to analyze the collectability of loans and to ensure the adequacy of the allowance. In line with 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 the actual ALLL to be between 20% above and 5% below the "indicated reserve."

### 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.

A loan modification is a change in an existing loan contract that has been agreed to by the borrower and the bank, which may or may not be a troubled debt restructure or "TDR." All loans deemed TDR are considered impaired. A loan is considered a TDR when, for economic or legal reasons related to a borrower's financial difficulties, a concession is granted to the borrower that would not otherwise be considered. Both financial distress on the part of the borrower and the bank's granting of a concession, which are detailed further below, must be present in order for the loan to be considered a TDR.

All of the following factors are indicators that the debtor is experiencing financial difficulties (one or more items may be present):

- The debtor is currently in default on any of its debt.
- The debtor has declared or is in the process of declaring bankruptcy.
- There is significant doubt as to whether the debtor will continue to be a going concern.
- Currently, the debtor has securities that have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange.

Based on estimates and projections that only encompass the current business capabilities, the debtor forecasts that its entity-specific cash flows will be insufficient to service the debt (both interest and principal) in accordance with the contractual terms of the existing agreement through maturity.

Absent the current modification, the debtor cannot obtain funds from sources other than the existing creditors at an effective interest rate equal to the current market interest rate for similar debt for a non-troubled debtor.

The following factors are potential indicators that a concession has been granted (one or multiple items may be present):

- The borrower receives a reduction of the stated interest rate for the remaining original life of the debt.
- The borrower receives an extension of the maturity date or dates at a stated interest rate lower than 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 table sets forth information on the Company's TDRs by class of financing receivable occurring during the stated periods:

	Three Months Ended March 31, 2016		2015	
	Pre-Modification Number of Outstanding Contracts Recorded Investment	Post-Modification Outstanding Recorded Investment	Pre-Modification Number of Outstanding Contracts Recorded Investment	Post-Modification Outstanding Recorded Investment
(dollars in thousands)				
Troubled Debt Restructurings <sup>(1)</sup> :				
Agricultural				
Extended maturity date	1 \$ 25	\$ 25	—\$	— \$ —
Residential real estate:				
One- to four- family first liens				
Interest rate reduction	1 104	104	—	—
One- to four- family junior liens				
Interest rate reduction	1 71	71	—	—
Total	3 \$ 200	\$ 200	—\$	— \$ —

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

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

	Three Months Ended March 31, 2016		2015	
	Number of Recorded Investment Contracts	Number of Recorded Investment Contracts	Number of Recorded Investment Contracts	Number of Recorded Investment Contracts
(dollars in thousands)				
Troubled Debt Restructurings <sup>(1)</sup> That Subsequently Defaulted:				
Total	—\$	—	\$	—

(dollars in thousands)

Troubled Debt Restructurings<sup>(1)</sup> That Subsequently Defaulted:

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 will be separated into homogeneous pools to be collectively evaluated. Loans will be first grouped into the various loan types (i.e. commercial, agricultural, consumer, etc.) and further segmented within each subset by risk classification (i.e. pass, special mention/watch, and substandard).

Homogeneous loans past due 60-89 days and 90 days and over are classified special mention/watch and substandard, respectively, for allocation purposes.

The Company's historical loss experience for each group segmented by loan type is calculated for the prior 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:

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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.

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•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 banks' existing portfolios.

The items listed above are used to determine the pass percentage for loans evaluated under ASC 450, and as such, are applied to the loans risk rated pass. Due to the inherent risks associated with special mention/watch risk rated loans (i.e. early stages of financial deterioration, technical exceptions, etc.), this subset is reserved at a level that will cover losses above a pass allocation for loans that had a loss in the last 20 quarters in which the loan was risk rated special mention/watch at the time of the loss. Substandard loans carry exponentially greater risk than special mention/watch loans, and as such, this subset is reserved at a level that will cover losses above a pass allocation for loans that had a loss in the last 20 quarters in which the loans was risk rated substandard at the time of the loss. Ongoing analysis will be performed to support these factor multiples.

The following tables set forth the risk category of loans by class of loans and credit quality indicator based on the most recent analysis performed, as of March 31, 2016 and December 31, 2015:

	Pass	Special Mention/ Watch	Substandard	Doubtful	Loss	Total
(in thousands)						
March 31, 2016						
Agricultural	\$ 107,225	\$ 13,228	\$ 3,042	\$ —	\$ —	\$ —\$123,495
Commercial and industrial	438,725	14,686	18,409	10	—	471,830
Credit cards	1,474	1	13	—	—	1,488
Commercial real estate:						
Construction and development	110,190	2,298	2,730	—	—	115,218
Farmland	82,618	6,052	3,146	—	—	91,816
Multifamily	122,772	368	2,270	—	—	125,410
Commercial real estate-other	647,410	20,738	19,660	—	—	687,808
Total commercial real estate	962,990	29,456	27,806	—	—	1,020,252
Residential real estate:						
One- to four- family first liens	401,419	4,354	12,447	121	—	418,341
One- to four- family junior liens	95,393	2,022	3,062	59	—	100,536
Total residential real estate	496,812	6,376	15,509	180	—	518,877
Consumer	36,141	8	261	39	—	36,449
Total	\$2,043,367	\$ 63,755	\$ 65,040	\$ 229	\$ —	\$ —\$2,172,391
	Pass	Special Mention/ Watch	Substandard	Doubtful	Loss	Total
(in thousands)						
December 31, 2015						
Agricultural	\$ 111,361	\$ 8,536	\$ 1,817	\$ —	\$ —	\$ —\$121,714
Commercial and industrial	436,857	12,893	17,652	10	—	467,412
Credit cards	1,354	19	4	—	—	1,377
Overdrafts	1,168	100	215	—	—	1,483
Commercial real estate:						
Construction and development	114,640	2,406	3,707	—	—	120,753
Farmland	82,442	2,408	4,234	—	—	89,084
Multifamily	119,139	371	2,253	—	—	121,763
Commercial real estate-other	609,651	19,402	31,288	—	—	660,341
Total commercial real estate	925,872	24,587	41,482	—	—	991,941
Residential real estate:						

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One- to four- family first liens	410,143	4,813	13,042	235	—	428,233
One- to four- family junior liens	96,223	1,782	4,209	59	—	102,273
Total residential real estate	506,366	6,595	17,251	294	—	530,506
Consumer	37,184	6	278	41	—	37,509
Total	\$2,020,162	\$ 52,736	\$ 78,699	\$ 345	\$	-\$2,151,942

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Included within the special mention, substandard, and doubtful categories at March 31, 2016 and December 31, 2015 are purchased credit impaired loans totaling \$19.0 million and \$23.7 million, respectively.

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 presents loans individually evaluated for impairment, excluding purchased credit impaired loans, by class of loan, as of March 31, 2016 and December 31, 2015:

	March 31, 2016			December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
(in thousands)						
With no related allowance recorded:						
Agricultural	\$2,849	\$3,520	\$ —	\$1,512	\$2,084	\$ —
Commercial and industrial	4,469	4,723	—	6,487	6,752	—
Credit cards	—	—	—	—	—	—
Commercial real estate:						
Construction and development	—	—	—	321	448	—
Farmland	3,147	3,305	—	2,711	2,870	—
Multifamily	1,720	1,845	—	1,632	1,798	—
Commercial real estate-other	4,601	4,876	—	12,230	12,642	—
Total commercial real estate	9,468	10,026	—	16,894	17,758	—
Residential real estate:						
One- to four- family first liens	2,874	2,922	—	2,494	2,533	—
One- to four- family junior liens	922	927	—	1,297	1,308	—
Total residential real estate	3,796	3,849	—	3,791	3,841	—
Consumer	16	32	—	17	33	—
Total	\$20,598	\$22,150	\$ —	\$28,701	\$30,468	\$ —
With an allowance recorded:						
Agricultural	\$165	\$165	\$41	\$1,560	\$1,560	\$51
Commercial and industrial	3,657	3,690	618	1,231	1,258	489
Credit cards	—	—	—	—	—	—
Commercial real estate:						
Construction and development	305	305	56	34	34	34
Farmland	—	—	—	69	69	3
Multifamily	158	158	41	224	224	73
Commercial real estate-other	6,540	6,541	2,615	6,476	6,478	2,676
Total commercial real estate	7,003	7,004	2,712	6,803	6,805	2,786
Residential real estate:						
One- to four- family first liens	1,759	1,892	358	1,919	2,056	383
One- to four- family junior liens	15	15	4	15	15	4
Total residential real estate	1,774	1,907	362	1,934	2,071	387
Consumer	9	9	1	9	9	1
Total	\$12,608	\$12,775	\$3,734	\$11,537	\$11,703	\$3,714
Total:						
Agricultural	\$3,014	\$3,685	\$41	\$3,072	\$3,644	\$51
Commercial and industrial	8,126	8,413	618	7,718	8,010	489
Credit cards	—	—	—	—	—	—
Commercial real estate:						
Construction and development	305	305	56	355	482	34
Farmland	3,147	3,305	—	2,780	2,939	3
Multifamily	1,878	2,003	41	1,856	2,022	73
Commercial real estate-other	11,141	11,417	2,615	18,706	19,120	2,676
Total commercial real estate	16,471	17,030	2,712	23,697	24,563	2,786

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Residential real estate:

One- to four- family first liens	4,633	4,814	358	4,413	4,589	383
One- to four- family junior liens	937	942	4	1,312	1,323	4
Total residential real estate	5,570	5,756	362	5,725	5,912	387
Consumer	25	41	1	26	42	1
Total	\$33,206	\$34,925	\$ 3,734	\$40,238	\$42,171	\$ 3,714

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The following table presents the average recorded investment and interest income recognized for loans individually evaluated for impairment, excluding purchased credit impaired loans, by class of loan, during the stated periods:

	Three Months Ended March 31,			
	2016		2015	
	Average Interest Recorded	Investment Recognized	Average Interest Recorded	Investment Recognized
(in thousands)				
With no related allowance recorded:				
Agricultural	\$2,914	\$ 20	\$1,375	\$ 14
Commercial and industrial	4,375	1	1,872	29
Credit cards	—	—	—	—
Commercial real estate:				
Construction and development	—	—	49	—
Farmland	3,320	26	2,241	27
Multifamily	1,709	25	—	—
Commercial real estate-other	4,626	50	1,036	—
Total commercial real estate	9,655	101	3,326	27
Residential real estate:				
One- to four- family first liens	2,833	27	1,417	—
One- to four- family junior liens	920	11	134	—
Total residential real estate	3,753	38	1,551	—
Consumer	17	1	23	—
Total	\$20,714	\$ 161	\$8,147	\$ 70
With an allowance recorded:				
Agricultural	\$167	\$ 2	\$1,589	\$ 12
Commercial and industrial	3,679	4	1,022	9
Credit cards	—	—	—	—
Commercial real estate:				
Construction and development	305	3	34	—
Farmland	—	—	72	1
Multifamily	158	—	—	—
Commercial real estate-other	6,546	9	549	4
Total commercial real estate	7,009	12	655	5
Residential real estate:				
One- to four- family first liens	1,607	8	1,068	9
One- to four- family junior liens	15	—	72	—
Total residential real estate	1,622	8	1,140	9
Consumer	9	1	10	—
Total	\$12,486	\$ 27	\$4,416	\$ 35
Total:				
Agricultural	\$3,081	\$ 22	\$2,964	\$ 26
Commercial and industrial	8,054	5	2,894	38
Credit cards	—	—	—	—
Commercial real estate:				
Construction and development	305	3	83	—
Farmland	3,320	26	2,313	28
Multifamily	1,867	25	—	—
Commercial real estate-other	11,172	59	1,585	4



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Total commercial real estate	16,664	113	3,981	32
Residential real estate:				
One- to four- family first liens	4,440	35	2,485	9
One- to four- family junior liens	935	11	206	—
Total residential real estate	5,375	46	2,691	9
Consumer	26	2	33	—
Total	\$33,200	\$ 188	\$12,563	\$ 105

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The following table sets forth the composition and past due status of the Company's loans at March 31, 2016 and December 31, 2015:

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable
(in thousands)						
March 31, 2016						
Agricultural	\$482	\$277	\$315	\$1,074	\$122,421	\$123,495
Commercial and industrial	1,058	633	115	1,806	470,024	471,830
Credit cards	—	1	13	14	1,474	1,488
Commercial real estate:						
Construction and development	—	—	118	118	115,100	115,218
Farmland	—	363	—	363	91,453	91,816
Multifamily	—	—	—	—	125,410	125,410
Commercial real estate-other	1,294	2,044	640	3,978	683,830	687,808
Total commercial real estate	1,294	2,407	758	4,459	1,015,793	1,020,252
Residential real estate:						
One- to four- family first liens	1,360	998	1,274	3,632	414,709	418,341
One- to four- family junior liens	519	85	268	872	99,664	100,536
Total residential real estate	1,879	1,083	1,542	4,504	514,373	518,877
Consumer	31	5	9	45	36,404	36,449
Total	\$4,744	\$4,406	\$2,752	\$11,902	\$2,160,489	\$2,172,391
Included in the totals above are the following purchased credit impaired loans	\$363	\$2,233	\$420	\$3,016	\$21,478	\$24,494
December 31, 2015						
Agricultural	\$19	\$190	\$169	\$378	\$121,336	\$121,714
Commercial and industrial	1,046	710	644	2,400	465,012	467,412
Credit cards	2	17	4	23	1,354	1,377
Overdrafts	175	8	31	214	1,269	1,483
Commercial real estate:						
Construction and development	—	—	415	415	120,338	120,753
Farmland	120	—	80	200	88,884	89,084
Multifamily	—	—	224	224	121,539	121,763
Commercial real estate-other	1,190	754	1,636	3,580	656,761	660,341
Total commercial real estate	1,310	754	2,355	4,419	987,522	991,941
Residential real estate:						
One- to four- family first liens	2,611	1,293	1,772	5,676	422,557	428,233
One- to four- family junior liens	168	120	317	605	101,668	102,273
Total residential real estate	2,779	1,413	2,089	6,281	524,225	530,506
Consumer	62	6	17	85	37,424	