

MidWestOne Financial Group, Inc.
Form 10-Q
April 30, 2015

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, 2015

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 (I.R.S. Employer Identification No.)
organization)
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

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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 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

| | March 31, 2015 | December 31, 2014 |
|---|-------------------|----------------------|
| (dollars in thousands, except per share amounts) | | |
| 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: | | |
| | \$— | \$— |

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| | | |
|---|-------------|-------------|
| 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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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 |

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| | | |
|--|-----------|-----------|
| 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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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. | | |

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, 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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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 |

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

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, 2015 | | | |
|-------------------------------------|----------------------|------------------------------|-------------------------------|-------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| (in thousands) | | | | |
| 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 |

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

Investment securities with a carrying value of \$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 of Securities | Less than Fair Value | 12 Months Unrealized Losses | 12 Months or More Fair Value | Total Unrealized Fair Value | Unrealized Losses |
| Available for Sale (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 of Securities | Less than Fair Value | 12 Months Unrealized Losses | 12 Months or More Fair Value | Total Unrealized 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 of Securities | Less than Fair Value | 12 Months Unrealized Losses | 12 Months or More Fair Value | Total Unrealized Fair Value | Unrealized Losses |
| Held to Maturity (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 of Securities | Less than Fair Value | 12 Months Unrealized Losses | 12 Months or More Fair Value | Total Unrealized 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 land Industrial | Commercial Real Estate | 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:

| (in thousands) | Allowance for Loan Loss Activity | | | | | | |
|-------------------|--|---------------------------------|---------------------------|-------------------------------|----------|-------------|-----------|
| | For the Three Months Ended March 31, 2015 and 2014 | | | | | | |
| | 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 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.

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 |

(dollars in thousands)

Total

Contracts

— \$ —

Contracts

— \$ —

(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: | | | | | | |