MidWestOne Financial Group, Inc.
Form 10-Q
August 01, 2013

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

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from to

Commission file number 001-35968

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

Iowa	42-1206172
(State of Incorporation)	(I.R.S. Employer Identification No.)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

As of July 31, 2013, there were 8,467,146 shares of common stock, $1.00 par value per share, outstanding.

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements.

MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	June 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Cash and due from banks	$22,847	$30,197
Interest-bearing deposits in banks	723	16,242
Federal funds sold	—	752
Cash and cash equivalents	23,570	47,191
Investment securities:		
Available for sale	509,385	557,541
Held to maturity (fair value of $31,755 as of June 30, 2013 and $32,920 as of December 31, 2012)	33,312	32,669
Loans held for sale	1,304	1,195
Loans	1,061,401	1,035,284
Allowance for loan losses	(16,578)	(15,957)
Net loans	1,044,823	1,019,327
Loan pool participations, net	29,717	35,650
Premises and equipment, net	26,386	25,609
Accrued interest receivable	9,538	10,292
Intangible assets, net	9,137	9,469
Bank-owned life insurance	29,137	28,676
Other real estate owned	2,774	3,278
Assets held for sale	—	764
Deferred income taxes	5,728	776
Other assets	17,073	20,382
Total assets	$1,741,884	$1,792,819
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand	$207,859	$190,491
Interest-bearing checking	578,155	582,283
Savings	95,720	91,603
Certificates of deposit under $100,000	278,029	312,489
Certificates of deposit $100,000 and over	177,173	222,867
Total deposits	1,336,936	1,399,733
Federal funds purchased	2,235	—
Securities sold under agreements to repurchase	57,677	68,823
Federal Home Loan Bank borrowings	143,174	120,120
Deferred compensation liability	3,513	3,555
Long-term debt	15,464	15,464
Accrued interest payable	1,247	1,475
Other liabilities	9,355	9,717
Total liabilities	1,569,601	1,618,887
Shareholders' equity:		

Preferred stock, no par value; authorized 500,000 shares; no shares issued and outstanding at June 30, 2013 and December 31, 2012	$—	$—
Common stock, $1.00 par value; authorized 15,000,000 shares at June 30, 2013 and December 31, 2012; issued 8,690,398 shares at June 30, 2013 and December 31, 2012; outstanding 8,466,471 shares at June 30, 2013 and 8,480,488 shares at December 31, 2012	8,690	8,690
Additional paid-in capital	80,252	80,383
Treasury stock at cost, 223,927 shares as of June 30, 2013 and 209,910 shares at December 31, 2012	(3,858)	(3,316)
Retained earnings	84,325	77,125
Accumulated other comprehensive income	2,874	11,050
Total shareholders' equity	172,283	173,932
Total liabilities and shareholders' equity	$ 1,741,884	$ 1,792,819

See accompanying notes to consolidated financial statements.

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

(unaudited) (dollars in thousands, except share and per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Interest income:				
Interest and fees on loans	$12,277	$12,799	$24,391	$25,879
Interest and discount on loan pool participations	610	401	1,690	855
Interest on bank deposits	1	12	6	22
Interest on federal funds sold	—	1	—	1
Interest on investment securities:				
Taxable securities	2,546	2,818	5,176	5,570
Tax-exempt securities	1,334	1,246	2,695	2,465
Total interest income	16,768	17,277	33,958	34,792
Interest expense:				
Interest on deposits:				
Interest-bearing checking	600	761	1,271	1,590
Savings	35	32	71	69
Certificates of deposit under $100,000	1,121	1,496	2,360	3,086
Certificates of deposit $100,000 and over	569	754	1,202	1,527
Total interest expense on deposits	2,325	3,043	4,904	6,272
Interest on federal funds purchased	18	2	27	5
Interest on securities sold under agreements to repurchase	29	47	65	102
Interest on Federal Home Loan Bank borrowings	705	783	1,397	1,586
Interest on notes payable	7	9	15	18
Interest on long-term debt	75	167	150	335
Total interest expense	3,159	4,051	6,558	8,318
Net interest income	13,609	13,226	27,400	26,474
Provision for loan losses	600	575	800	1,154
Net interest income after provision for loan losses	13,009	12,651	26,600	25,320
Noninterest income:				
Trust, investment, and insurance fees	1,423	1,220	2,772	2,473
Service charges and fees on deposit accounts	743	811	1,450	1,578
Mortgage origination and loan servicing fees	717	828	1,761	1,595
Other service charges, commissions and fees	596	623	1,168	1,333
Bank-owned life insurance income	230	221	461	451
Impairment losses on investment securities	—	—	—	—
Gain on sale or call of available for sale securities (Includes $4 and $84 reclassified from accumulated other comprehensive income for net gains on available for sale securities for the three and six months ended June 30, 2013, respectively)	4	417	84	733
Gain (loss) on sale of premises and equipment	—	4,047	(2)	4,205
Total noninterest income	3,713	8,167	7,694	12,368
Noninterest expense:				
Salaries and employee benefits	6,173	11,988	12,466	17,960
Net occupancy and equipment expense	1,538	1,560	3,226	3,204
Professional fees	718	793	1,401	1,525

Data processing expense	337	369	728	815
FDIC insurance expense	296	293	590	603
Amortization of intangible assets	166	195	332	389
Other operating expense	1,357	1,382	2,836	2,887
Total noninterest expense	10,585	16,580	21,579	27,383
Income before income tax expense	6,137	4,238	12,715	10,305
Income tax expense (Includes $2 and $33 income tax expense reclassified from accumulated other comprehensive income for the three and six months ended June 30, 2013, respectively)	1,606	726	3,394	2,361
Net income	$4,531	$3,512	$9,321	$7,944
Share and Per share information:				
Ending number of shares outstanding	8,466,471	8,475,765	8,466,471	8,475,765
Average number of shares outstanding	8,474,925	8,471,379	8,484,100	8,484,649
Diluted average number of shares	8,517,292	8,516,461	8,526,961	8,521,971
Earnings per common share - basic	$0.54	$0.42	$1.10	$0.94
Earnings per common share - diluted	0.53	0.41	1.09	0.93
Dividends paid per common share	0.13	0.09	0.25	0.17

See accompanying notes to consolidated financial statements.

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

(unaudited) (dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$4,531	$3,512	$9,321	$7,944
Other comprehensive income (loss), available for sale securities:				
Unrealized holding gains (losses) arising during period	(11,558)	1,556	(12,968)	2,415
Reclassification adjustment for gains included in net income	(4)	(417)	(84)	(733)
Income tax (expense) benefit	4,317	(434)	4,876	(630)
Other comprehensive income (loss) on available for sale securities	(7,245)	705	(8,176)	1,052
Other comprehensive income, pension plan:				
Reclassification of pension plan expense due to plan settlement	—	5,968	—	5,968
Income tax benefit	—	(2,226)	—	(2,226)
Defined benefit pension plans	—	3,742	—	3,742
Other comprehensive income (loss), net of tax	(7,245)	4,447	(8,176)	4,794
Comprehensive income (loss)	$(2,714)	$7,959	$1,145	$12,738

See accompanying notes to consolidated financial statements.

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

(unaudited) (dollars in thousands, except share and 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, 2011	$ —	$ 8,690	$ 80,333	$ (2,312)	$ 63,646	$ 6,137	$ 156,494
Net income	—	—	—	—	7,944	—	7,944
Dividends paid on common stock ($0.17 per share)	—	—	—	—	(1,443)	—	(1,443)
Stock options exercised (23,497shares)	—	—	(49)	265	—	—	216
Release/lapse of restriction on RSUs (15,610 shares)	—	—	(198)	210	—	—	12
Repurchase of common stock (86,083 shares)	—	—	—	(1,445)	—	—	(1,445)
Stock compensation	—	—	129	—	—	—	129
Other comprehensive income, net of tax	—	—	—	—	—	4,794	4,794
Balance at June 30, 2012	$ —	$ 8,690	$ 80,215	$ (3,282)	$ 70,147	$ 10,931	$ 166,701
Balance at December 31, 2012	$ —	$ 8,690	$ 80,383	$ (3,316)	$ 77,125	$ 11,050	$ 173,932
Net income	—	—	—	—	9,321	—	9,321
Dividends paid on common stock ($0.25 per share)	—	—	—	—	(2,121)	—	(2,121)
Stock options exercised (22,193 shares)	—	—	(39)	143	—	—	104
Release/lapse of restriction on RSUs (19,385 shares)	—	—	(259)	282	—	—	23
Repurchase of common stock (40,713 shares)	—	—	—	(967)	—	—	(967)
Stock compensation	—	—	167	—	—	—	167
Other comprehensive loss, net of tax	—	—	—	—	—	(8,176)	(8,176)
Balance at June 30, 2013	$ —	$ 8,690	$ 80,252	$ (3,858)	$ 84,325	$ 2,874	$ 172,283

See accompanying notes to consolidated financial statements.

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

(unaudited) (dollars in thousands)	Six Months Ended June 30, 2013	2012
Cash flows from operating activities:		
Net income	$9,321	$7,944
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	800	1,154
Depreciation, amortization and accretion	2,709	2,729
(Gain) loss on sale of premises and equipment	2	(4,205)
Deferred income taxes	(76)	226
Stock-based compensation	167	141
Net gain on sale or call of available for sale securities	(84)	(733)
Net gain on sale of other real estate owned	(39)	(84)
Net gain on sale of loans held for sale	(838)	(899)
Writedown of other real estate owned	33	16
Origination of loans held for sale	(52,325)	(67,081)
Proceeds from sales of loans held for sale	53,054	69,010
Recognition of previously deferred expense related to pension plan settlement	—	3,002
Pension plan contribution	—	(3,031)
Decrease in accrued interest receivable	754	985
Increase in cash surrender value of bank-owned life insurance	(461)	(451)
(Increase) decrease in other assets	3,309	(544)
Decrease in deferred compensation liability	(42)	(48)
Increase (decrease) in accrued interest payable, accounts payable, accrued expenses, and other liabilities	(590)	8,364
Net cash provided by operating activities	15,694	16,495
Cash flows from investing activities:		
Proceeds from sales of available for sale securities	12,205	16,224
Proceeds from maturities and calls of available for sale securities	59,139	58,772
Purchases of available for sale securities	(37,243)	(86,840)
Proceeds from maturities and calls of held to maturity securities	540	546
Purchase of held to maturity securities	(1,185)	(5,000)
Increase in loans	(26,372)	(12,734)
Decrease in loan pool participations, net	5,933	8,006
Purchases of premises and equipment	(2,025)	(1,465)
Proceeds from sale of other real estate owned	586	1,624
Proceeds from sale of premises and equipment	12	5,244
Proceeds from sale of assets held for sale	764	—
Net cash provided by (used in) investing activities	12,354	(15,623)
Cash flows from financing activities:		
Net increase (decrease) in deposits	(62,797)	14,761
Increase (decrease) in federal funds purchased	2,235	(8,920)
Increase (decrease) in securities sold under agreements to repurchase	(11,146)	3,730
Proceeds from Federal Home Loan Bank borrowings	94,000	—
Repayment of Federal Home Loan Bank borrowings	(71,000)	(10,000)
Stock options exercised	127	216
Dividends paid	(2,121)	(1,443)

Repurchase of common stock	(967)	(1,445)
Net cash used in financing activities	(51,669)	(3,101)
Net decrease in cash and cash equivalents	(23,621)	(2,229)
Cash and cash equivalents at beginning of period	47,191	32,623
Cash and cash equivalents at end of period	$23,570	$30,394
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$6,786	$8,307
Cash paid during the period for income taxes	$4,038	$3,171
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	$76	$1,392
Transfer of property to assets held for sale	$—	$764

See accompanying notes to consolidated financial statements.

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

1.Principles of Consolidation and Presentation

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

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 three 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. 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, 2012 and for the year then ended. Management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of June 30, 2013, and the results of operations and cash flows for the three and six months ended June 30, 2013 and 2012. All significant intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. These estimates are based on information available to management at the time the estimates are made. Actual results could differ from those estimates. The results for the three and six months ended June 30, 2013 may not be indicative of results for the year ending December 31, 2013, or for any other period.

During the quarter ended June 30, 2013, the Company identified an immaterial error in its accounting for other-than-temporary impairment on its portfolio of collateralized debt obligations. This error related to the identification of credit-related impairments subsequent to the Company's adoption of Financial Accounting Standards Board (FASB) Staff Position (FSP) No. FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments” as of April 1, 2009.

As a result, the Company has adjusted prior period amounts for the immaterial error. Specifically, on the Company's consolidated statement of shareholders' equity the balance of retained earnings was reduced by $2,653,000, from $66,299,000 to $63,646,000, and accumulated other comprehensive income was increased by $2,653,000, from $3,484,000 to $6,137,000, as of December 31, 2011, to reflect the effect of the error in the years ended December 31, 2009, 2010, and 2011. On the Company's consolidated balance sheets, retained earnings and accumulated other comprehensive income as of December 31, 2012, were decreased and increased, respectively, by $2,870,000. Of the adjustment amounts as of December 31, 2011 and 2012, $2,322,000 relates to the after-tax effect of credit impairments that should have been recognized in the Company's consolidated statements of operations for the year ended December 31, 2009. No adjustments to the Company's consolidated statements of operations for the three- and six-month periods ended June 30, 2012 were necessary as a result of this correction.

The correction will also result in the following adjustments to historical amounts which will be part of comparative amounts in future filings: (i) on the Company's consolidated statement of shareholders' equity, the balance of retained earnings will be reduced by $2,647,000, from $55,619,000 to $52,972,000, and accumulated other comprehensive income will be increased by $2,647,000, from $(1,826,000) to $821,000, as of December 31, 2010, to reflect the effect of the error in the years ended December 31, 2009 and 2010; (ii) on the Company's consolidated statements of operations, net income for the year ended December 31, 2011 will be reduced $6,000, from $13,317,000 to $13,311,000, with no change in the reported basic or diluted earnings per share for such time period; (iii) on the Company's consolidated statements of operations, net income for the year ended December 31, 2012 will be reduced $217,000, from $16,751,000 to

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$16,534,000, with basic earnings per share decreasing from $1.97 to $1.95 and diluted earnings per share decreasing from $1.96 to $1.94 during such period; (iv) corresponding adjustments to the Company's comprehensive income will be made for the years ended December 31, 2012 and 2011; and (v) amounts in relevant footnotes for all periods to be presented will be corrected for the effects of this immaterial error.
All significant accounting policies followed in the preparation of the quarterly financial statements are disclosed in the December 31, 2012 Annual Report on Form 10-K. 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.

2.Shareholders' Equity
Preferred Stock: The number of authorized shares of preferred stock for the Company is 500,000. As of June 30, 2013, none were issued or outstanding.
Common Stock: As of June 30, 2013, the number of authorized shares of common stock for the Company was 15,000,000.
On October 18, 2011, our Board of Directors amended the Company's existing $1.0 million share repurchase program, originally authorized on July 26, 2011, by increasing the remaining amount of authorized repurchases to $5.0 million, and extending the expiration of the program to December 31, 2012.

On January 15, 2013, the Company's board of directors announced the renewal of the Company's share repurchase program, extending the expiration of the program to December 31, 2014 and increasing the remaining amount of authorized repurchases under the program to $5.0 million from the approximately $2.4 million of authorized repurchases that had previously remained. Pursuant to the program, the Company may continue to repurchase shares from time to time in the open market, and the method, timing and amounts of repurchase will be solely in the discretion of the Company's management. The repurchase program does not require the Company to acquire a specific number of shares. Therefore, the amount of shares repurchased pursuant to the program will depend on several factors, including market conditions, capital and liquidity requirements, and alternative uses for cash available. As of June 30, 2013 the remaining amount available for share repurchases under the program was $4.0 million.

3.Earnings per Common Share
Basic earnings per common share computations are based on the weighted average number of shares of common stock actually outstanding during the period. Diluted earnings per share amounts are computed by dividing net income by the weighted average number of shares outstanding and all dilutive potential shares outstanding during the period.
The following table presents the computation of earnings per common share for the respective periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands, except share and per share amounts)	2013	2012	2013	2012
Basic earnings per common share computation				
Numerator:				
Net income	$4,531	$3,512	$9,321	$7,944
Denominator:				
Weighted average shares outstanding	8,474,925	8,471,379	8,484,100	8,484,649
Basic earnings per common share	$0.54	$0.42	$1.10	$0.94
Diluted earnings per common share computation				
Numerator:				
Net income	$4,531	$3,512	$9,321	$7,944
Denominator:				

Weighted average shares outstanding, included all dilutive potential shares	8,517,292	8,516,461	8,526,961	8,521,971
Diluted earnings per common share	$0.53	$0.41	$1.09	$0.93

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4.Investment Securities

A summary of investment securities available for sale is as follows:

	As of June 30, 2013			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations	$56,949	$669	$809	$56,809
State and political subdivisions	196,055	7,232	2,513	200,774
Mortgage-backed securities and collateralized mortgage obligations	218,039	3,260	1,866	219,433
Corporate debt securities	31,094	354	1,970	29,478
Total debt securities	502,137	11,515	7,158	506,494
Other equity securities	2,646	285	40	2,891
Total	$504,783	$11,800	$7,198	$509,385

	As of December 31, 2012			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations	$68,707	$1,132	$56	$69,783
State and political subdivisions	206,392	11,752	125	218,019
Mortgage-backed securities and collateralized mortgage obligations	236,713	6,433	28	243,118
Corporate debt securities	26,438	360	1,858	24,940
Total debt securities	538,250	19,677	2,067	555,860
Other equity securities	1,637	109	65	1,681
Total	$539,887	$19,786	$2,132	$557,541

A summary of investment securities held to maturity is as follows:

	As of June 30, 2013			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
State and political subdivisions	$20,209	$—	$1,193	$19,016
Mortgage-backed securities	9,843	4	306	9,541
Corporate debt securities	3,260	—	62	3,198
Total	$33,312	$4	$1,561	$31,755

	As of December 31, 2012			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
State and political subdivisions	$19,278	$199	$57	$19,420
Mortgage-backed securities	10,133	121	—	10,254
Corporate debt securities	3,258	—	12	3,246

Total	$32,669	$320	$69	$32,920

The summary of investment securities shows that some of the securities in the available for sale and held to maturity investment portfolios had unrealized losses, or were temporarily impaired, as of June 30, 2013 and December 31, 2012. This temporary impairment represents the estimated amount of loss that would be realized if the securities were sold on the valuation date.

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The following presents information pertaining to securities with gross unrealized losses as of June 30, 2013 and December 31, 2012, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

	As of June 30, 2013						
	Number	Less than 12 Months		12 Months or More		Total	
Available for Sale	of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(in thousands, except number of securities)							
U.S. Government agencies and corporations	3	$22,071	$ 809	$—	$ —	$22,071	$ 809
State and political subdivisions	135	44,570	2,513	—	—	44,570	2,513
Mortgage-backed securities and collateralized mortgage obligations	12	85,435	1,866	—	—	85,435	1,866
Corporate debt securities	8	14,328	274	786	1,696	15,114	1,970
Other equity securities	1	960	40	—	—	960	40
Total	159	$167,364	$ 5,502	$786	$ 1,696	$168,150	$ 7,198

	As of December 31, 2012						
	Number	Less than 12 Months		12 Months or More		Total	
	of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(in thousands, except number of securities)							
U.S. Government agencies and corporations	2	$15,359	$ 56	$—	$ —	$15,359	$ 56
State and political subdivisions	27	7,221	125	—	—	7,221	125
Mortgage-backed securities and collateralized mortgage obligations	2	10,919	28	—	—	10,919	28
Corporate debt securities	9	14,672	242	755	1,616	15,427	1,858
Other equity securities	1	754	65	—	—	754	65
Total	41	$48,925	$ 516	$755	$ 1,616	$49,680	$ 2,132

	As of June 30, 2013						
	Number	Less than 12 Months		12 Months or More		Total	
Held to Maturity	of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(in thousands, except number of securities)							
State and political subdivisions	27	$17,538	$ 1,193	$—	$ —	$17,538	$ 1,193
Mortgage-backed securities and collateralized mortgage obligations	1	9,502	306	—	—	9,502	306
Corporate debt securities	1	2,322	62	—	—	2,322	62
Total	29	$29,362	$ 1,561	$—	$ —	$29,362	$ 1,561

	As of December 31, 2012						
	Number	Less than 12 Months		12 Months or More		Total	
	of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses

(in thousands, except number of securities)							
State and political subdivisions	11	$3,672	$ 57	$—	$ —	$3,672	$ 57
Corporate debt securities	1	2,371	12	—	—	2,371	12
Total	12	$6,043	$ 69	$—	$ —	$6,043	$ 69

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 credit quality of the underlying assets and the current and anticipated market conditions.
At June 30, 2013, 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 its cost. Due to the issuers' continued satisfaction of their obligations under the securities

in accordance with their contractual terms and the expectation that they will continue to do so, management's intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value, as well as the evaluation of the fundamentals of the issuers' financial condition and other objective evidence, the Company believes that the municipal obligations identified in the tables above were temporarily depressed as of June 30, 2013 and December 31, 2012.

At June 30, 2013 and December 31, 2012, the Company's mortgage-backed securities portfolio consisted of securities predominantly underwritten to the standards of and guaranteed by the following government-sponsored agencies: FHLMC, FNMA and GNMA. The receipt of principal, at par, and interest on mortgage-backed securities is guaranteed by the respective government-sponsored agency guarantor, such that the Company believes that its mortgage-backed securities do not expose the Company to credit-related losses.

At June 30, 2013, the Company owned six collateralized debt obligations backed by pools of trust preferred securities with an original cost basis of $9.8 million. The book value of these securities as of June 30, 2013 totaled $2.4 million, after other-than-temporary impairment charges have been recognized. All of the Company's trust preferred collateralized debt obligations are in mezzanine tranches and are currently rated less than investment grade by Moody's Investor Services. They are secured by trust preferred securities of banks and insurance companies throughout the United States, and were rated as investment grade securities when purchased between March 2006 and December 2007. However, as the banking climate eroded during 2008, the securities experienced cash flow problems. Due to continued market deterioration in these securities, additional pre-tax charges to earnings were recorded from 2009 to 2012. The market for these securities is considered to be inactive according to the guidance issued in ASC Topic 820, "Fair Value Measurements and Disclosures." The Company uses a discounted cash flow model to determine the estimated fair value of its pooled trust preferred collateralized debt obligations and to assess other-than-temporary impairment. The discounted cash flow analysis was performed in accordance with ASC Topic 325. The assumptions used in preparing the discounted cash flow model include the following: estimated discount rates (using yields of comparable traded instruments adjusted for illiquidity and other risk factors), estimated deferral and default rates on collateral, and estimated cash flows. The Company also reviewed a stress test of these securities to determine the additional deferrals or defaults in the collateral pool in excess of what the Company believes is probable, before the payments on the individual securities are negatively impacted.

As of June 30, 2013, the Company also owned $1.9 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 (the "CRA"). Equity securities are considered to have other-than-temporary impairment 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 first half of 2013 and the full year of 2012, 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 the overall economy and the financial condition of the issuers deteriorate and the liquidity of certain securities remains depressed. As a result, there is a risk that other-than-temporary impairments may occur in the future and any such amounts could be material to the Company's consolidated statements of operations.

A summary of the contractual maturity distribution of debt investment securities at June 30, 2013 is as follows:

	Available For Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(in thousands)				
Due in one year or less	$22,263	$22,541	$300	$300
Due after one year through five years	93,617	96,872	2,759	2,694
Due after five years through ten years	111,469	113,380	7,916	7,672
Due after ten years	56,749	54,268	12,494	11,548

Mortgage-backed securities and collateralized mortgage obligations	218,039	219,433	9,843	9,541
Total	$502,137	$506,494	$33,312	$31,755

Mortgage-backed and collateralized mortgage obligations are collateralized by mortgage loans guaranteed by U.S. government agencies. Experience has indicated that principal payments will be collected sooner than scheduled because of prepayments. Therefore, these securities are not scheduled in the maturity categories indicated above. Equity securities available for sale with an amortized cost of $2.6 million and a fair value of $2.9 million are also excluded from this table.

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Other investment securities include investments in Federal Home Loan Bank ("FHLB") stock. The carrying value of the FHLB stock at June 30, 2013 and December 31, 2012 was $11.8 million and $11.1 million, respectively, which is included in the Other Assets line of the consolidated balance sheets. This security is not readily marketable and ownership of FHLB stock is a requirement for membership in the FHLB Des Moines. The amount of FHLB stock the Bank is required to hold is directly related to the amount of FHLB advances borrowed. Because there are no available market values, this security is carried at cost and evaluated for potential impairment each quarter. Redemption of this investment is at the option of the FHLB.

Realized gains and losses on sales are determined on the basis of specific identification of investments based on the trade date. Realized gains on investments for the three and six months ended June 30, 2013 and 2012 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
(in thousands)				
Available for sale fixed maturity securities:				
Gross realized gains	$64	$38	$144	$352
Gross realized losses	(60)	—	(60)	—
Other-than-temporary impairment	—	—	—	—
	4	38	84	352
Equity securities:				
Gross realized gains	—	379	—	381
Gross realized losses	—	—	—	—
Other-than-temporary impairment	—	—	—	—
	—	379	—	381
	$4	$417	$84	$733

5.Loans Receivable and the Allowance for Loan Losses

The composition of loans and loan pool participations by portfolio segment are as follows:

Allowance for Loan Losses and Recorded Investment in Loan Receivables
As of June 30, 2013 and December 31, 2012

(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
June 30, 2013							
Allowance for loan losses:							
Individually evaluated for impairment	$145	$153	$ 440	$202	$7	$ —	$947
Collectively evaluated for impairment	850	4,621	5,224	3,132	272	1,532	15,631
Total	$995	$4,774	$ 5,664	$3,334	$279	$ 1,532	$16,578
Loans acquired with deteriorated credit quality (loan pool participations)	$3	$59	$ 719	$129	$5	$ 1,219	$2,134
Loans receivable							
Individually evaluated for impairment	$3,103	$1,872	$ 4,693	$1,619	$58	$ —	$11,345
Collectively evaluated for impairment	79,927	256,736	426,244	268,659	18,490	—	1,050,056

Total	$83,030	$258,608	$ 430,937	$270,278	$18,548	$ —	$1,061,401
Loans acquired with deteriorated credit quality (loan pool participations)	$55	$1,694	$ 20,940	$4,192	$64	$ 4,906	$31,851

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(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
December 31, 2012							
Allowance for loan losses:							
Individually evaluated for impairment	$ 159	$295	$ 293	$136	$6	$ —	$889
Collectively evaluated for impairment	867	4,304	5,474	2,871	350	1,202	15,068
Total	$ 1,026	$4,599	$ 5,767	$3,007	$356	$ 1,202	$15,957
Loans acquired with deteriorated credit quality (loan pool participations)	$ 4	$77	$ 673	$240	$15	$ 1,125	$2,134
Loans receivable							
Individually evaluated for impairment	$ 3,323	$1,806	$ 5,342	$886	$37	$ —	$11,394
Collectively evaluated for impairment	81,403	236,810	434,642	251,990	19,045	—	1,023,890
Total	$ 84,726	$238,616	$ 439,984	$252,876	$19,082	$ —	$1,035,284
Loans acquired with deteriorated credit quality (loan pool participations)	$ 76	$2,379	$ 24,346	$4,788	$67	$ 6,128	$37,784

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

	Allowance for Loan Loss Activity For the Three Months Ended June 30, 2013 and 2012						
(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
2013							
Beginning balance	$971	$4,396	$ 5,894	$3,084	$258	$ 1,657	$16,260
Charge-offs	—	(203)	(88)	(68)	(22)	—	(381)
Recoveries	31	30	5	21	12	—	99
Provision	(7)	551	(147)	297	31	(125)	600
Ending balance	$995	$4,774	$ 5,664	$3,334	$279	$ 1,532	$16,578
2012							
Beginning balance	$1,123	$4,687	$ 4,851	$2,734	$378	$ 1,906	$15,679
Charge-offs	—	(372)	(80)	(138)	(23)	—	(613)
Recoveries	—	82	10	—	4	—	96
Provision	(169)	549	(179)	298	6	70	575
Ending balance	$954	$4,946	$ 4,602	$2,894	$365	$ 1,976	$15,737

	Allowance for Loan Loss Activity For the Six Months Ended June 30, 2013 and 2012						
(in thousands)	Agricultural	Commercial and	Commercial Real Estate	Residential Real	Consumer	Unallocated	Total

		Industrial		Estate			
2013							
Beginning balance	$1,026	$4,599	$ 5,767	$3,007	$356	$ 1,202	$15,957
Charge-offs	(39)	(376)	(88)	(180)	(71)	—	(754)
Recoveries	36	39	462	23	15	—	575
Provision	(28)	512	(477)	484	(21)	330	800
Ending balance	$995	$4,774	$ 5,664	$3,334	$279	$ 1,532	$16,578
2012							
Beginning balance	$1,209	$5,380	$ 5,171	$3,501	$167	$ 248	$15,676
Charge-offs	—	(1,284)	(106)	(313)	(34)	—	(1,737)
Recoveries	507	97	13	12	15	—	644
Provision	(762)	753	(476)	(306)	217	1,728	1,154
Ending balance	$954	$4,946	$ 4,602	$2,894	$365	$ 1,976	$15,737

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

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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 area's largest businesses. 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 United States economy does not meaningfully improve, this could harm or continue to harm the businesses of our 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 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 control of the borrower or lender 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 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. Consumer loan collections are dependent on the borrower's continuing financial stability, and are therefore more likely to be affected by adverse personal circumstances. Collateral for these loans generally includes automobiles, boats, recreational vehicles, mobile homes, and real estate. However, depending on the overall financial condition of the borrower, some loans are made on an unsecured basis. The collateral securing these loans may depreciate over time, may be difficult to recover and may fluctuate in value based on condition. In addition, a decline in the United States economy could result in reduced employment, impacting the ability of customers to repay their obligations.

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

Charge-off Policy

The Company requires a loan to be charged-off as soon as it becomes apparent that some loss will be incurred, or when its collectability is sufficiently questionable that it no longer is considered a bankable asset. The primary considerations

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when determining if and how much of a loan should be charged-off are as follows: (1) the potential for future cash flows; (2) the value of any collateral; and (3) the strength of any co-makers or guarantors.

When it is determined that a loan requires 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 FDIC directives, the ALLL calculation does not include consideration of loans held for sale or off-balance-sheet credit exposures (such as unfunded letters of credit). Determining the appropriate level for the ALLL relies on the informed judgment of management, and as such, is subject to inaccuracy. Given the inherently imprecise nature of calculating the necessary ALLL, the Company's policy permits an "unallocated" allowance between 15% above and 5% below the "indicated reserve." These unallocated amounts are present due to the inherent imprecision in the ALLL calculation.

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 three of the measurements require no assignment of reserves from the ALLL.

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

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

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

	Three Months Ended June 30, 2013			2012		
(dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:						
Residential real estate:						
One- to four- family first liens						
Interest rate reduction	1	55	57	0	—	—
Total	1	$ 55	$ 57	0	$ —	$ —

	Six Months Ended June 30, 2013			2012		
(dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:						
Commercial and industrial						
Amortization or maturity date change	1	158	158	0	—	—
Commercial real estate:						
Farmland						
Interest rate reduction	0	—	—	2	2,475	2,475
Commercial real estate-other						
Amortization or maturity date change	2	165	136	0	—	—
Residential real estate:						