

MidWestOne Financial Group, Inc.  
Form 10-Q  
August 03, 2012

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 June 30, 2012

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 000-24630

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

Iowa  
(State of Incorporation)  
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)

42-1206172  
(I.R.S. Employer Identification No.)

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of August 2, 2012, there were 8,483,072 shares of common stock, \$1.00 par value per share, outstanding.

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## MIDWESTONE FINANCIAL GROUP, INC.

## Form 10-Q Quarterly Report

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements.

MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	June 30, 2012 (unaudited)	December 31, 2011
<b>ASSETS</b>		
Cash and due from banks	\$23,347	\$ 28,155
Interest-bearing deposits in banks	7,047	4,468
Cash and cash equivalents	30,394	32,623
Investment securities:		
Available for sale	547,203	534,080
Held to maturity (fair value of \$6,649 as of June 30, 2012 and \$2,042 as of December 31, 2011)	6,491	2,036
Loans held for sale	925	1,955
Loans	996,422	986,173
Allowance for loan losses	(15,737)	(15,676)
Net loans	980,685	970,497
Loan pool participations, net	42,046	50,052
Premises and equipment, net	24,770	26,260
Accrued interest receivable	9,437	10,422
Intangible assets, net	9,858	10,247
Bank-owned life insurance	28,174	27,723
Other real estate owned	3,869	4,033
Assets held for sale	764	—
Deferred income taxes	572	3,654
Other assets	22,206	21,662
Total assets	\$1,707,394	\$ 1,695,244
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Non-interest-bearing demand	\$177,447	\$ 161,287
Interest-bearing checking	501,078	499,905
Savings	80,846	71,823
Certificates of deposit under \$100,000	326,699	346,858
Certificates of deposit \$100,000 and over	235,333	226,769
Total deposits	1,321,403	1,306,642
Federal funds purchased	—	8,920
Securities sold under agreements to repurchase	52,017	48,287
Federal Home Loan Bank borrowings	130,067	140,014
Deferred compensation liability	3,595	3,643
Long-term debt	15,464	15,464
Accrued interest payable	1,541	1,530
Other liabilities	16,606	14,250
Total liabilities	1,540,693	1,538,750
Shareholders' equity:	\$—	\$—

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Preferred stock, no par value, with a liquidation preference of \$1,000.00 per share; authorized 500,000 shares; no shares issued and outstanding at June 30, 2012 and December 31, 2011		
Common stock, \$1.00 par value; authorized 15,000,000 shares at June 30, 2012 and December 31, 2011; issued 8,690,398 shares at June 30, 2012 and December 31, 2011; outstanding 8,475,765 shares at June 30, 2012 and 8,529,530 shares at December 31, 2011	8,690	8,690
Additional paid-in capital	80,215	80,333
Treasury stock at cost, 214,633 shares as of June 30, 2012 and 160,868 shares at December 31, 2011	(3,282 )	(2,312 )
Retained earnings	72,800	66,299
Accumulated other comprehensive income	8,278	3,484
Total shareholders' equity	166,701	156,494
Total liabilities and shareholders' equity	\$1,707,394	\$ 1,695,244

See accompanying notes to consolidated financial statements.

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

(unaudited) (dollars in thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Interest income:				
Interest and fees on loans	\$12,799	\$12,976	\$25,879	\$25,776
Interest and discount on loan pool participations	401	436	855	790
Interest on bank deposits	12	8	22	16
Interest on federal funds sold	1	1	1	1
Interest on investment securities:				
Taxable securities	2,818	2,866	5,570	5,554
Tax-exempt securities	1,246	1,072	2,465	2,107
Total interest income	17,277	17,359	34,792	34,244
Interest expense:				
Interest on deposits:				
Interest-bearing checking	761	994	1,590	2,002
Savings	32	58	69	117
Certificates of deposit under \$100,000	1,496	2,120	3,086	4,307
Certificates of deposit \$100,000 and over	754	839	1,527	1,687
Total interest expense on deposits	3,043	4,011	6,272	8,113
Interest on federal funds purchased	2	3	5	3
Interest on securities sold under agreements to repurchase	47	67	102	141
Interest on Federal Home Loan Bank borrowings	783	868	1,586	1,813
Interest on notes payable	9	10	18	20
Interest on long-term debt	167	163	335	325
Total interest expense	4,051	5,122	8,318	10,415
Net interest income	13,226	12,237	26,474	23,829
Provision for loan losses	575	900	1,154	1,800
Net interest income after provision for loan losses	12,651	11,337	25,320	22,029
Noninterest income:				
Trust, investment, and insurance fees	1,220	1,156	2,473	2,429
Service charges and fees on deposit accounts	811	955	1,578	1,806
Mortgage origination and loan servicing fees	828	382	1,595	1,259
Other service charges, commissions and fees	623	677	1,333	1,356
Bank-owned life insurance income	221	225	451	454
Gain on sale or call of available for sale securities	417	85	733	85
Gain (loss) on sale of premises and equipment	4,047	(195 )	4,205	(243 )
Total noninterest income	8,167	3,285	12,368	7,146
Noninterest expense:				
Salaries and employee benefits	11,988	5,739	17,960	11,609
Net occupancy and equipment expense	1,560	1,498	3,204	3,115
Professional fees	793	688	1,525	1,365
Data processing expense	369	426	815	876
FDIC insurance expense	293	356	603	953
Amortization of intangible assets	195	224	389	448
Other operating expense	1,382	1,364	2,887	2,563
Total noninterest expense	16,580	10,295	27,383	20,929

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Income before income tax expense	4,238	4,327	10,305	8,246
Income tax expense	726	1,104	2,361	2,118
Net income	\$3,512	\$3,223	\$7,944	\$6,128
Less: Preferred stock dividends and discount accretion	\$—	\$218	\$—	\$435
Net income available to common shareholders	\$3,512	\$3,005	\$7,944	\$5,693
Share and Per share information:				
Ending number of shares outstanding	8,475,765	8,628,221	8,475,765	8,628,221
Average number of shares outstanding	8,471,379	8,627,810	8,484,649	8,624,782
Diluted average number of shares	8,516,461	8,674,558	8,521,971	8,678,787
Earnings per common share - basic	\$0.42	\$0.35	\$0.94	\$0.66
Earnings per common share - diluted	0.41	0.35	0.93	0.66
Dividends paid per common share	0.09	0.05	0.17	0.10
See accompanying notes to consolidated financial statements.				

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited) (dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$3,512	\$3,223	\$7,944	\$6,128
Other comprehensive income, before tax:				
Unrealized holding gains arising during period	1,556	7,512	2,415	8,305
Less: Reclassification adjustment for gains included in net income	(417 )	(85 )	(733 )	(85 )
Unrealized gains on available for sale securities	1,139	7,427	1,682	8,220
Reclassification of pension plan expense due to plan settlement	5,969	—	5,969	—
Defined benefit pension plans	5,969	—	5,969	—
Other comprehensive income, before tax	7,108	7,427	7,651	8,220
Income tax expense related to items of other comprehensive income	2,661	2,768	2,857	3,065
Other comprehensive income, net of tax	4,447	4,659	4,794	5,155
Comprehensive income	\$7,959	\$7,882	\$12,738	\$11,283
See accompanying notes to consolidated financial statements.				



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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, 2010	\$ 15,767	\$ 8,690	\$ 81,268	\$(1,052 )	\$ 55,619	\$ (1,826 )	\$ 158,466
Net income	—	—	—	—	6,128	—	6,128
Dividends paid on common stock (\$0.10 per share)	—	—	—	—	(863 )	—	(863 )
Dividends paid on preferred stock	—	—	—	—	(400 )	—	(400 )
Stock options exercised (3,488 shares)	—	—	(9 )	49	—	—	40
Release/lapse of restriction on RSUs (10,650 shares)	—	—	(135 )	138	—	—	3
Preferred stock discount accretion	35	—	—	—	(35 )	—	—
Stock compensation	—	—	108	—	—	—	108
Other comprehensive income	—	—	—	—	—	5,155	5,155
Balance at June 30, 2011	\$ 15,802	\$ 8,690	\$ 81,232	\$(865 )	\$ 60,449	\$ 3,329	\$ 168,637
Balance at December 31, 2011	\$—	\$ 8,690	\$ 80,333	\$(2,312 )	\$ 66,299	\$ 3,484	\$ 156,494
Net income	—	—	—	—	7,944	—	7,944
Dividends paid on common stock (\$0.17 per share)	—	—	—	—	(1,443 )	—	(1,443 )
Stock options exercised (23,497 shares)	—	—	(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	—	—	—	—	—	4,794	4,794
Balance at June 30, 2012	\$—	\$ 8,690	\$ 80,215	\$(3,282 )	\$ 72,800	\$ 8,278	\$ 166,701

See accompanying notes to consolidated financial statements.

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

(unaudited) (dollars in thousands)	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$7,944	\$6,128
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,154	1,800
Depreciation, amortization and accretion	2,729	2,588
(Gain) loss on sale of premises and equipment	(4,205)	) 243
Deferred income taxes	226	(5)
Stock-based compensation	141	108
Net gain on sale or call of available for sale securities	(733)	) (85)
Net gain on sale of other real estate owned	(84)	) (158)
Net gain on sale of loans held for sale	(899)	) (470)
Writedown of other real estate owned	16	—
Origination of loans held for sale	(67,081)	) (38,312)
Proceeds from sales of loans held for sale	69,010	39,172
Recognition of previously deferred expense related to pension plan settlement	3,002	—
Pension plan contribution	(3,031)	) —
Decrease in accrued interest receivable	985	1,449
Increase in cash surrender value of bank-owned life insurance	(451)	) (454)
Increase in other assets	(544)	) (1,003)
Decrease in deferred compensation liability	(48)	) (31)
Increase in accrued interest payable, accounts payable, accrued expenses, and other liabilities	8,364	1,259
Net cash provided by operating activities	16,495	12,229
Cash flows from investing activities:		
Proceeds from sales of available for sale securities	16,224	—
Proceeds from maturities and calls of available for sale securities	58,772	64,238
Purchases of available for sale securities	(86,840)	) (96,412)
Proceeds from maturities and calls of held to maturity securities	546	1,540
Purchase of held to maturity securities	(5,000)	) —
Increase in loans	(12,734)	) (21,716)
Decrease in loan pool participations, net	8,006	9,207
Purchases of premises and equipment	(1,465)	) (531)
Proceeds from sale of other real estate owned	1,624	778
Proceeds from sale of premises and equipment	5,244	175
Net cash used in investing activities	(15,623)	) (42,721)
Cash flows from financing activities:		
Net increase in deposits	14,761	36,959
Decrease in federal funds purchased	(8,920)	) —
Increase (decrease) in securities sold under agreements to repurchase	3,730	(2,005)
Proceeds from Federal Home Loan Bank borrowings	—	51,000
Repayment of Federal Home Loan Bank borrowings	(10,000)	) (33,000)
Stock options exercised	216	43
Dividends paid	(1,443)	) (1,263)
Repurchase of common stock	(1,445)	) —

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Net cash (used in) provided by financing activities	(3,101	)	51,734
Net increase (decrease) in cash and cash equivalents	(2,229	)	21,242
Cash and cash equivalents at beginning of period	32,623		20,523
Cash and cash equivalents at end of period	\$30,394		\$41,765
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$8,307		\$10,509
Cash paid during the period for income taxes	\$3,171		\$857
Supplemental schedule of non-cash investing activities:			
Transfer of loans to other real estate owned	\$1,392		\$188
Transfer of property to assets held for sale	\$764		\$—
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. (“MidWestOne” or 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 MidWestOne, 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, 2011 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, 2012, and the results of operations and cash flows for the three and six months ended June 30, 2012 and 2011. 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, 2012 may not be indicative of results for the year ending December 31, 2012, or for any other period. All significant accounting policies followed in the preparation of the quarterly financial statements are disclosed in the December 31, 2011 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. None are currently issued or outstanding.

Common Stock: The number of authorized shares of common stock for the Company is 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. Pursuant to the program, we may 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 us 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.

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 available to common shareholders by the weighted average number of shares outstanding and all dilutive potential shares outstanding during the period.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands, except per share amounts)	2012	2011	2012	2011
Weighted average number of shares outstanding during the period	8,471,379	8,627,810	8,484,649	8,624,782
Weighted average number of shares outstanding during the period including all dilutive potential shares	8,516,461	8,674,558	8,521,971	8,678,787
Net income	\$3,512	\$3,223	\$7,944	\$6,128
Preferred stock dividend accrued and discount accretion	—	(218 )	—	(435 )
Net income available to common stockholders	\$3,512	\$3,005	\$7,944	\$5,693
Earnings per share - basic	\$0.42	\$0.35	\$0.94	\$0.66
Earnings per share - diluted	\$0.41	\$0.35	\$0.93	\$0.66

## 4. Investment Securities

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

	As of June 30, 2012			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations	\$70,980	\$1,125	\$—	\$72,105
State and political subdivisions	213,278	11,751	156	224,873
Mortgage-backed securities and collateralized mortgage obligations	231,198	6,135	24	237,309
Corporate debt securities	11,960	182	762	11,380
Total debt securities	527,416	19,193	942	545,667
Other equity securities	1,383	153	—	1,536
Total	\$528,799	\$19,346	\$942	\$547,203
	As of December 31, 2011			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations	\$55,851	\$1,142	\$12	\$56,981
State and political subdivisions	209,094	10,222	55	219,261
Mortgage-backed securities and collateralized mortgage obligations	238,641	6,161	—	244,802
Corporate debt securities	12,578	203	1,176	11,605
Total debt securities	516,164	17,728	1,243	532,649
Other equity securities	1,194	237	—	1,431
Total	\$517,358	\$17,965	\$1,243	\$534,080



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

	As of June 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
State and political subdivisions	\$5,575	\$153	\$—	\$5,728
Mortgage-backed securities	44	5	—	49
Corporate debt securities	872	—	—	872
Total	\$6,491	\$158	\$—	\$6,649

	As of December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
State and political subdivisions	\$1,119	\$2	\$—	\$1,121
Mortgage-backed securities	46	4	—	50
Corporate debt securities	871	—	—	871
Total	\$2,036	\$6	\$—	\$2,042

The summary of available for sale investment securities shows that some of the securities in the available for sale investment portfolio had unrealized losses, or were temporarily impaired, as of June 30, 2012 and December 31, 2011. This temporary impairment represents the estimated amount of loss that would be realized if the securities were sold on the valuation date.

The following presents information pertaining to securities with gross unrealized losses as of June 30, 2012 and December 31, 2011, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

	As of June 30, 2012						
	Number of Securities	Less than 12 Months Fair Value	12 Months or More Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Unrealized Losses
(in thousands, except number of securities)							
State and political subdivisions	29	11,372	155	310	1	11,682	156
Mortgage-backed securities and collateralized mortgage obligations	1	9,771	24	—	—	9,771	24
Corporate debt securities	6	2,078	25	1,035	737	3,113	762
Total	36	\$23,221	\$204	\$1,345	\$738	\$24,566	\$942
	As of December 31, 2011						
	Number of Securities	Less than 12 Months Fair Value	12 Months or More Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Unrealized Losses
(in thousands, except number of securities)							
U.S. Government agencies and corporations	1	\$5,412	\$12	\$—	\$—	\$5,412	\$12
State and political subdivisions	14	3,449	46	866	9	4,315	55
Corporate debt securities	6	4,975	210	806	966	5,781	1,176



Total	21	\$13,836	\$ 268	\$1,672	\$ 975	\$15,508	\$ 1,243
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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, 2012, approximately 59% 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

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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, 2012 and December 31, 2011.

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. 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.

At June 30, 2012, the Company owned six collateralized debt obligations backed by pools of trust preferred securities with an original cost basis of \$9.75 million. The book value of these securities as of June 30, 2012 totaled \$1.8 million, after other-than-temporary impairment charges during 2008, 2009, and 2010. 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 during 2009 and 2010, additional pre-tax charges to earnings were recorded. No additional charges have been recognized during 2011 or 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, 2012, the Company also owned \$1.5 million of equity securities in banks and financial service-related companies. 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 2012 and 2011, 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 these 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, 2012 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	\$18,786	\$18,980	\$225	\$225
Due after one year through five years	97,717	101,614	351	352
Due after five years through ten years	114,212	120,311	—	—
Due after ten years	65,503	67,453	5,871	6,023
	231,198	237,309	44	49

Mortgage-backed securities and collateralized mortgage obligations

Total	\$527,416	\$545,667	\$6,491	\$6,649
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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 \$1.4 million and a fair value of \$1.5 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, 2012 and December 31, 2011 was \$12.3 million and \$12.2 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, 2012 and 2011 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
(in thousands)				
Available for sale fixed maturity securities:				
Gross realized gains	\$38	\$85	\$352	\$85
Equity securities:				
Gross realized gains	379	—	381	—
	379	—	381	—
	\$417	\$85	\$733	\$85

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

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

(in thousands)	Allowance for Loan Losses and Recorded Investment in Loan Receivables As of June 30, 2012 and December 31, 2011						Total
	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	
June 30, 2012							
Allowance for loan losses:							
Individually evaluated for impairment	\$182	\$462	\$113	\$126	\$7	\$—	\$890
Collectively evaluated for impairment	772	4,484	4,489	2,768	358	1,976	14,847
Total	\$954	\$4,946	\$4,602	\$2,894	\$365	\$1,976	\$15,737
Loans acquired with deteriorated credit quality (loan pool participations)							
Loans receivable							
Individually evaluated for impairment	\$3,323	\$2,333	\$6,512	\$974	\$24	\$—	\$13,166
Collectively evaluated for impairment	78,230	245,933	396,398	242,852	19,843	—	983,256
Total	\$81,553	\$248,266	\$402,910	\$243,826	\$19,867	\$—	\$996,422
Loans acquired with deteriorated credit quality (loan pool	\$83	\$2,893	\$27,280	\$4,813	\$80	\$9,031	\$44,180

participations)

(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
December 31, 2011							
Allowance for loan losses:							
Individually evaluated for impairment	\$ 247	\$ 793	\$ 272	\$ 252	\$ 8	\$ —	\$ 1,572
Collectively evaluated for impairment	962	4,587	4,899	3,249	159	248	14,104
Total	\$ 1,209	\$ 5,380	\$ 5,171	\$ 3,501	\$ 167	\$ 248	\$ 15,676
Loans acquired with deteriorated credit quality (loan pool participations)							
Loans receivable							
Individually evaluated for impairment	\$ 4,776	\$ 2,550	\$ 9,619	\$ 2,736	\$ 58	\$ —	\$ 19,739
Collectively evaluated for impairment	84,522	238,636	386,420	236,112	20,744	—	966,434
Total	\$ 89,298	\$ 241,186	\$ 396,039	\$ 238,848	\$ 20,802	\$ —	\$ 986,173
Loans acquired with deteriorated credit quality (loan pool participations)							
	\$ 90	\$ 3,793	\$ 30,523	\$ 5,694	\$ 124	\$ 11,962	\$ 52,186

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Allowance for Loan Loss Activity							
For the Three Months Ended June 30, 2012 and 2011							
(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
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
2011							
Beginning balance	\$ 1,448	\$ 5,069	\$ 5,450	\$ 2,299	\$ 250	\$ 882	\$ 15,398
Charge-offs	(318 )	(375 )	(551 )	(36 )	(33 )	—	(1,313 )
Recoveries	62	326	115	1	114	—	618
Provision	136	(19 )	701	411	29	(358 )	900
Ending balance	\$ 1,328	\$ 5,001	\$ 5,715	\$ 2,675	\$ 360	\$ 524	\$ 15,603
Allowance for Loan Loss Activity							
For the Six Months Ended June 30, 2012 and 2011							
(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
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
2011							
Beginning balance	\$ 827	\$ 4,540	\$ 5,255	\$ 2,776	\$ 323	\$ 1,446	\$ 15,167
Charge-offs	(393 )	(594 )	(998 )	(107 )	(53 )	—	(2,145 )
Recoveries	62	470	115	16	118	—	781
Provision	832	585	1,343	(10 )	(28 )	(922 )	1,800
Ending balance	\$ 1,328	\$ 5,001	\$ 5,715	\$ 2,675	\$ 360	\$ 524	\$ 15,603

**Loan Portfolio Segment Risk Characteristics**

**Agricultural** - Agricultural loans, most of which are secured by crops 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 is 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.

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**Commercial Real Estate** - The Company offers mortgage loans to commercial and agricultural customers for the acquisition of real estate used in their business, 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. 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 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 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.

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## 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 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 troubled debt restructurings by class of financing receivable occurring during the stated periods:

	Three Months Ended June 30, 2012			2011		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
(dollars in thousands)						
Troubled Debt Restructurings:						
Agricultural	—	\$ —	\$ —	—	\$ —	\$ —
Commercial and industrial	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—
Commercial real estate:						
Construction and development	—	—	—	—	—	—
Farmland	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
Commercial real estate-other	—	—	—	—	—	—
Total commercial real estate	—	—	—	—	—	—
Residential real estate:						

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One- to four- family first liens	—	—	—	—	—	—
One- to four- family junior liens	—	—	—	—	—	—
Total residential real estate Consumer	—	—	—	—	—	—
Total	—	\$ —	\$ —	—	\$ —	\$ —

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	Six Months Ended June 30, 2012			2011		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
(dollars in thousands)						
Troubled Debt Restructurings:						
Agricultural	—	\$ —	\$ —	—	\$ —	\$ —
Commercial and industrial	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—
Commercial real estate:						
Construction and development	—	—	—	—	—	—
Farmland	2	2,475	2,475	—	—	—
Multifamily	—	—	—	—	—	—
Commercial real estate-other	—	—	—	4	803	803
Total commercial real estate	2	2,475	2,475	4	803	803
Residential real estate:						
One- to four- family first liens	—	—	—	—	—	—
One- to four- family junior liens	—	—	—	—	—	—
Total residential real estate	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total	2	\$ 2,475	\$ 2,475	4	\$ 803	\$ 803

During the three months ended June 30, 2012, the Company restructured no loans by granting concessions to borrowers experiencing financial difficulties. During the six months ended June 30, 2012, the Company restructured two loans by granting concessions to borrowers experiencing financial difficulties. Both are farmland loans and were granted interest rate reductions by court order as part of a Chapter 12 bankruptcy. One commercial real estate loan that was a new TDR within the past 12 months due to a below market interest rate experienced a payment default and was on non-accrual at June 30, 2012.

During the three months ended June 30, 2011, the Company restructured no loans by granting concessions to borrowers experiencing financial difficulties. During the six months ended June 30, 2011, the Company restructured four commercial real estate loans to the same borrower by granting an extension of a forbearance agreement and the granting of a below market interest rate.

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

	Three Months Ended June 30, 2012				Six Months Ended June 30, 2011			
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
(dollars in thousands)								

Troubled Debt Restructurings That Subsequently Defaulted:								
Agricultural	—	\$ —	—	\$ —	—	\$ —	—	\$ —
Commercial and industrial	—	—	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—
Commercial real estate:								
Construction and development	—	—	—	—	—	—	—	—
Farmland	—	—	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—	—	—
Commercial real estate-other <sup>1</sup>	—	576	—	—	1	576	—	—
Total commercial real estate <sup>1</sup>	—	576	—	—	1	576	—	—
Residential real estate:								
One- to four- family first liens	—	—	—	—	—	—	—	—
One- to four- family junior liens	—	—	—	—	—	—	—	—
Total residential real estate	—	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—	—
Total	1	\$ 576	—	\$ —	1	\$ 576	—	\$ —

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### Loans Reviewed Collectively for Impairment

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

The Company's historical loss experience for each loan type segment 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 a group(s). 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 exponentially greater risk than special mention loans, and as such, this subset is reserved at six times the pass allocation. Further, non-impaired loans identified as substandard "performing collateral deficient" are reserved at 12 times the pass allocation due to the perceived additional risk for such credits.

### The Allowance for Loan and Lease Losses - Loan Pool Participations

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

### Loans Reviewed Individually for Impairment

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

#### Loans Reviewed Collectively for Impairment

The Company utilizes the annualized average of portfolio loan (not loan pool) 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 June 30, 2012 and December 31, 2011:

	Pass	Special Mention/ Watch	Substandard	Doubtful	Loss	Total
(in thousands)						
June 30, 2012						
Agricultural	\$77,369	\$737	\$3,447	\$—	\$—	\$81,553
Commercial and industrial	220,865	12,213	13,985	—	—	247,063
Credit cards	987	15	10	—	—	1,012
Overdrafts	436	87	106	—	—	629
Commercial real estate:						
Construction and development	65,598	8,647	5,091	—	—	79,336
Farmland	65,258	2,999	2,410	—	—	70,667
Multifamily	35,004	213	—	—	—	35,217
Commercial real estate-other	194,763	18,913	4,014	—	—	217,690
Total commercial real estate	360,623	30,772	11,515	—	—	402,910
Residential real estate:						
One- to four- family first liens	179,987	4,470	1,531	—	—	185,988
One- to four- family junior liens	57,355	199	284	—	—	57,838
Total residential real estate	237,342	4,669	1,815	—	—	243,826
Consumer	19,272	91	66	—	—	19,429
Total	\$916,894	\$48,584	\$30,944	\$—	\$—	\$996,422
Loans acquired with deteriorated credit quality (loan pool participations)	\$25,030	\$—	\$19,135	\$—	\$15	\$44,180
	Pass	Special Mention/ Watch	Substandard	Doubtful	Loss	Total
(in thousands)						
December 31, 2011						
Agricultural	\$82,529	\$1,328	\$5,441	\$—	\$—	\$89,298
Commercial and industrial	206,053	16,611	17,326	—	—	239,990
Credit cards	934	—	—	—	—	934
Overdrafts	560	179	146	—	—	885
Commercial real estate:						
Construction and development	57,940	9,121	6,197	—	—	73,258
Farmland	68,119	3,193	3,142	—	—	74,454
Multifamily	34,142	318	259	—	—	34,719
Commercial real estate-other	189,077	18,149	6,382	—	—	213,608
Total commercial real estate	349,278	30,781	15,980	—	—	396,039
Residential real estate:						
One- to four- family first liens	164,504	6,564	4,361	—	—	175,429
One- to four- family junior liens	62,493	336	590	—	—	63,419
Total residential real estate	226,997	6,900	4,951	—	—	238,848
Consumer	19,969	49	161	—	—	20,179



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Total	\$ 886,320	\$ 55,848	\$ 44,005	\$—	\$—	\$ 986,173
Loans acquired with deteriorated credit quality (loan pool participations)	\$ 26,677	\$—	\$ 25,477	\$—	\$ 32	\$ 52,186

Special Mention/Watch - A special mention/watch asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Special mention/watch assets are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

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Substandard - Substandard loans are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss - Loans classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future.

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The following table sets forth the amounts and categories of the Company's impaired loans as of June 30, 2012 and December 31, 2011:

	June 30, 2012			December 31, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
(in thousands)						
With no related allowance recorded:						
Agricultural	\$1,600	\$2,100	\$—	\$2,928	\$2,892	\$—
Commercial and industrial	707	1,755	—	1,129	1,129	—
Credit cards	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—
Commercial real estate:						
Construction and development	707	1,068	—	831	831	—
Farmland	—	—	—	3,730	3,723	—
Multifamily	—	—	—	—	—	—
Commercial real estate-other	1,814	1,913	—	2,456	2,454	—
Total commercial real estate	2,521	2,981	—	7,017	7,008	—
Residential real estate:						
One- to four- family first liens	48	48	—	1,319	1,318	—
One- to four- family junior liens	43	43	—	72	72	—
Total residential real estate	91	91	—	1,391	1,390	—
Consumer	—	—	—	26	26	—
Total	\$4,919	\$6,927	\$—	\$12,491	\$12,445	\$—
With an allowance recorded:						
Agricultural	\$1,723	\$1,723	\$182	\$1,713	\$1,884	\$247
Commercial and industrial	1,626	1,701	462	1,432	1,421	793
Credit cards	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—
Commercial real estate:						
Construction and development	406	534	15	856	854	129
Farmland	2,517	2,517	55	326	326	14
Multifamily	—	—	—	259	259	10
Commercial real estate-other	1,068	1,068	43	1,175	1,172	119
Total commercial real estate	3,991	4,119	113	2,616	2,611	272
Residential real estate:						
One- to four- family first liens	883	883	126	1,247	1,255	216
One- to four- family junior liens	—	—	—	92	91	36
Total residential real estate	883	883	126	1,339	1,346	252
Consumer	24	24	7	32	32	8
Total	\$8,247	\$8,450	\$890	\$7,132	\$7,294	\$1,572
Total:						
Agricultural	\$3,323	\$3,823	\$182	\$4,641	\$4,776	\$247
Commercial and industrial	2,333	3,456	462	2,561	2,550	793
Credit cards	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—

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Commercial real estate:						
Construction and development	1,113	1,602	15	1,687	1,685	129
Farmland	2,517	2,517	55	4,056	4,049	14
Multifamily	—	—	—	259	259	10
Commercial real estate-other	2,882	2,981	43	3,631	3,626	119
Total commercial real estate	6,512	7,100	113	9,633	9,619	272
Residential real estate:						
One- to four- family first liens	931	931	126	2,566	2,573	216
One- to four- family junior liens	43	43	—	164	163	36
Total residential real estate	974	974	126	2,730	2,736	252
Consumer	24	24	7	58	58	8
Total	\$13,166	\$15,377	\$890	\$19,623	\$19,739	\$1,572

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2012		2011		2012		2011	
	Average	Interest	Average	Interest	Average	Interest	Average	Interest
	Recorded	Recognized	Recorded	Recognized	Recorded	Recognized	Recorded	Recognized
	Investmen	Investmen	Investmen	Investmen	Investmen	Investmen	Investmen	Investmen
(in thousands)								
With no related allowance recorded:								
Agricultural	\$1,600	\$ 16	\$3,428	\$ 21	\$1,600	\$ 28	\$3,390	\$ 33
Commercial and industrial	813	7	906	(12 )	848	37	907	(2 )
Credit cards	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—
Commercial real estate:								
Construction and development	707	—	1,258	—	707	—	1,264	(18 )
Farmland	—	—	4,228	10	—	—	4,252	31
Multifamily	—	—	—	—	—	—	—	—
Commercial real estate-other	1,821	15	3,448	(1 )	1,841	30	3,433	25
Total commercial real estate	2,528	15	8,934	9	2,548	30	8,949	38
Residential real estate:								
One- to four- family first liens	48	1	1,609	—	49	1	1,628	(1 )
One- to four- family junior liens	43	1	8	—	44	2	8	—
Total residential real estate	91	2	1,617	—	93	3	1,636	(1 )
Consumer	—	—	51	—	—	—	52	—
Total	\$5,032	\$ 40	\$14,936	\$ 18	\$5,089	\$ 98	\$14,934	\$ 68
With an allowance recorded:								
Agricultural	\$1,723	\$ 13	1,731	9	\$2,433	\$ 23	1,736	40
Commercial and industrial	1,648	20	1,219	(13 )	1,704	23	1,218	1
Credit cards	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—
Commercial real estate:								
Construction and development	407	1	448	7	1,983	1	449	13
Farmland	2,517	28	363	(2 )	280	57	373	—
Multifamily	—	—	—	—	—	—	—	—
Commercial real estate-other	1,073	11	2,416	25	1,183	22	2,422	73

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Total commercial real estate	3,997	40	3,227	30	3,446	80	3,244	86
Residential real estate:								
One- to four- family first liens	884	8	1,118	9	912	17	1,124	17
One- to four- family junior liens	—	—	108	1	—	—	108	2
Total residential real estate	884	8	1,226					