MidWestOne Financial Group, Inc.
Form 10-Q
November 03, 2016

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 September 30, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-35968

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

| Iowa | 42-1206172 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of November 1, 2016, there were 11,435,860 shares of common stock, $1.00 par value per share, outstanding.

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Form 10-Q Quarterly Report
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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements.

MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| (dollars in thousands, except per share amounts) | September 30, 2016 (unaudited) | December 31, 2015 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $ 45,612 | $ 44,199 |
| Interest-bearing deposits in banks | 6,341 | 2,731 |
| Federal funds sold | 5 | 167 |
| Cash and cash equivalents | 51,958 | 47,097 |
| Investment securities: | | |
| Available for sale | 436,239 | 427,241 |
| Held to maturity (fair value of $153,474 as of September 30, 2016 and $118,234 as of December 31, 2015) | 151,110 | 118,423 |
| Loans held for sale | 2,742 | 3,187 |
| Loans | 2,141,832 | 2,151,942 |
| Allowance for loan losses | (21,395) | (19,427) |
| Net loans | 2,120,437 | 2,132,515 |
| Premises and equipment, net | 75,127 | 76,202 |
| Accrued interest receivable | 13,139 | 13,736 |
| Goodwill | 64,654 | 64,548 |
| Other intangible assets, net | 16,095 | 19,141 |
| Bank-owned life insurance | 46,905 | 46,295 |
| Other real estate owned | 3,452 | 8,834 |
| Deferred income taxes | 1,231 | 947 |
| Other assets | 18,885 | 21,809 |
| Total assets | $ 3,001,974 | $ 2,979,975 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits: | | |
| Non-interest-bearing demand | $ 493,820 | $ 559,586 |
| Interest-bearing checking | 1,114,536 | 1,064,350 |
| Savings | 196,426 | 189,489 |
| Certificates of deposit under $100,000 | 332,194 | 348,268 |
| Certificates of deposit $100,000 and over | 308,956 | 301,828 |
| Total deposits | 2,445,932 | 2,463,521 |
| Federal funds purchased | 19,309 | 1,500 |
| Securities sold under agreements to repurchase | 63,469 | 67,463 |
| Federal Home Loan Bank borrowings | 100,000 | 87,000 |
| Junior subordinated notes issued to capital trusts | 23,667 | 23,587 |
| Long-term debt | 18,750 | 22,500 |
| Deferred compensation liability | 5,209 | 5,132 |
| Accrued interest payable | 1,552 | 1,507 |
| Other liabilities | 14,502 | 11,587 |
| Total liabilities | 2,692,390 | 2,683,797 |
| Shareholders' equity: | | |
| | $ — | $ — |

| | | |
|---|---|---|
| Preferred stock, no par value; authorized 500,000 shares; no shares issued and outstanding at September 30, 2016 and December 31, 2015 | | |
| Common stock, $1.00 par value; authorized 15,000,000 shares at September 30, 2016 and December 31, 2015; issued 11,713,481 shares at September 30, 2016 and at December 31, 2015; outstanding 11,435,860 shares at September 30, 2016 and 11,408,773 shares at December 31, 2015 | 11,713 | 11,713 |
| Additional paid-in capital | 163,492 | 163,487 |
| Treasury stock at cost, 277,621 shares as of September 30, 2016 and 304,708 shares at December 31, 2015 | (5,776 ) | (6,331 ) |
| Retained earnings | 134,935 | 123,901 |
| Accumulated other comprehensive income | 5,220 | 3,408 |
| Total shareholders' equity | 309,584 | 296,178 |
| Total liabilities and shareholders' equity | $ 3,001,974 | $ 2,979,975 |

See accompanying notes to consolidated financial statements.

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

| (unaudited) (dollars in thousands, except per share amounts) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Interest income: | | | | |
| Interest and fees on loans | $24,343 | $ 26,697 | $74,094 | $ 60,959 |
| Interest and discount on loan pool participations | — | — | — | 798 |
| Interest on bank deposits | 63 | 13 | 141 | 29 |
| Interest on federal funds sold | 3 | — | 4 | — |
| Interest on investment securities: | | | | |
| Taxable securities | 2,088 | 1,914 | 5,924 | 5,721 |
| Tax-exempt securities | 1,394 | 1,365 | 4,251 | 4,149 |
| Total interest income | 27,891 | 29,989 | 84,414 | 71,656 |
| Interest expense: | | | | |
| Interest on deposits: | | | | |
| Interest-bearing checking | 810 | 706 | 2,346 | 1,903 |
| Savings | 50 | 48 | 216 | 128 |
| Certificates of deposit under $100,000 | 801 | 641 | 2,089 | 1,758 |
| Certificates of deposit $100,000 and over | 813 | 1,090 | 2,171 | 2,083 |
| Total interest expense on deposits | 2,474 | 2,485 | 6,822 | 5,872 |
| Interest on federal funds purchased | 5 | 19 | 30 | 33 |
| Interest on securities sold under agreements to repurchase | 36 | 51 | 121 | 124 |
| Interest on Federal Home Loan Bank borrowings | 469 | 334 | 1,387 | 1,086 |
| Interest on other borrowings | 4 | 6 | 16 | 16 |
| Interest on junior subordinated notes issued to capital trusts | 215 | 191 | 608 | 399 |
| Interest on subordinated notes | — | — | — | 162 |
| Interest on long-term debt | 107 | 144 | 354 | 240 |
| Total interest expense | 3,310 | 3,230 | 9,338 | 7,932 |
| Net interest income | 24,581 | 26,759 | 75,076 | 63,724 |
| Provision for loan losses | 1,005 | 2,141 | 3,241 | 3,642 |
| Net interest income after provision for loan losses | 23,576 | 24,618 | 71,835 | 60,082 |
| Noninterest income: | | | | |
| Trust, investment, and insurance fees | 1,306 | 1,428 | 4,244 | 4,642 |
| Service charges and fees on deposit accounts | 1,346 | 1,297 | 3,887 | 3,098 |
| Loan origination and servicing fees | 1,162 | 1,025 | 2,636 | 2,096 |
| Other service charges and fees | 1,307 | 1,342 | 4,115 | 3,155 |
| Bank-owned life insurance income | 324 | 344 | 1,040 | 964 |
| Gain on sale or call of available for sale securities | — | — | 467 | 1,011 |
| Loss on sale of premises and equipment | (37) | (5) | (53) | (15) |
| Other gain (loss) | 306 | 29 | 1,378 | (396) |
| Total noninterest income | 5,714 | 5,460 | 17,714 | 14,555 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 11,641 | 12,191 | 37,607 | 29,054 |
| Net occupancy and equipment expense | 3,293 | 2,719 | 9,870 | 6,585 |
| Professional fees | 1,014 | 959 | 3,181 | 3,868 |
| Data processing expense | 599 | 928 | 3,981 | 2,028 |
| FDIC insurance expense | 412 | 431 | 1,231 | 1,058 |

| | | | | |
|---|---|---|---|---|
| Amortization of intangible assets | 970 | 800 | 3,046 | 2,136 |
| Other operating expense | 2,510 | 2,314 | 7,784 | 6,638 |
| Total noninterest expense | 20,439 | 20,342 | 66,700 | 51,367 |
| Income before income tax expense | 8,851 | 9,736 | 22,849 | 23,270 |
| Income tax expense | 2,629 | 2,121 | 6,328 | 6,390 |
| Net income | $ 6,222 | $ 7,615 | $ 16,521 | $ 16,880 |
| Share and per share information: | | | | |
| Ending number of shares outstanding | 11,435,860 | 11,406,431 | 11,435,860 | 11,406,431 |
| Average number of shares outstanding | 11,435,860 | 11,406,132 | 11,428,063 | 10,010,926 |
| Diluted average number of shares | 11,461,108 | 11,434,186 | 11,451,958 | 10,038,093 |
| Earnings per common share - basic | $ 0.54 | $ 0.67 | $ 1.45 | $ 1.69 |
| Earnings per common share - diluted | 0.54 | 0.67 | 1.44 | 1.68 |
| Dividends paid per common share | 0.16 | 0.15 | 0.48 | 0.45 |

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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net income | $6,222 | $7,615 | $16,521 | $16,880 |
| | | | | |
| Other comprehensive income, available for sale securities: | | | | |
| Unrealized holding gains (losses) arising during period | (304) | 2,196 | 3,565 | (78) |
| Reclassification adjustment for gains included in net income | — | — | (467) | (1,011) |
| Income tax (expense) benefit | 119 | (833) | (1,286) | 403 |
| Other comprehensive income (loss) on available for sale securities | (185) | 1,363 | 1,812 | (686) |
| Other comprehensive income (loss), net of tax | (185) | 1,363 | 1,812 | (686) |
| Comprehensive income | $6,037 | $8,978 | $18,333 | $16,194 |

See accompanying notes to consolidated financial statements.

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

| (unaudited)<br>(dollars in thousands, except per share amounts) | Preferred Stock | Common Stock | Additional Paid-in Capital | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2014 | $ — | $ 8,690 | $ 80,537 | $ (6,945) | $ 105,127 | $ 5,322 | $ 192,731 |
| Net income | — | — | — | — | 16,880 | — | 16,880 |
| Issuance of common stock due to business combination (2,723,083 shares) | — | 2,723 | 75,172 | — | — | — | 77,895 |
| Issuance of common stock - private placement (300,000 shares), net of expenses | — | 300 | 7,600 | — | — | — | 7,900 |
| Dividends paid on common stock ($0.45 per share) | — | — | — | — | (4,633) | — | (4,633) |
| Stock options exercised (5,769 shares) | — | — | (32) | 120 | — | — | 88 |
| Release/lapse of restriction on RSUs (23,123 shares) | — | — | (416) | 445 | — | — | 29 |
| Stock compensation | — | — | 462 | — | — | | 462 |
| Other comprehensive income, net of tax | — | — | — | — | — | (686) | (686) |
| Balance at September 30, 2015 | $ — | $ 11,713 | $ 163,323 | $ (6,380) | $ 117,374 | $ 4,636 | $ 290,666 |
| Balance at December 31, 2015 | $ — | $ 11,713 | $ 163,487 | $ (6,331) | $ 123,901 | $ 3,408 | $ 296,178 |
| Net income | — | — | — | — | 16,521 | — | 16,521 |
| Dividends paid on common stock ($0.48 per share) | — | — | — | — | (5,487) | — | (5,487) |
| Stock options exercised (2,900 shares) | — | — | (22) | 60 | — | — | 38 |
| Release/lapse of restriction on RSUs (25,633 shares) | — | — | (520) | 495 | — | — | (25) |
| Stock compensation | — | — | 547 | — | — | — | 547 |
| Other comprehensive income, net of tax | — | — | — | — | — | 1,812 | 1,812 |
| Balance at September 30, 2016 | $ — | $ 11,713 | $ 163,492 | $ (5,776) | $ 134,935 | $ 5,220 | $ 309,584 |

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) | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Net income | $16,521 | $16,880 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 3,241 | 3,642 |
| Depreciation, amortization and accretion | 7,726 | 5,952 |
| Loss on sale of premises and equipment | 53 | 15 |
| Deferred income taxes | (1,676 ) | (169 ) |
| Stock-based compensation | 547 | 462 |
| Net gain on sale or call of available for sale securities | (467 ) | (1,011 ) |
| Net gain on sale of other real estate owned | (750 ) | (108 ) |
| Net gain on sale of loans held for sale | (2,160 ) | (1,240 ) |
| Writedown of other real estate owned | 546 | — |
| Origination of loans held for sale | (89,005 ) | (99,302 ) |
| Proceeds from sales of loans held for sale | 91,610 | 97,232 |
| Decrease in accrued interest receivable | 597 | 339 |
| Increase in cash surrender value of bank-owned life insurance | (1,040 ) | (964 ) |
| Decrease in other assets | 2,924 | 4,734 |
| Increase in deferred compensation liability | 77 | 94 |
| Increase (decrease) in accrued interest payable, accounts payable, accrued expenses, and other liabilities | 2,960 | (4,489 ) |
| Net cash provided by operating activities | 31,704 | 22,067 |
| Cash flows from investing activities: | | |
| Proceeds from sales of available for sale securities | 23,384 | 112,054 |
| Proceeds from maturities and calls of available for sale securities | 68,180 | 64,921 |
| Purchases of available for sale securities | (98,108 ) | (11 ) |
| Proceeds from maturities and calls of held to maturity securities | 10,662 | 3,077 |
| Purchase of held to maturity securities | (43,482 ) | (12,394 ) |
| Net (increase) decrease in loans | 7,054 | (89,521 ) |
| Decrease in loan pool participations, net | — | 19,332 |
| Purchases of premises and equipment | (4,594 ) | (11,558 ) |
| Proceeds from sale of other real estate owned | 7,369 | 2,812 |
| Proceeds from sale of premises and equipment | 2,260 | 33 |
| Proceeds of principal and earnings from bank-owned life insurance | 430 | — |
| Net cash paid in business acquisition (Note 2) | — | (35,596 ) |
| Net cash provided by (used in) investing activities | (26,845 ) | 53,149 |
| Cash flows from financing activities: | | |
| Net increase (decrease) in deposits | (17,589 ) | 10,369 |
| Increase (decrease) in federal funds purchased | 17,809 | (17,408 ) |
| Decrease in securities sold under agreements to repurchase | (3,994 ) | (7,717 ) |
| Proceeds from Federal Home Loan Bank borrowings | 30,000 | 24,000 |
| Repayment of Federal Home Loan Bank borrowings | (17,000 ) | (30,000 ) |
| Proceeds and effect of tax from share-based compensation | 13 | 117 |

| | | |
|---|---|---|
| Redemption of subordinated note | — | (12,669 ) |
| Proceeds from long-term debt | — | 25,000 |
| Payments on long-term debt | (3,750 ) | (1,250 ) |
| Dividends paid | (5,487 ) | (4,633 ) |
| Issuance of common stock, net of expenses | — | 7,900 |
| Net cash provided by (used in) financing activities | 2 | (6,291 ) |
| Net increase in cash and cash equivalents | 4,861 | 68,925 |
| Cash and cash equivalents at beginning of period | 47,097 | 23,409 |
| Cash and cash equivalents at end of period | $51,958 | $92,334 |

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| (unaudited) (dollars in thousands) | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for interest | $9,293 | $ 7,646 |
| Cash paid during the period for income taxes | $5,965 | $ 4,650 |
| Supplemental schedule of non-cash investing activities: | | |
| Transfer of loans to other real estate owned | $1,783 | $ 667 |
| | | |
| Supplemental Schedule of non-cash Investing Activities from Acquisition: | | |
| Noncash assets acquired: | | |
| Investment securities | $— | 160,775 |
| Loans | — | 916,973 |
| Premises and equipment | — | 27,908 |
| Goodwill | — | 64,654 |
| Core deposit intangible | — | 12,773 |
| Trade name intangible | — | 1,380 |
| FDIC indemnification asset | — | 3,753 |
| Other real estate owned | — | 8,420 |
| Other assets | — | 14,482 |
| Total noncash assets acquired | — | 1,211,118 |
| | | |
| Liabilities assumed: | | |
| Deposits | — | 1,049,167 |
| Short-term borrowings | — | 16,124 |
| Junior subordinated notes issued to capital trusts | — | 8,050 |
| Subordinated note payable | — | 12,669 |
| Other liabilities | — | 11,617 |
| Total liabilities assumed | — | 1,097,627 |

See accompanying notes to consolidated financial statements.

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

## 1. Principles of Consolidation and Presentation

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

The Company owns all of the common stock of MidWestOne Bank, an Iowa state non-member bank chartered in 1934 with its main office in Iowa City, Iowa (the “Bank”), and all of the common stock of MidWestOne Insurance Services, Inc., Oskaloosa, Iowa. We operate primarily through our bank subsidiary, MidWestOne Bank, and MidWestOne Insurance Services, Inc., our wholly-owned subsidiary that operates an insurance agency business through six offices located in central and east-central Iowa.

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all the information and notes necessary for complete financial statements in conformity with U.S. Generally Accepted Accounting Principles (“GAAP”). The information in this Quarterly Report on Form 10-Q is written with the presumption that the users of the interim financial statements have read or have access to the most recent Annual Report on Form 10-K of the Company, which contains the latest audited financial statements and notes thereto, together with Management’s Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2015 and for the year then ended. Management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the Company’s financial position as of September 30, 2016, and the results of operations and cash flows for the three and nine months ended September 30, 2016 and 2015. All significant intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect: (1) the reported amounts of assets and liabilities, (2) the disclosure of contingent assets and liabilities at the date of the financial statements, and (3) the reported amounts of revenues and expenses during the reporting period. These estimates are based on information available to management at the time the estimates are made. Actual results could differ from those estimates. The results for the three and nine months ended September 30, 2016 may not be indicative of results for the year ending December 31, 2016, or for any other period.

All significant accounting policies followed in the preparation of the quarterly financial statements are disclosed in the Annual Report on Form 10-K for the year ended December 31, 2015. In the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits in banks, and federal funds sold. Certain reclassifications have been made to prior periods’ consolidated financial statements to present them on a basis comparable with the current period’s consolidated financial statements.

## 2. Business Combination

On May 1, 2015, the Company acquired all of the voting equity interests of Central, a bank holding company and the parent company of Central Bank, a commercial bank headquartered in Golden Valley, Minnesota, through the merger of Central with and into the Company. Among other things, this transaction provided the Company with the

opportunity to expand its business into new markets and grow the size of the business. At the effective time of the merger, each share of common stock of Central converted into a pro rata portion of (1) 2,723,083 shares of common stock of the Company, and (2) $64.0 million in cash.

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

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

| (in thousands) | May 1, 2015 |
|---|---|
| ASSETS | |
| Cash and due from banks | $28,404 |
| Investment securities | 160,775 |
| Loans | 916,973 |
| Premises and equipment | 27,908 |
| Goodwill | 64,654 |
| Core deposit intangible | 12,773 |
| Trade name intangible | 1,380 |
| FDIC indemnification asset | 3,753 |
| Other real estate owned | 8,420 |
| Other assets | 14,482 |
| Total assets | 1,239,522 |
| LIABILITIES | |
| Deposits | 1,049,167 |
| Short-term borrowings | 16,124 |
| Junior subordinated notes issued to capital trusts | 8,050 |
| Subordinated notes payable | 12,669 |
| Accrued expenses and other liabilities | 11,617 |
| Total liabilities | 1,097,627 |
| Total identifiable net assets | 141,895 |
| | |
| Consideration: | |
| Market value of common stock at $29.31 per share at May 1, 2015 (2,723,083 shares of common stock issued), net of stock illiquidity discount due to restrictions | 77,895 |
| Cash paid | 64,000 |
| Total fair value of consideration | $141,895 |

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

- Purchased credit impaired loans are accounted for in accordance with ASC 310-30 "Loans and Debt Securities Acquired with Deteriorated Credit Quality" as they display significant credit deterioration since origination and it is probable, as of the acquisition date, that the Company will be unable to collect all contractually required payments from the borrower.
- Purchased non-credit impaired loans are accounted for in accordance with ASC 310-20 "Nonrefundable Fees and Other Costs" as these loans do not have evidence of significant credit deterioration since origination and it is probable all contractually required payments will be received from the borrower.

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

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

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

(1) Included in the accretable discount for purchased non-credit impaired loans is approximately $10.4 million of estimated undiscounted principal losses.
Disclosures required by ASC 805-20-50-1(a) concerning the Federal Deposit Insurance Corporation (the ”FDIC”) indemnification assets have not been included due to the immateriality of the amount involved. See Note 6. “Loans Receivable and the Allowance for Loan Losses” to our consolidated financial statements for additional information related to the FDIC indemnification asset.
ASC 805-30-30-7 requires that the consideration transfered in a business combination should be measured at fair value. Since the common shares issued as part of the consideration of the merger included a restriction on their sale, pledge or other disposition, an illiquidity discount has been assigned to the shares based upon the volatility of the underlying shares’ daily returns and the period of restriction.
The Company recorded $0.2 million and $0.2 million in pretax merger-related expenses for the three months ended September 30, 2016 and 2015, respectively, and $4.2 million and $3.4 million for the nine months ended September 30, 2016 and 2015, respectively. For the three months ended September 30, 2016 these expenses included data processing fees of $0.1 million. This amount is included in data processing fees in the Company’s consolidated statements of operations. For the three months ended September 30, 2015, the expenses included professional and legal fees of $0.2 million. This amount is included in professional fees in the Company’s consolidated statements of operations. For the nine months ended September 30, 2016 and 2015, respectively, merger-related expenses included $0.3 million and $1.9 million of professional and legal fees, $1.7 million and $0.5 million of retention and severance compensation costs, and $1.9 million of data processing service contract termination costs for the nine months ended September 30, 2016, which are included in data processing expense.
The following table provides the unaudited pro forma information for the results of operations for the three and nine months ended September 30, 2015, as if the acquisition had occurred January 1, 2015. The pro forma results combine the historical results of Central into the Company’s consolidated statement of income including the impact of certain purchase accounting adjustments, including loan discount accretion, investment securities discount accretion, intangible assets amortization, deposit premium accretion and borrowing discount amortization. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2015. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions. Net income in the table below includes merger expenses.

| | Pro Forma | |
| --- | --- | --- |
| | Three Months | Nine Months |

| (in thousands) | Ended September 30, 2015 | Ended September 30, 2015 |
| --- | --- | --- |
| Total revenues (net interest income plus noninterest income) | $31,258 | $ 95,175 |
| Net income | $6,455 | $ 17,052 |

The pro forma information above excludes the impact of any provision recorded related to renewing Central loans.

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Revenues and earnings of the acquired company for the current period have not been disclosed as it is not practicable because Central Bank was merged into MidWestOne Bank on April 1, 2016, and separate financial information is not readily available.

3. Shareholders’ Equity

Preferred Stock: The number of authorized shares of preferred stock for the Company is 500,000. As of September 30, 2016, none were issued or outstanding.

Common Stock: As of September 30, 2016, the number of authorized shares of common stock for the Company was 15,000,000. As of September 30, 2016, 11,435,860 shares were outstanding.

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

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

On July 21, 2016, the board of directors of the Company approved a share repurchase program, allowing for the repurchase of up to $5.0 million of stock through December 31, 2018. During the third quarter of 2016 the Company repurchased no common stock. Of the $5.0 million of stock authorized under the repurchase plan, $5.0 million remained available for possible future repurchases as of September 30, 2016.

4. Earnings per Share

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (dollars in thousands, except per share amounts) | 2016 | 2015 | 2016 | 2015 |
| Basic earnings per common share computation | | | | |
| Numerator: | | | | |
| Net income | $6,222 | $ 7,615 | $16,521 | $ 16,880 |
| Denominator: | | | | |
| Weighted average shares outstanding | 11,435,861 | 10,406,132 | 11,428,063 | 10,010,926 |
| Basic earnings per common share | $0.54 | $ 0.67 | $1.45 | $ 1.69 |
| | | | | |
| Diluted earnings per common share computation | | | | |
| Numerator: | | | | |
| Net income | $6,222 | $ 7,615 | $16,521 | $ 16,880 |
| Denominator: | | | | |
| Weighted average shares outstanding, including all dilutive potential shares | 11,461,108 | 10,434,186 | 11,451,958 | 10,038,093 |
| Diluted earnings per common share | $0.54 | $ 0.67 | $1.44 | $ 1.68 |

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5. Investment Securities

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

| | As of September 30, 2016 | | | |
|---|---|---|---|---|
| (in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| U.S. Government agencies and corporations | $5,958 | $ 86 | $ — | $6,044 |
| State and political subdivisions | 158,902 | 6,910 | 3 | 165,809 |
| Mortgage-backed securities | 42,592 | 980 | 3 | 43,569 |
| Collateralized mortgage obligations | 172,031 | 789 | 648 | 172,172 |
| Corporate debt securities | 46,902 | 493 | 29 | 47,366 |
| Total debt securities | 426,385 | 9,258 | 683 | 434,960 |
| Other equity securities | 1,257 | 42 | 20 | 1,279 |
| Total | $427,642 | $ 9,300 | $ 703 | $436,239 |

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

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

| | As of September 30, 2016 | | | |
|---|---|---|---|---|
| (in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| State and political subdivisions | $92,224 | $ 1,917 | $ 173 | $93,968 |
| Mortgage-backed securities | 2,752 | 54 | — | 2,806 |
| Collateralized mortgage obligations | 27,110 | 213 | 23 | 27,300 |
| Corporate debt securities | 29,024 | 669 | 293 | 29,400 |
| Total | $151,110 | $ 2,853 | $ 489 | $153,474 |

| As of December 31, 2015 | | | |
|---|---|---|---|
| Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |

| (in thousands) | | | | |
|---|---|---|---|---|
| State and political subdivisions | $66,454 | $ 928 | $ 110 | $67,272 |
| Mortgage-backed securities | 3,920 | 4 | 38 | 3,886 |
| Collateralized mortgage obligations | 30,505 | 1 | 459 | 30,047 |
| Corporate debt securities | 17,544 | — | 515 | 17,029 |
| Total | $118,423 | $ 933 | $ 1,122 | $118,234 |

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Investment securities with a carrying value of $164.6 million and $321.6 million at September 30, 2016 and December 31, 2015, respectively, were pledged on public deposits, securities sold under agreements to repurchase and for other purposes, as required or permitted by law.

The summary of investment securities shows that some of the securities in the available for sale and held to maturity investment portfolios had unrealized losses, or were temporarily impaired, as of September 30, 2016 and December 31, 2015. This temporary impairment represents the estimated amount of loss that would be realized if the securities were sold on the valuation date.

The following tables present information pertaining to securities with gross unrealized losses as of September 30, 2016 and December 31, 2015, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

| | As of September 30, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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) | | | | | | | |
| State and political subdivisions | 1 | $— | $ — | $453 | $ 3 | $453 | $ 3 |
| Mortgage-backed securities | 5 | 215 | 2 | 88 | 1 | 303 | 3 |
| Collateralized mortgage obligations | 13 | 89,323 | 348 | 18,162 | 300 | 107,485 | 648 |
| Corporate debt securities | 2 | 12,139 | 29 | — | — | 12,139 | 29 |
| Other equity securities | 1 | — | — | 980 | 20 | 980 | 20 |
| Total | 22 | $101,677 | $ 379 | $19,683 | $ 324 | $121,360 | $ 703 |

| | As of December 31, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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. Treasury securities | 1 | $6,910 | $ 21 | $— | $ — | $6,910 | $ 21 |
| U.S. Government agencies and corporations | 1 | 4,890 | 46 | — | — | 4,890 | 46 |
| State and political subdivisions | 22 | 8,419 | 24 | 3,177 | 48 | 11,596 | 72 |
| Mortgage-backed securities | 27 | 37,753 | 457 | — | — | 37,753 | 457 |
| Collateralized mortgage obligations | 23 | 56,447 | 420 | 31,253 | 1,110 | 87,700 | 1,530 |
| Corporate debt securities | 8 | 30,496 | 86 | — | — | 30,496 | 86 |
| Other equity securities | 1 | — | — | 962 | 38 | 962 | 38 |
| Total | 83 | $144,915 | $ 1,054 | $35,392 | $ 1,196 | $180,307 | $ 2,250 |

| | As of September 30, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Number of Securities | Less than 12 Months | | 12 Months or More | | Total | |
| Held to Maturity | | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| (in thousands, except number of securities) | | | | | | | |
| State and political subdivisions | 34 | $14,646 | $ 173 | $— | $ — | $14,646 | $ 173 |
| Collateralized mortgage obligations | 1 | — | — | 6,889 | 23 | 6,889 | 23 |
| Corporate debt securities | 3 | 2,383 | 2 | 2,598 | 291 | 4,981 | 293 |
| Total | 38 | $17,029 | $ 175 | $9,487 | $ 314 | $26,516 | $ 489 |

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

The Company's assessment of other-than-temporary impairment ("OTTI") is based on its reasonable judgment of the specific facts and circumstances impacting each individual security at the time such assessments are made. The Company reviews and considers factual information, including expected cash flows, the structure of the security, the creditworthiness of the issuer, the type of underlying assets and the current and anticipated market conditions.

At September 30, 2016 and December 31, 2015, the Company's mortgage-backed securities and collateralized mortgage obligations portfolios consisted of securities predominantly backed by one- to four-family mortgage loans and underwritten to the standards of and guaranteed by the following government-sponsored agencies: the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Government National Mortgage Association. The receipt of principal, at par, and interest on mortgage-backed securities is guaranteed by the respective government-sponsored agency guarantor, such that the Company believes that its mortgage-backed securities and collateralized mortgage obligations do not expose the Company to credit-related losses.

At September 30, 2016, approximately 58% of the municipal bonds held by the Company were Iowa-based, and approximately 21% were Minnesota-based. The Company does not intend to sell these municipal obligations, and it is more likely than not that the Company will not be required to sell them until the recovery of their cost. Due to the issuers' continued satisfaction of their obligations under the securities in accordance with their contractual terms and the expectation that they will continue to do so, management's intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value, as well as the evaluation of the fundamentals of the issuers' financial conditions and other objective evidence, the Company believes that the municipal obligations identified in the tables above were temporarily impaired as of September 30, 2016 and December 31, 2015.

At September 30, 2016 and December 31, 2015, all but one of the Company's corporate bonds held an investment grade rating from Moody's, S&P or Kroll, or carried a guarantee from an agency of the US government. We have evaluated financial statements of the company issuing the non-investment grade bond and found the company's earnings and equity position to be satisfactory and in line with industry norms. Therefore, we believe the low market value of this investment is temporary and expect to receive all contractual payments. The internal evaluation of the non-investment grade bond along with the investment grade ratings on the remainder of the corporate portfolio lead us to conclude that all of the corporate bonds in our portfolio will continue to pay according to their contractual terms. Since the Company has the ability and intent to hold securities until price recovery, we believe that there is no other-than-temporary-impairment of in the corporate bond portfolio.

As of September 30, 2016, the Company also owned $0.3 million of equity securities in banks and financial service-related companies, and $1.0 million of mutual funds invested in debt securities and other debt instruments that will cause units of the fund to be deemed to be qualified under the Community Reinvestment Act. Equity securities are considered to have OTTI whenever they have been in a loss position, compared to current book value, for twelve consecutive months, and the Company does not expect them to recover to their original cost basis. For the nine months ended September 30, 2016 and the full year of 2015, no impairment charges were recorded, as the affected equity securities were not deemed impaired due to stabilized market prices in relation to the Company's original purchase price.

It is reasonably possible that the fair values of the Company's investment securities could decline in the future if interest rates increase or the overall economy or the financial conditions of the issuers deteriorate. As a result, there is

a risk that OTTI may be recognized in the future, and any such amounts could be material to the Company's consolidated statements of operations.

The contractual maturity distribution of investment debt securities at September 30, 2016, is summarized as follows:

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| | Available For Sale | | Held to Maturity | |
|---|---|---|---|---|
| (in thousands) | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | $11,122 | $11,190 | $2,385 | $2,383 |
| Due after one year through five years | 95,185 | 97,648 | 9,154 | 9,317 |
| Due after five years through ten years | 95,093 | 99,660 | 62,172 | 63,958 |
| Due after ten years | 10,362 | 10,721 | 47,537 | 47,710 |
| Debt securities without a single maturity date | 214,623 | 215,741 | 29,862 | 30,106 |
| Total | $426,385 | $434,960 | $151,110 | $153,474 |

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

Proceeds from the sales of investment securities available for sale during the nine months ended September 30, 2016 and September 30, 2015 were $23.4 million and $112.1 million, respectively.

Realized gains and losses on sales are determined on the basis of specific identification of investments based on the trade date. Realized gains on investments for the three and nine months ended September 30, 2016 and 2015 are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| (in thousands) | | | | |
| Available for sale fixed maturity securities: | | | | |
| Gross realized gains | $ — | $ — | $467 | $1,265 |
| Gross realized losses | — | — | — | (442) |
| Other-than-temporary impairment | — | — | — | — |
| | — | — | 467 | 823 |
| Equity securities: | | | | |
| Gross realized gains | — | — | — | 188 |
| Gross realized losses | — | — | — | — |
| Other-than-temporary impairment | — | — | — | — |
| | — | — | — | 188 |
| Total net realized gains and losses | $ — | $ — | $467 | $1,011 |

6. Loans Receivable and the Allowance for Loan Losses

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

| | Allowance for Loan Losses and Recorded Investment in Loan Receivables As of September 30, 2016 and December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| (in thousands) | Agricultural | Commercial and Industrial | Commercial Real Estate | Residential Real Estate | Consumer | Total |
| September 30, 2016 | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | | |
| Individually evaluated for impairment | $351 | $ 1,023 | $2,541 | $ 237 | $ — | $4,152 |
| Collectively evaluated for impairment | 2,151 | 4,288 | 7,305 | 2,680 | 365 | 16,789 |
| Purchased credit impaired loans | — | — | 177 | 277 | — | 454 |
| Total | $2,502 | $ 5,311 | $ 10,023 | $ 3,194 | $ 365 | $21,395 |
| Loans receivable | | | | | | |
| Individually evaluated for impairment | $3,120 | $ 9,048 | $ 10,845 | $ 3,954 | $ — | $26,967 |
| Collectively evaluated for impairment | 118,505 | 467,530 | 992,505 | 477,049 | 36,935 | 2,092,524 |
| Purchased credit impaired loans | — | 150 | 16,296 | 5,895 | — | 22,341 |
| Total | $121,625 | $ 476,728 | $ 1,019,646 | $ 486,898 | $ 36,935 | $2,141,832 |

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| (in thousands) | Agricultural | Commercial and Industrial | Commercial Real Estate | Residential Real Estate | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| December 31, 2015 | | | | | | | |
| Allowance for loan losses: | | | | | | | |
| Individually evaluated for impairment | $ 51 | $ 489 | $ 2,786 | $ 387 | $ 1 | $ — | $ 3,714 |
| Collectively evaluated for impairment | 1,366 | 4,962 | 5,718 | 3,539 | 408 | (374 ) | 15,619 |
| Purchased credit impaired loans | — | — | 52 | 42 | — | — | 94 |
| Total | $ 1,417 | $ 5,451 | $ 8,556 | $ 3,968 | $ 409 | $ (374 ) | $ 19,427 |
| Loans receivable | | | | | | | |
| Individually evaluated for impairment | $ 3,072 | $ 7,718 | $ 23,697 | $ 5,725 | $ 26 | $ — | $ 40,238 |
| Collectively evaluated for impairment | 118,642 | 461,275 | 950,207 | 517,482 | 38,506 | — | 2,086,112 |
| Purchased credit impaired loans | — | 256 | 18,037 | 7,299 | — | — | 25,592 |
| Total | $ 121,714 | $ 469,249 | $ 991,941 | $ 530,506 | $ 38,532 | $ — | $ 2,151,942 |

Included above as of September 30, 2016, are loans with a contractual balance of $79.7 million and a recorded balance of $76.5 million, which are covered under loss sharing agreements with the FDIC. The agreements cover certain losses and expenses and expire at various dates through October 7, 2021. The related FDIC indemnification asset is reported separately in Note 8. “Other Assets”.

As of September 30, 2016, the purchased credit impaired loans included above are $27.1 million, net of a discount of $4.8 million.

Loans with unpaid principal in the amount of $509.8 million and $558.8 million at September 30, 2016 and December 31, 2015, respectively, were pledged to the Federal Home Loan Bank (the “FHLB”) as collateral for borrowings.

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

Allowance for Loan Loss Activity
For the Three Months Ended September 30, 2016 and 2015

| (in thousands) | Agricultural | Commercial and Industrial | Commercial Real Estate | Residential Real Estate | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| 2016 | | | | | | | |
| Beginning balance | $ 2,354 | $ 5,385 | $ 10,628 | $ 2,463 | $ 367 | $ — | $ 21,197 |
| Charge-offs | (140 ) | (520 ) | (29 ) | (195 ) | (42 ) | — | (926 ) |
| Recoveries | 20 | 19 | 8 | 69 | 3 | — | 119 |
| Provision | 268 | 427 | (584 ) | 857 | 37 | — | 1,005 |
| Ending balance | $ 2,502 | $ 5,311 | $ 10,023 | $ 3,194 | $ 365 | $ — | $ 21,395 |
| 2015 | | | | | | | |
| Beginning balance | $ 1,480 | $ 5,425 | $ 5,766 | $ 3,224 | $ 337 | $ 935 | $ 17,167 |
| Charge-offs | — | (106 ) | (239 ) | (93 ) | (24 ) | — | (462 ) |
| Recoveries | — | 10 | — | 10 | 5 | — | 25 |
| Provision | 154 | 342 | 1,094 | 1,048 | 66 | (563 ) | 2,141 |
| Ending balance | $ 1,634 | $ 5,671 | $ 6,621 | $ 4,189 | $ 384 | $ 372 | $ 18,871 |

Allowance for Loan Loss Activity
For the Nine Months Ended September 30, 2016 and 2015

| (in thousands) | Agricultural | Commercial and Industrial | Commercial Real Estate | Residential Real Estate | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| 2016 | | | | | | | |
| Beginning balance | $1,417 | $ 5,451 | $ 8,556 | $ 3,968 | $ 409 | $ (374 ) | $19,427 |
| Charge-offs | (265 ) | (530 ) | (70 ) | (708 ) | (169 ) | — | (1,742 ) |
| Recoveries | 27 | 91 | 188 | 146 | 17 | — | 469 |
| Provision | 1,323 | 299 | 1,349 | (212 ) | 108 | 374 | 3,241 |
| Ending balance | $2,502 | $ 5,311 | $ 10,023 | $ 3,194 | $ 365 | $ — | $21,395 |
| 2015 | | | | | | | |
| Beginning balance | $1,506 | $ 5,780 | $ 4,399 | $ 3,167 | $ 323 | $ 1,188 | $16,363 |
| Charge-offs | — | (397 ) | (430 ) | (641 ) | (76 ) | — | (1,544 ) |
| Recoveries | — | 361 | 6 | 22 | 21 | — | 410 |
| Provision | 128 | (73 ) | 2,646 | 1,641 | 116 | (816 ) | 3,642 |
| Ending balance | $1,634 | $ 5,671 | $ 6,621 | $ 4,189 | $ 384 | $ 372 | $18,871 |

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Loan Portfolio Segment Risk Characteristics

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

Commercial and Industrial - Commercial and industrial loans are primarily made based on the reported cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The collateral support provided by the borrower for most of these loans and the probability of repayment are based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any exists. The primary repayment risks of commercial and industrial loans are that the cash flows of the borrower may be unpredictable, and the collateral securing these loans may fluctuate in value. The size of the loans the Company can offer to commercial customers is less than the size of the loans that competitors with larger lending limits can offer. This may limit the Company's ability to establish relationships with the largest businesses in the areas in which the Company operates. As a result, the Company may assume greater lending risks than financial institutions that have a lesser concentration of such loans and tend to make loans to larger businesses. Collateral for these loans generally includes accounts receivable, inventory, equipment and real estate. However, depending on the overall financial condition of the borrower, some loans are made on an unsecured basis. The collateral securing these loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. In addition, a decline in the U.S. economy could harm or continue to harm the businesses of the Company's commercial and industrial customers and reduce the value of the collateral securing these loans.

Commercial Real Estate - The Company offers mortgage loans to commercial and agricultural customers for the acquisition of real estate used in their businesses, such as offices, warehouses and production facilities, and to real estate investors for the acquisition of apartment buildings, retail centers, office buildings and other commercial buildings. The market value of real estate securing commercial real estate loans can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Adverse developments affecting real estate values in one or more of the Company's markets could increase the credit risk associated with its loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts than other loans, and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of the Company's control or that of the borrower could negatively impact the future cash flow and market values of the affected properties.

Residential Real Estate - The Company generally retains short-term residential mortgage loans that are originated for its own portfolio but sells most long-term loans to other parties while retaining servicing rights on the majority of those loans. The market value of real estate securing residential real estate loans can fluctuate as a result of market conditions in the geographic area in which the real estate is located. Adverse developments affecting real estate values in one or more of the Company's markets could increase the credit risk associated with its loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts than other loans, and the repayment of the loans generally is dependent, in large part, on the borrower's continuing financial stability, and is therefore more likely to be affected by adverse personal circumstances.

Consumer - Consumer loans typically have shorter terms, lower balances, higher yields and higher risks of default than real estate-related loans. Consumer loan collections are dependent on the borrower's continuing financial stability, and are therefore more likely to be affected by adverse personal circumstances. Collateral for these loans generally includes automobiles, boats, recreational vehicles, mobile homes, and real estate. However, depending on the overall financial condition of the borrower, some loans are made on an unsecured basis. The collateral securing these loans

may depreciate over time, may be difficult to recover and may fluctuate in value based on condition. In addition, a decline in the United States economy could result in reduced employment, impacting the ability of customers to repay their obligations.

Purchased Loans Policy

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

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

Charge-off Policy

The Company requires a loan to be charged-off, in whole or in part, as soon as it becomes apparent that some loss will be incurred, or when its collectability is sufficiently questionable that it no longer is considered a bankable asset. The primary considerations when determining if and how much of a loan should be charged-off are as follows: (1) the potential for future cash flows; (2) the value of any collateral; and (3) the strength of any co-makers or guarantors. When it is determined that a loan requires a partial or full charge-off, a request for approval of a charge-off is submitted to the Company's President, Executive Vice President and Chief Credit Officer, and the Senior Regional Loan officer. The Bank's board of directors formally approves all loan charge-offs. Once a loan is charged-off, it cannot be restructured and returned to the Company's books.

The Allowance for Loan and Lease Losses

The Company requires the maintenance of an adequate allowance for loan and lease losses ("ALLL") in order to cover estimated probable losses without eroding the Company's capital base. Calculations are done at each quarter end, or more frequently if warranted, to analyze the collectability of loans and to ensure the adequacy of the allowance. In line with FDIC directives, the ALLL calculation does not include consideration of loans held for sale or off-balance-sheet credit exposures (such as unfunded letters of credit). Determining the appropriate level for the ALLL relies on the informed judgment of management, and as such, is subject to inexactness. Given the inherently imprecise nature of calculating the necessary ALLL, the Company's policy permits the actual ALLL to be between 20% above and 5% below the "indicated reserve."

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

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

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(3) the loan's observable market price. Loans that are deemed fully collateralized or have been charged down to a level corresponding with any of the three measurements require no assignment of reserves from the ALLL.

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

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

- The debtor is currently in default on any of its debt.
- The debtor has declared or is in the process of declaring bankruptcy.
- There is significant doubt as to whether the debtor will continue to be a going concern.
- Currently, the debtor has securities being held as collateral that have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange.
- Based on estimates and projections that only encompass the current business capabilities, the debtor forecasts that its entity-specific cash flows will be insufficient to service the debt (both interest and principal) in accordance with the contractual terms of the existing agreement through maturity.
- Absent the current modification, the debtor cannot obtain funds from sources other than the existing creditors at an effective interest rate equal to the current market interest rate for similar debt for a non-troubled debtor.

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

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

| | Three Months Ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | | | 2015 | | | |
| (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[1]: | | | | | | | | |
| Commercial real estate: | | | | | | | | |
| Construction and development | | | | | | | | |
| Other | 1 | $ 1,000 | | $ 700 | — | $ — | | $ — |
| Residential real estate: | | | | | | | | |
| One- to four- family first liens | | | | | | | | |
| Interest rate reduction | 1 | 290 | | 290 | 1 | 236 | | 236 |
| Total | 2 | $ 1,290 | | $ 990 | 1 | $ 236 | | $ 236 |

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| (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[1]: | | | | | | |
| Agricultural | | | | | | |
| Extended maturity date | 1 | $ 25 | $ 25 | — | $ — | $ — |
| Commercial real estate: | | | | | | |
| Construction and development | | | | | | |
| Other | 1 | 1,000 | 700 | — | — | — |
| Residential real estate: | | | | | | |
| One- to four- family first liens | | | | | | |
| Interest rate reduction | 2 | 394 | 394 | 1 | 236 | 236 |
| One- to four- family junior liens | | | | | | |
| Interest rate reduction | 1 | 71 | 71 | — | — | — |
| Total | 5 | $ 1,490 | $ 1,190 | 1 | $ 236 | $ 236 |

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

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

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | 2016 | | 2015 | |
| (dollars in thousands) | Number of Contracts | Recorded Investment | Number of Contracts | Recorded Investment | Number of Contracts | Recorded Investment | Number of Contracts | Recorded Investment |

| Troubled Debt Restructurings[1] That Subsequently Defaulted: | | | | | |
|---|---|---|---|---|---|
| Total | — | $ — | — $ | — | $ — — $ — |

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

Loans Reviewed Collectively for Impairment

All loans not evaluated individually for impairment will be separated into homogeneous pools to be collectively evaluated. Loans will be first grouped into the various loan types (i.e. commercial, agricultural, consumer, etc.) and further segmented within each subset by risk classification (i.e. pass, special mention/watch, and substandard). Homogeneous loans past due 60-89 days and 90 days and over are classified special mention/watch and substandard, respectively, for allocation purposes.

The Company's historical loss experience for each group segmented by loan type is calculated for the prior 20 quarters as a starting point for estimating losses. In addition, other prevailing qualitative or environmental factors likely to cause probable losses to vary from historical data are incorporated in the form of adjustments to increase or decrease the loss

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rate applied to each group. These adjustments are documented and fully explain how the current information, events, circumstances, and conditions impact the historical loss measurement assumptions.

Although not a comprehensive list, the following are considered key factors and are evaluated with each calculation of the ALLL to determine if adjustments to historical loss rates are warranted:

- Changes in national 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 quality and experience of lending staff and management.
- 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 the volume and severity of past due loans, classified loans and non-performing loans.
- The existence and potential impact of any concentrations of credit.
- Changes in the nature and terms of loans such as growth rates and utilization rates.
- Changes in the value of underlying collateral for collateral-dependent loans, considering the Company's disposition bias.
- The effect of other external factors such as the legal and regulatory environment.

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

The following tables set forth the risk category of loans by class of loans and credit quality indicator based on the most recent analysis performed, as of September 30, 2016 and December 31, 2015:

| (in thousands) | Pass | Special Mention/ Watch | Substandard | Doubtful | Loss | Total |
|---|---|---|---|---|---|---|
| September 30, 2016 | | | | | | |
| Agricultural | $ 105,464 | $ 13,019 | $ 3,142 | $ — | $ — | $ 121,625 |
| Commercial and industrial | 441,377 | 13,530 | 20,286 | 9 | — | 475,202 |
| Credit cards | 1,526 | — | — | — | — | 1,526 |
| Commercial real estate: | | | | | | |
| Construction and development | 121,171 | 2,700 | 2,644 | — | — | 126,515 |
| Farmland | 85,078 | 7,442 | 2,618 | — | — | 95,138 |
| Multifamily | 117,135 | 360 | 897 | — | — | 118,392 |
| Commercial real estate-other | 639,197 | 22,654 | 17,750 | — | — | 679,601 |
| Total commercial real estate | 962,581 | 33,156 | 23,909 | — | — | 1,019,646 |
| Residential real estate: | | | | | | |
| One- to four- family first liens | 355,615 | 3,165 | 10,827 | — | — | 369,607 |
| One- to four- family junior liens | 113,693 | 1,635 | 1,963 | — | — | 117,291 |
| Total residential real estate | 469,308 | 4,800 | 12,790 | — | — | 486,898 |
| Consumer | 36,750 | 2 | 144 | 39 | — | 36,935 |
| Total | $ 2,017,006 | $ 64,507 | $ 60,271 | $ 48 | $ — | $ 2,141,832 |

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| (in thousands) | Pass | Special Mention/ Watch | Substandard | Doubtful | Loss | Total |
|---|---|---|---|---|---|---|
| December 31, 2015 | | | | | | |
| Agricultural | $111,361 | $ 8,536 | $ 1,817 | $ — | $ — | $121,714 |
| Commercial and industrial | 436,857 | 12,893 | 17,652 | 10 | — | 467,412 |
| Credit cards | 1,354 | 19 | 4 | — | — | 1,377 |
| Overdrafts | 1,168 | 100 | 215 | — | — | 1,483 |
| Commercial real estate: | | | | | | |
| Construction and development | 114,640 | 2,406 | 3,707 | — | — | 120,753 |
| Farmland | 82,442 | 2,408 | 4,234 | — | — | 89,084 |
| Multifamily | 119,139 | 371 | 2,253 | — | — | 121,763 |
| Commercial real estate-other | 609,651 | 19,402 | 31,288 | — | — | 660,341 |
| Total commercial real estate | 925,872 | 24,587 | 41,482 | — | — | 991,941 |
| Residential real estate: | | | | | | |
| One- to four- family first liens | 410,143 | 4,813 | 13,042 | 235 | — | 428,233 |
| One- to four- family junior liens | 96,223 | 1,782 | 4,209 | 59 | — | 102,273 |
| Total residential real estate | 506,366 | 6,595 | 17,251 | 294 | — | 530,506 |
| Consumer | 37,184 | 6 | 278 | 41 | — | 37,509 |
| Total | $2,020,162 | $ 52,736 | $ 78,699 | $ 345 | $ — | $2,151,942 |

Included within the special mention/watch, substandard, and doubtful categories at September 30, 2016 and December 31, 2015 are purchased credit impaired loans totaling $16.8 million and $23.7 million, respectively.

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

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

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

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The following table presents loans individually evaluated for impairment, excluding purchased credit impaired loans, by class of loan, as of September 30, 2016 and December 31, 2015:

| | September 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| (in thousands) | | | | | | |
| With no related allowance recorded: | | | | | | |
| Agricultural | $ 1,266 | $ 1,766 | $ — | $ 1,512 | $ 2,084 | $ — |
| Commercial and industrial | 5,063 | 5,107 | — | 6,487 | 6,752 | — |
| Credit cards | — | — | — | — | — | — |
| Commercial real estate: | | | | | | |
| Construction and development | — | — | — | 321 | 448 | — |
| Farmland | 2,414 | 2,564 | — | 2,711 | 2,870 | — |
| Multifamily | — | — | — | 1,632 | 1,798 | — |
| Commercial real estate-other | 2,586 | 2,783 | — | 12,230 | 12,642 | — |
| Total commercial real estate | 5,000 | 5,347 | — | 16,894 | 17,758 | — |
| Residential real estate: | | | | | | |
| One- to four- family first liens | 2,840 | 2,850 | — | 2,494 | 2,533 | — |
| One- to four- family junior liens | — | — | — | 1,297 | 1,308 | — |
| Total residential real estate | 2,840 | 2,850 | — | 3,791 | 3,841 | — |
| Consumer | — | — | — | 17 | 33 | — |
| Total | $ 14,169 | $ 15,070 | $ — | $ 28,701 | $ 30,468 | $ — |
| With an allowance recorded: | | | | | | |
| Agricultural | $ 1,854 | $ 1,858 | $ 351 | $ 1,560 | $ 1,560 | $ 51 |
| Commercial and industrial | 3,985 | 3,985 | 1,023 | 1,231 | 1,258 | 489 |
| Credit cards | — | — | — | — | — | — |
| Commercial real estate: | | | | | | |
| Construction and development | 270 | 270 | 28 | 34 | 34 | 34 |
| Farmland | — | — | — | 69 | 69 | 3 |
| Multifamily | 159 | 159 | 41 | 224 | 224 | 73 |
| Commercial real estate-other | 5,416 | 5,416 | 2,472 | 6,476 | 6,478 | 2,676 |
| Total commercial real estate | 5,845 | 5,845 | 2,541 | 6,803 | 6,805 | 2,786 |
| Residential real estate: | | | | | | |
| One- to four- family first liens | 1,114 | 1,114 | 237 | 1,919 | 2,056 | 383 |
| One- to four- family junior liens | — | — | — | 15 | 15 | 4 |
| Total residential real estate | 1,114 | 1,114 | 237 | 1,934 | 2,071 | 387 |
| Consumer | — | — | — | 9 | 9 | 1 |
| Total | $ 12,798 | $ 12,802 | $ 4,152 | $ 11,537 | $ 11,703 | $ 3,714 |
| Total: | | | | | | |
| Agricultural | $ 3,120 | $ 3,624 | $ 351 | $ 3,072 | $ 3,644 | $ 51 |
| Commercial and industrial | 9,048 | 9,092 | 1,023 | 7,718 | 8,010 | 489 |
| Credit cards | — | — | — | — | — | — |
| Commercial real estate: | | | | | | |
| Construction and development | 270 | 270 | 28 | 355 | 482 | 34 |
| Farmland | 2,414 | 2,564 | — | 2,780 | 2,939 | 3 |
| Multifamily | 159 | 159 | 41 | 1,856 | 2,022 | 73 |
| Commercial real estate-other | 8,002 | 8,199 | 2,472 | 18,706 | 19,120 | 2,676 |
| Total commercial real estate | 10,845 | 11,192 | 2,541 | 23,697 | 24,563 | 2,786 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Residential real estate: | | | | | | |
| One- to four- family first liens | 3,954 | 3,964 | 237 | 4,413 | 4,589 | 383 |
| One- to four- family junior liens | — | — | — | 1,312 | 1,323 | 4 |
| Total residential real estate | 3,954 | 3,964 | 237 | 5,725 | 5,912 | 387 |
| Consumer | — | — | — | 26 | 42 | 1 |
| Total | $26,967 | $27,872 | $ 4,152 | $40,238 | $42,171 | $ 3,714 |

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

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | 2016 | | 2015 | |
| (in thousands) | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| With no related allowance recorded: | | | | | | | | |
| Agricultural | $1,266 | $ 14 | $1,516 | $ 13 | $1,285 | $ 41 | $1,534 | $ 47 |
| Commercial and industrial | 5,115 | 34 | 1,318 | 26 | 5,233 | 39 | 1,665 | 79 |
| Credit cards | — | — | — | — | — | — | — | — |
| Commercial real estate: | | | | | | | | |
| Construction and development | — | — | 325 | 3 | — | — | 326 | 4 |
| Farmland | 2,414 | 29 | 2,730 | 35 | 2,426 | 78 | 2,749 | 93 |
| Multifamily | — | — | 1,839 | 26 | — | — | 1,849 | 43 |
| Commercial real estate-other | 2,594 | 9 | 12,327 | 147 | 2,865 | 8 | 12,374 | 250 |
| Total commercial real estate | 5,008 | 38 | 17,221 | 211 | 5,291 | 86 | 17,298 | 390 |
| Residential real estate: | | | | | | | | |
| One- to four- family first liens | 2,843 | 32 | 2,354 | 17 | 2,867 | 88 | 2,345 | 27 |
| One- to four- family junior liens | — | — | 773 | 9 | — | — | 775 | 15 |
| Total residential real estate | 2,843 | 32 | 3,127 | 26 | 2,867 | 88 | 3,120 | 42 |
| Consumer | — | — | 20 | 1 | — | — | 21 | 1 |
| Total | $14,232 | $ 118 | $23,202 | $ 277 | $14,676 | $ 254 | $23,638 | $ 559 |
| With an allowance recorded: | | | | | | | | |
| Agricultural | $1,854 | $ 12 | $1,561 | $ 12 | $1,870 | $ 32 | $1,575 | $ 36 |
| Commercial and industrial | 3,988 | 16 | 1,103 | 12 | 3,789 | 26 | 1,144 | 32 |
| Credit cards | — | — | — | — | — | — | — | — |
| Commercial real estate: | | | | | | | | |
| Construction and development | 270 | — | 151 | 1 | 271 | 3 | 151 | 2 |
| Farmland | — | — | 69 | 1 | — | — | 70 | 2 |
| Multifamily | 159 | — | 158 | 1 | 158 | — | 160 | 5 |
| Commercial real estate-other | 5,416 | — | 431 | 5 | 5,416 | — | 432 | 13 |
| Total commercial real estate | 5,845 | — | 809 | 8 | 5,845 | 3 | 813 | 22 |
| Residential real estate: | | | | | | | | |
| One- to four- family first liens | 1,118 | 8 | 1,369 | 7 | 1,123 | 22 | 1,375 | 27 |
| One- to four- family junior liens | — | — | 15 | — | — | — | 15 | — |
| Total residential real estate | 1,118 | 8 | 1,384 | 7 | 1,123 | 22 | 1,390 | 27 |
| Consumer | — | — | 9 | — | — | — | 9 | — |
| Total | $12,805 | $ 36 | $4,866 | $ 39 | $12,627 | $ 83 | $4,931 | $ 117 |
| Total: | | | | | | | | |
| Agricultural | $3,120 | $ 26 | $3,077 | $ 25 | $3,155 | $ 73 | $3,109 | $ 83 |
| Commercial and industrial | 9,103 | 50 | 2,421 | 38 | 9,022 | 65 | 2,809 | 111 |
| Credit cards | — | — | — | — | — | — | — | — |
| Commercial real estate: | | | | | | | | |
| Construction and development | 270 | — | 476 | 4 | 271 | 3 | 477 | 6 |
| Farmland | 2,414 | 29 | 2,799 | 36 | 2,426 | 78 | 2,819 | 95 |
| Multifamily | 159 | — | 1,997 | 27 | 158 | — | 2,009 | 48 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Commercial real estate-other | 8,010 | 9 | 12,758 | 152 | 8,281 | 8 | 12,806 | 263 |
| Total commercial real estate | 10,853 | 38 | 18,030 | 219 | 11,136 | 89 | 18,111 | 412 |
| Residential real estate: | | | | | | | | |
| One- to four- family first liens | 3,961 | 40 | 3,723 | 24 | 3,990 | 110 | 3,720 | 54 |
| One- to four- family junior liens | — | — | 788 | 9 | — | — | 790 | 15 |
| Total residential real estate | 3,961 | 40 | 4,511 | 33 | 3,990 | 110 | 4,510 | 69 |
| Consumer | — | — | 29 | 1 | — | — | 30 | 1 |
| Total | $27,037 | $ 154 | $28,068 | $ 316 | $27,303 | $ 337 | $28,569 | $ 676 |

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The following table presents the contractual aging of the recorded investment in past due loans by class of loans at September 30, 2016 and December 31, 2015:

| | 30 - 59 Days Past Due | 60 - 89 Days Past Due | 90 Days or More Past Due | Total Past Due | Current | Total Loans Receivable |
|---|---|---|---|---|---|---|
| (in thousands) | | | | | | |
| September 30, 2016 | | | | | | |
| Agricultural | $376 | $— | $520 | $896 | $120,729 | $121,625 |
| Commercial and industrial | 2,204 | 2,264 | 7,435 | 11,903 | 463,299 | 475,202 |
| Credit cards | — | — | — | — | 1,526 | 1,526 |
| Commercial real estate: | | | | | | |
| Construction and development | 319 | — | 584 | 903 | 125,612 | 126,515 |
| Farmland | — | 118 | 167 | 285 | 94,853 | 95,138 |
| Multifamily | — | 90 | 226 | 316 | 118,076 | 118,392 |
| Commercial real estate-other | 1,929 | 182 | 7,049 | 9,160 | 670,441 | 679,601 |
| Total commercial real estate | 2,248 | 390 | 8,026 | 10,664 | 1,008,982 | 1,019,646 |
| Residential real estate: | | | | | | |
| One- to four- family first liens | 2,134 | 1,119 | 1,520 | 4,773 | 364,834 | 369,607 |
| One- to four- family junior liens | 650 | 94 | 663 | 1,407 | 115,884 | 117,291 |
| Total residential real estate | 2,784 | 1,213 | 2,183 | 6,180 | 480,718 | 486,898 |
| Consumer | 59 | 20 | 19 | 98 | 36,837 | 36,935 |
| Total | $7,671 | $3,887 | $18,183 | $29,741 | $2,112,091 | $2,141,832 |
| | | | | | | |
| Included in the totals above are the following purchased credit impaired loans | $779 | $359 | $654 | $1,792 | $20,878 | $22,670 |
| | | | | | | |
| December 31, 2015 | | | | | | |
| Agricultural | $19 | $190 | $169 | $378 | $121,336 | $121,714 |
| Commercial and industrial | 1,046 | 710 | 644 | 2,400 | 465,012 | 467,412 |
| Credit cards | 2 | 17 | 4 | 23 | 1,354 | 1,377 |
| Overdrafts | 175 | 8 | 31 | 214 | 1,269 | 1,483 |
| Commercial real estate: | | | | | | |
| Construction and development | — | — | 415 | 415 | 120,338 | 120,753 |
| Farmland | 120 | — | 80 | 200 | 88,884 | 89,084 |
| Multifamily | — | — | 224 | 224 | 121,539 | 121,763 |
| Commercial real estate-other | 1,190 | 754 | 1,636 | 3,580 | 656,761 | 660,341 |
| Total commercial real estate | 1,310 | 754 | 2,355 | 4,419 | 987,522 | 991,941 |
| Residential real estate: | | | | | | |
| One- to four- family first liens | 2,611 | 1,293 | 1,772 | 5,676 | 422,557 | 428,233 |
| One- to four- family junior liens | 168 | 120 | 317 | 605 | 101,668 | 102,273 |
| Total residential real estate | 2,779 | 1,413 | 2,089 | 6,281 | 524,225 | 530,506 |
| Consumer | 62 | 6 | 17 | 85 | 37,424 | 37,509 |
| Total | $5,393 | $3,098 | $5,309 | $13,800 | $2,138,142 | $2,151,942 |
| | | | | | | |
| Included in the totals above are the following purchased credit impaired loans | $473 | $799 | $989 | $2,261 | $23,331 | $25,592 |

Non-accrual and Delinquent Loans

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

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

Delinquency status of a loan is determined by the number of days that have elapsed past the loan’s payment due date, using the following classification groupings: 30-59 days, 60-89 days and 90 days or more.



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The following table sets forth the composition of the Company's recorded investment in loans on nonaccrual status and past due 90 days or more and still accruing by class of loans, excluding purchased credit impaired loans, as of September 30, 2016 and December 31, 2015:

| | September 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| (in thousands) | Non-Accrual | Loans Past Due 90 Days or More and Still Accruing | Non-Accrual | Loans Past Due 90 Days or More and Still Accruing |
| Agricultural | $401 | $ — | $172 | $ — |
| Commercial and industrial | 5,966 | — | 575 | — |
| Credit cards | — | — | — | — |
| Commercial real estate: | | | | |
| Construction and development | 343 | 248 | 95 | — |
| Farmland | 228 | — | 20 | 80 |
| Multifamily | 226 | — | 224 | — |
| Commercial real estate-other | 6,994 | 60 | 1,452 | — |
| Total commercial real estate | 7,791 | 308 | 1,791 | 80 |
| Residential real estate: | | | | |
| One- to four- family first liens | 1,102 | 448 | 1,182 | 199 |
| One- to four- family junior liens | 105 | 186 | 281 | — |
| Total residential real estate | 1,207 | 634 | 1,463 | 199 |
| Consumer | 12 | — | 11 | 5 |
| Total | $15,377 | $ 942 | $4,012 | $ 284 |

Not included in the loans above as of September 30, 2016 and December 31, 2015 were purchased credit impaired loans with an outstanding balance of $2.8 million and $4.1 million, net of a discount of $0.9 million and $1.4 million, respectively.

As of September 30, 2016, the Company had no commitments to lend additional funds to any borrowers who have had a TDR.

Purchased Loans

Purchased loans acquired in a business combination are recorded and initially measured at their estimated fair value as of the acquisition date. Credit discounts are included in the determination of fair value. An allowance for loan losses is not carried over. These purchased loans are segregated into two types: purchased credit impaired loans and purchased non-credit impaired loans.

- Purchased non-credit impaired loans are accounted for in accordance with ASC 310-20 "Nonrefundable Fees and Other Costs" as these loans do not have evidence of significant credit deterioration since origination and it is probable all contractually required payments will be received from the borrower.
- Purchased credit impaired loans are accounted for in accordance with ASC 310-30 "Loans and Debt Securities Acquired with Deteriorated Credit Quality" as they display significant credit deterioration since origination and it is probable, as of the acquisition date, that the Company will be unable to collect all contractually required payments from the borrower.

For purchased non-credit impaired loans the accretable discount is the discount applied to the expected cash flows of the portfolio to account for the differences between the interest rates at acquisition and rates currently expected on similar portfolios in the marketplace. As the accretable discount is accreted to interest income over the expected average life of the portfolio, the result will be interest income on loans at the estimated current market rate. We

anticipate recording a provision for the acquired portfolio in future quarters as the former Central loans renew and the discount is accreted.

For purchased credit impaired loans the difference between contractually required payments at acquisition and the cash flows expected to be collected is referred to as the non-accretable difference. Further, any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized into interest income over the expected remaining life of the loan if the timing and amount of the future cash flows are reasonably estimable. This discount includes an adjustment on loans that are not accruing or paying contractual interest so that interest income will be recognized at the estimated current market rate.

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Subsequent to the purchase date, increases in cash flows over those expected at the purchase date are recognized as interest income prospectively. The present value of any decreases in expected cash flows after the purchase date is recognized by recording an allowance for credit losses and a provision for loan losses.
Changes in the accretable yield for loans acquired and accounted for under ASC 310-30 were as follows for the three and nine months ended September 30, 2016 and 2015:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| (in thousands) | | | | |
| Balance at beginning of period | $ 3,544 | $ | | |