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

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2012
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 000-24630

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

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

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

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

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

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

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

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

As of August 2, 2012, there were 8,483,072 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)	June 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Cash and due from banks	$23,347	$ 28,155
Interest-bearing deposits in banks	7,047	4,468
Cash and cash equivalents	30,394	32,623
Investment securities:		
Available for sale	547,203	534,080
Held to maturity (fair value of $6,649 as of June 30, 2012 and $2,042 as of December 31, 2011)	6,491	2,036
Loans held for sale	925	1,955
Loans	996,422	986,173
Allowance for loan losses	(15,737)	(15,676)
Net loans	980,685	970,497
Loan pool participations, net	42,046	50,052
Premises and equipment, net	24,770	26,260
Accrued interest receivable	9,437	10,422
Intangible assets, net	9,858	10,247
Bank-owned life insurance	28,174	27,723
Other real estate owned	3,869	4,033
Assets held for sale	764	—
Deferred income taxes	572	3,654
Other assets	22,206	21,662
Total assets	$1,707,394	$ 1,695,244
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand	$177,447	$ 161,287
Interest-bearing checking	501,078	499,905
Savings	80,846	71,823
Certificates of deposit under $100,000	326,699	346,858
Certificates of deposit $100,000 and over	235,333	226,769
Total deposits	1,321,403	1,306,642
Federal funds purchased	—	8,920
Securities sold under agreements to repurchase	52,017	48,287
Federal Home Loan Bank borrowings	130,067	140,014
Deferred compensation liability	3,595	3,643
Long-term debt	15,464	15,464
Accrued interest payable	1,541	1,530
Other liabilities	16,606	14,250
Total liabilities	1,540,693	1,538,750
Shareholders' equity:		
	$—	$ —

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

(unaudited) (dollars in thousands, except per share amounts)	Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance at December 31, 2010	$15,767	$8,690	$81,268	$(1,052)	$55,619	$(1,826)	$158,466
Net income	—	—	—	—	6,128	—	6,128
Dividends paid on common stock ($0.10 per share)	—	—	—	—	(863)	—	(863)
Dividends paid on preferred stock	—	—	—	—	(400)	—	(400)
Stock options exercised (3,488 shares)	—	—	(9)	49	—	—	40
Release/lapse of restriction on RSUs (10,650 shares)	—	—	(135)	138	—	—	3
Preferred stock discount accretion	35	—	—	—	(35)	—	—
Stock compensation	—	—	108	—	—	—	108
Other comprehensive income	—	—	—	—	—	5,155	5,155
Balance at June 30, 2011	$15,802	$8,690	$81,232	$(865)	$60,449	$3,329	$168,637
Balance at December 31, 2011	$—	$8,690	$80,333	$(2,312)	$66,299	$3,484	$156,494
Net income	—	—	—	—	7,944	—	7,944
Dividends paid on common stock ($0.17 per share)	—	—	—	—	(1,443)	—	(1,443)
Stock options exercised (23,497 shares)	—	—	(49)	265	—	—	216
Release/lapse of restriction on RSUs (15,610 shares)	—	—	(198)	210	—	—	12
Repurchase of common stock (86,083 shares)	—	—	—	(1,445)	—	—	(1,445)
Stock compensation	—	—	129	—	—	—	129
Other comprehensive income	—	—	—	—	—	4,794	4,794
Balance at June 30, 2012	$—	$8,690	$80,215	$(3,282)	$72,800	$8,278	$166,701

See accompanying notes to consolidated financial statements.

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

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

Net cash (used in) provided by financing activities	(3,101)	51,734
Net increase (decrease) in cash and cash equivalents	(2,229)	21,242
Cash and cash equivalents at beginning of period	32,623	20,523
Cash and cash equivalents at end of period	$30,394	$41,765
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$8,307	$10,509
Cash paid during the period for income taxes	$3,171	$857
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	$1,392	$188
Transfer of property to assets held for sale	$764	$—

See accompanying notes to consolidated financial statements.

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

1.Principles of Consolidation and Presentation

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

The Company owns 100% of the outstanding common stock of MidWestOne Bank, an Iowa state non-member bank chartered in 1934 with its main office in Iowa City, Iowa (the “Bank”), and 100% of the common stock of MidWestOne Insurance Services, Inc., Oskaloosa, Iowa. We operate primarily through our bank subsidiary, MidWestOne Bank, and MidWestOne Insurance Services, Inc., our wholly-owned subsidiary that operates an insurance agency business through three offices located in central and east-central Iowa.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all the information and notes necessary for complete financial statements in conformity with U.S. generally accepted accounting principles. The information in this Quarterly Report on Form 10-Q is written with the presumption that the users of the interim financial statements have read or have access to the most recent Annual Report on Form 10-K of MidWestOne, which contains the latest audited financial statements and notes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2011 and for the year then ended. Management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of June 30, 2012, and the results of operations and cash flows for the three and six months ended June 30, 2012 and 2011. All significant intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. These estimates are based on information available to management at the time the estimates are made. Actual results could differ from those estimates. The results for the three and six months ended June 30, 2012 may not be indicative of results for the year ending December 31, 2012, or for any other period.

All significant accounting policies followed in the preparation of the quarterly financial statements are disclosed in the December 31, 2011 Annual Report on Form 10-K. In the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits in banks, and federal funds sold.

2.Shareholders' Equity

Preferred Stock: The number of authorized shares of preferred stock for the Company is 500,000. None are currently issued or outstanding.

Common Stock: The number of authorized shares of common stock for the Company is 15,000,000.

On October 18, 2011, our Board of Directors amended the Company's existing $1.0 million share repurchase program, originally authorized on July 26, 2011, by increasing the remaining amount of authorized repurchases to $5.0 million, and extending the expiration of the program to December 31, 2012. Pursuant to the program, we may repurchase shares from time to time in the open market, and the method, timing and amounts of repurchase will be solely in the discretion of the Company's management. The repurchase program does not require us to acquire a specific number of shares. Therefore, the amount of shares repurchased pursuant to the program will depend on several factors, including market conditions, capital and liquidity requirements, and alternative uses for cash available.

3.Earnings per Common Share

Basic earnings per common share computations are based on the weighted average number of shares of common stock actually outstanding during the period. Diluted earnings per share amounts are computed by dividing net income available to common shareholders by the weighted average number of shares outstanding and all dilutive potential shares outstanding during the period.

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

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

4.Investment Securities

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

	As of June 30, 2012			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations	$70,980	$1,125	$—	$72,105
State and political subdivisions	213,278	11,751	156	224,873
Mortgage-backed securities and collateralized mortgage obligations	231,198	6,135	24	237,309
Corporate debt securities	11,960	182	762	11,380
Total debt securities	527,416	19,193	942	545,667
Other equity securities	1,383	153	—	1,536
Total	$528,799	$19,346	$942	$547,203

	As of December 31, 2011			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations	$55,851	$1,142	$12	$56,981
State and political subdivisions	209,094	10,222	55	219,261
Mortgage-backed securities and collateralized mortgage obligations	238,641	6,161	—	244,802
Corporate debt securities	12,578	203	1,176	11,605
Total debt securities	516,164	17,728	1,243	532,649
Other equity securities	1,194	237	—	1,431
Total	$517,358	$17,965	$1,243	$534,080

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

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

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

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

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

		As of June 30, 2012					
	Number of Securities	Less than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
(in thousands, except number of securities)							
State and political subdivisions	29	11,372	155	310	1	11,682	156
Mortgage-backed securities and collateralized mortgage obligations	1	9,771	24	—	—	9,771	24
Corporate debt securities	6	2,078	25	1,035	737	3,113	762
Total	36	$23,221	$ 204	$1,345	$ 738	$24,566	$ 942

		As of December 31, 2011					
	Number of Securities	Less than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
(in thousands, except number of securities)							
U.S. Government agencies and corporations	1	$5,412	$ 12	$—	$ —	$5,412	$ 12
State and political subdivisions	14	3,449	46	866	9	4,315	55
Corporate debt securities	6	4,975	210	806	966	5,781	1,176

Total	21	$13,836	$ 268	$1,672	$ 975	$15,508	$ 1,243

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

At June 30, 2012, approximately 59% of the municipal bonds held by the Company were Iowa based. The Company does not intend to sell these municipal obligations, and it is not more likely than not that the Company will be required to sell them before the recovery of its cost. Due to the issuers' continued satisfaction of their obligations under the securities

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in accordance with their contractual terms and the expectation that they will continue to do so, management's intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value, as well as the evaluation of the fundamentals of the issuers' financial condition and other objective evidence, the Company believes that the municipal obligations identified in the tables above were temporarily depressed as of June 30, 2012 and December 31, 2011.

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

At June 30, 2012, the Company owned six collateralized debt obligations backed by pools of trust preferred securities with an original cost basis of $9.75 million. The book value of these securities as of June 30, 2012 totaled $1.8 million, after other-than-temporary impairment charges during 2008, 2009, and 2010. All of the Company's trust preferred collateralized debt obligations are in mezzanine tranches and are currently rated less than investment grade by Moody's Investor Services. They are secured by trust preferred securities of banks and insurance companies throughout the United States, and were rated as investment grade securities when purchased between March 2006 and December 2007. However, as the banking climate eroded during 2008, the securities experienced cash flow problems. Due to continued market deterioration in these securities during 2009 and 2010, additional pre-tax charges to earnings were recorded. No additional charges have been recognized during 2011 or 2012.The market for these securities is considered to be inactive according to the guidance issued in ASC Topic 820, “Fair Value Measurements and Disclosures.” The Company uses a discounted cash flow model to determine the estimated fair value of its pooled trust preferred collateralized debt obligations and to assess other-than-temporary impairment. The discounted cash flow analysis was performed in accordance with ASC Topic 325. The assumptions used in preparing the discounted cash flow model include the following: estimated discount rates (using yields of comparable traded instruments adjusted for illiquidity and other risk factors), estimated deferral and default rates on collateral, and estimated cash flows. The Company also reviewed a stress test of these securities to determine the additional deferrals or defaults in the collateral pool in excess of what the Company believes is probable, before the payments on the individual securities are negatively impacted.

As of June 30, 2012, the Company also owned $1.5 million of equity securities in banks and financial service-related companies. Equity securities are considered to have other-than-temporary impairment whenever they have been in a loss position, compared to current book value, for twelve consecutive months, and the Company does not expect them to recover to their original cost basis. For the first half of 2012 and 2011, no impairment charges were recorded, as the affected equity securities were not deemed impaired due to stabilized market prices in relation to the Company's original purchase price.

It is reasonably possible that the fair values of the Company's investment securities could decline in the future if the overall economy and the financial condition of the issuers deteriorate and the liquidity of these securities remains depressed. As a result, there is a risk that other-than-temporary impairments may occur in the future and any such amounts could be material to the Company's consolidated statements of operations.

A summary of the contractual maturity distribution of debt investment securities at June 30, 2012 is as follows:

	Available For Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(in thousands)				
Due in one year or less	$18,786	$18,980	$225	$225
Due after one year through five years	97,717	101,614	351	352
Due after five years through ten years	114,212	120,311	—	—
Due after ten years	65,503	67,453	5,871	6,023
	231,198	237,309	44	49

Mortgage-backed securities and collateralized mortgage obligations				
Total	$527,416	$545,667	$6,491	$6,649

Mortgage-backed and collateralized mortgage obligations are collateralized by mortgage loans guaranteed by U.S. government agencies. Experience has indicated that principal payments will be collected sooner than scheduled because of prepayments. Therefore, these securities are not scheduled in the maturity categories indicated above. Equity securities available for sale with an amortized cost of $1.4 million and a fair value of $1.5 million are also excluded from this table.

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Other investment securities include investments in Federal Home Loan Bank ("FHLB") stock. The carrying value of the FHLB stock at June 30, 2012 and December 31, 2011 was $12.3 million and $12.2 million, respectively, which is included in the Other Assets line of the consolidated balance sheets. This security is not readily marketable and ownership of FHLB stock is a requirement for membership in the FHLB Des Moines. The amount of FHLB stock the Bank is required to hold is directly related to the amount of FHLB advances borrowed. Because there are no available market values, this security is carried at cost and evaluated for potential impairment each quarter. Redemption of this investment is at the option of the FHLB.

Realized gains and losses on sales are determined on the basis of specific identification of investments based on the trade date. Realized gains on investments for the three and six months ended June 30, 2012 and 2011 are as follows:

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

5.Loans Receivable and the Allowance for Loan Losses

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

	Allowance for Loan Losses and Recorded Investment in Loan Receivables As of June 30, 2012 and December 31, 2011						
(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
June 30, 2012							
Allowance for loan losses:							
Individually evaluated for impairment	$182	$462	$ 113	$126	$7	$ —	$890
Collectively evaluated for impairment	772	4,484	4,489	2,768	358	1,976	14,847
Total	$954	$4,946	$ 4,602	$2,894	$365	$ 1,976	$15,737
Loans acquired with deteriorated credit quality (loan pool participations)	$6	$131	$ 637	$281	$23	$ 1,056	$2,134
Loans receivable							
Individually evaluated for impairment	$3,323	$2,333	$ 6,512	$974	$24	$ —	$13,166
Collectively evaluated for impairment	78,230	245,933	396,398	242,852	19,843	—	983,256
Total	$81,553	$248,266	$ 402,910	$243,826	$19,867	$ —	$996,422
Loans acquired with deteriorated credit quality (loan pool	$83	$2,893	$ 27,280	$4,813	$80	$ 9,031	$44,180

participations)

(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
December 31, 2011							
Allowance for loan losses:							
Individually evaluated for impairment	$ 247	$ 793	$ 272	$ 252	$ 8	$ —	$ 1,572
Collectively evaluated for impairment	962	4,587	4,899	3,249	159	248	14,104
Total	$ 1,209	$ 5,380	$ 5,171	$ 3,501	$ 167	$ 248	$ 15,676
Loans acquired with deteriorated credit quality (loan pool participations)	$ 7	$ 219	$ 666	$ 346	$ 56	$ 840	$ 2,134
Loans receivable							
Individually evaluated for impairment	$ 4,776	$ 2,550	$ 9,619	$ 2,736	$ 58	$ —	$ 19,739
Collectively evaluated for impairment	84,522	238,636	386,420	236,112	20,744	—	966,434
Total	$ 89,298	$ 241,186	$ 396,039	$ 238,848	$ 20,802	$ —	$ 986,173
Loans acquired with deteriorated credit quality (loan pool participations)	$ 90	$ 3,793	$ 30,523	$ 5,694	$ 124	$ 11,962	$ 52,186

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Allowance for Loan Loss Activity
For the Three Months Ended June 30, 2012 and 2011

(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
2012							
Beginning balance	$1,123	$4,687	$ 4,851	$2,734	$378	$ 1,906	$15,679
Charge-offs	—	(372)	(80)	(138)	(23)	—	(613)
Recoveries	—	82	10	—	4	—	96
Provision	(169)	549	(179)	298	6	70	575
Ending balance	$954	$4,946	$ 4,602	$2,894	$365	$ 1,976	$15,737
2011							
Beginning balance	$1,448	$5,069	$ 5,450	$2,299	$250	$ 882	$15,398
Charge-offs	(318)	(375)	(551)	(36)	(33)	—	(1,313)
Recoveries	62	326	115	1	114	—	618
Provision	136	(19)	701	411	29	(358)	900
Ending balance	$1,328	$5,001	$ 5,715	$2,675	$360	$ 524	$15,603

Allowance for Loan Loss Activity
For the Six Months Ended June 30, 2012 and 2011

(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
2012							
Beginning balance	$1,209	$5,380	$ 5,171	$3,501	$167	$ 248	$15,676
Charge-offs	—	(1,284)	(106)	(313)	(34)	—	(1,737)
Recoveries	507	97	13	12	15	—	644
Provision	(762)	753	(476)	(306)	217	1,728	1,154
Ending balance	$954	$4,946	$ 4,602	$2,894	$365	$ 1,976	$15,737
2011							
Beginning balance	$827	$4,540	$ 5,255	$2,776	$323	$ 1,446	$15,167
Charge-offs	(393)	(594)	(998)	(107)	(53)	—	(2,145)
Recoveries	62	470	115	16	118	—	781
Provision	832	585	1,343	(10)	(28)	(922)	1,800
Ending balance	$1,328	$5,001	$ 5,715	$2,675	$360	$ 524	$15,603

Loan Portfolio Segment Risk Characteristics

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

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

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

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

Consumer - Consumer loans typically have shorter terms, lower balances, higher yields and higher risks of default. Consumer loan collections are dependent on the borrower's continuing financial stability, and are therefore more likely to be affected by adverse personal circumstances. Collateral for these loans generally includes automobiles, boats, recreational vehicles, mobile homes, and real estate. However, depending on the overall financial condition of the borrower, some loans are made on an unsecured basis. The collateral securing these loans may depreciate over time, may be difficult to recover and may fluctuate in value based on condition. In addition, a decline in the United States economy could result in reduced employment, impacting the ability of customers to repay their obligations.

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

Charge-off Policy

The Company requires a loan to be charged-off as soon as it becomes apparent that some loss will be incurred, or when its collectability is sufficiently questionable that it no longer is considered a bankable asset. The primary considerations when determining if and how much of a loan should be charged-off are as follows: (1) the potential for future cash flows; (2) the value of any collateral; and (3) the strength of any co-makers or guarantors.

When it is determined that a loan requires partial or full charge-off, a request for approval of a charge-off is submitted to the Bank's President, Executive Vice President and Chief Credit Officer, and the Senior Regional Loan officer. The Bank's Board of Directors formally approves all loan charge-offs. Once a loan is charged-off, it cannot be restructured and returned to the Bank's books.

The Allowance for Loan and Lease Losses - Bank Loans

The Company requires the maintenance of an adequate allowance for loan and lease losses (“ALLL”) in order to cover estimated losses without eroding the Company's capital base. Calculations are done at each quarter end, or more frequently if warranted, to analyze the collectability of loans and to ensure the adequacy of the allowance. In line with FDIC directives, the ALLL calculation does not include consideration of loans held for sale or off-balance-sheet credit exposures (such as unfunded letters of credit). Determining the appropriate level for the ALLL relies on the informed judgment of management, and as such, is subject to inaccuracy. Given the inherently imprecise nature of calculating the necessary ALLL, the Company's policy permits an "unallocated" allowance between 15% above and 5% below the “indicated reserve.” These unallocated amounts are present due to the inherent imprecision in the ALLL calculation.

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Loans Reviewed Individually for Impairment

The Company identifies loans to be reviewed and evaluated individually for impairment, based on current information and events, and the probability that the borrower will be unable to repay all amounts due according to the contractual terms of the loan agreement. Specific areas of consideration include: size of credit exposure, risk rating, delinquency, nonaccrual status, and loan classification.

The level of individual impairment is measured using one of the following methods: (1) the fair value of the collateral less costs to sell; (2) the present value of expected future cash flows, discounted at the loan's effective interest rate; or (3) the loan's observable market price. Loans that are deemed fully collateralized or have been charged down to a level corresponding with any three of the measurements require no assignment of reserves from the ALLL.

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

- The borrower receives a reduction of the stated interest rate for the remaining original life of the debt.
- The borrower receives an extension of the maturity date or dates at a stated interest rate lower 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.

The following table sets forth information on the Company's troubled debt restructurings by class of financing receivable occurring during the stated periods:

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

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

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	Six Months Ended June 30,					
	2012			2011		
(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:						
Agricultural	—	$ —	$ —	—	$ —	$ —
Commercial and industrial	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—
Commercial real estate:						
Construction and development	—	—	—	—	—	—
Farmland	2	2,475	2,475	—	—	—
Multifamily	—	—	—	—	—	—
Commercial real estate-other	—	—	—	4	803	803
Total commercial real estate	2	2,475	2,475	4	803	803
Residential real estate:						
One- to four- family first liens	—	—	—	—	—	—
One- to four- family junior liens	—	—	—	—	—	—
Total residential real estate	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total	2	$ 2,475	$ 2,475	4	$ 803	$ 803

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

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

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

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

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

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Loans Reviewed Collectively for Impairment

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

The Company's historical loss experience for each loan type segment is calculated using the fiscal quarter end data for the most recent 20 quarters as a starting point for estimating losses. In addition, other prevailing qualitative or environmental factors likely to cause probable losses to vary from historical data are incorporated in the form of adjustments to increase or decrease the loss rate applied to a group(s). These adjustments are documented, and fully explain how the current information, events, circumstances, and conditions impact the historical loss measurement assumptions.

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

- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses.
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments.
- Changes in the nature and volume of the portfolio and in the terms of loans.
- Changes in the experience, ability and depth of lending management and other relevant staff.
- Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans.
- Changes in the quality of our loan review system.
- Changes in the value of underlying collateral for collateral-dependent loans.
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations.
- The effect of other external factors, such as competition and legal and regulatory requirements, on the level of estimated credit losses in the Bank's existing portfolio.

The items listed above are used to determine the pass percentage for loans evaluated collectively and, as such, are applied to the loans risk rated pass. Due to the inherent risks associated with special mention risk rated loans (i.e. early stages of financial deterioration, technical exceptions, etc.), this subset is reserved at two times the pass allocation factor to reflect this increased risk exposure. In addition, non-impaired loans classified as substandard loans carry exponentially greater risk than special mention loans, and as such, this subset is reserved at six times the pass allocation. Further, non-impaired loans identified as substandard “performing collateral deficient” are reserved at 12 times the pass allocation due to the perceived additional risk for such credits.

The Allowance for Loan and Lease Losses - Loan Pool Participations

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

Loans Reviewed Individually for Impairment

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

Loans Reviewed Collectively for Impairment

The Company utilizes the annualized average of portfolio loan (not loan pool) historical loss per risk category over a two-year period of time. Supporting documentation for the technique used to develop the historical loss rate for each group of loans is required to be maintained. It is management's assessment that the two-year rate is most reflective of the estimated credit losses in the current loan pool portfolio.

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The following table sets forth the composition of each class of the Company's loans by internally assigned credit quality indicators at June 30, 2012 and December 31, 2011:

	Pass	Special Mention/ Watch	Substandard	Doubtful	Loss	Total
(in thousands)						
June 30, 2012						
Agricultural	$77,369	$737	$3,447	$—	$—	$81,553
Commercial and industrial	220,865	12,213	13,985	—	—	247,063
Credit cards	987	15	10	—	—	1,012
Overdrafts	436	87	106	—	—	629
Commercial real estate:						
Construction and development	65,598	8,647	5,091	—	—	79,336
Farmland	65,258	2,999	2,410	—	—	70,667
Multifamily	35,004	213	—	—	—	35,217
Commercial real estate-other	194,763	18,913	4,014	—	—	217,690
Total commercial real estate	360,623	30,772	11,515	—	—	402,910
Residential real estate:						
One- to four- family first liens	179,987	4,470	1,531	—	—	185,988
One- to four- family junior liens	57,355	199	284	—	—	57,838
Total residential real estate	237,342	4,669	1,815	—	—	243,826
Consumer	19,272	91	66	—	—	19,429
Total	$916,894	$48,584	$30,944	$—	$—	$996,422
Loans acquired with deteriorated credit quality (loan pool participations)	$25,030	$—	$19,135	$—	$15	$44,180

	Pass	Special Mention/ Watch	Substandard	Doubtful	Loss	Total
(in thousands)						
December 31, 2011						
Agricultural	$82,529	$1,328	$5,441	$—	$—	$89,298
Commercial and industrial	206,053	16,611	17,326	—	—	239,990
Credit cards	934	—	—	—	—	934
Overdrafts	560	179	146	—	—	885
Commercial real estate:						
Construction and development	57,940	9,121	6,197	—	—	73,258
Farmland	68,119	3,193	3,142	—	—	74,454
Multifamily	34,142	318	259	—	—	34,719
Commercial real estate-other	189,077	18,149	6,382	—	—	213,608
Total commercial real estate	349,278	30,781	15,980	—	—	396,039
Residential real estate:						
One- to four- family first liens	164,504	6,564	4,361	—	—	175,429
One- to four- family junior liens	62,493	336	590	—	—	63,419
Total residential real estate	226,997	6,900	4,951	—	—	238,848
Consumer	19,969	49	161	—	—	20,179

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

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

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Substandard - Substandard loans are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.
Doubtful - Loans classified doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.
Loss - Loans classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future.

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

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

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

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2012		2011		2012		2011	
(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	$1,600	$ 16	$3,428	$ 21	$1,600	$ 28	$3,390	$ 33
Commercial and industrial	813	7	906	(12)	848	37	907	(2)
Credit cards	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—
Commercial real estate:								
Construction and development	707	—	1,258	—	707	—	1,264	(18)
Farmland	—	—	4,228	10	—	—	4,252	31
Multifamily	—	—	—	—	—	—	—	—
Commercial real estate-other	1,821	15	3,448	(1)	1,841	30	3,433	25
Total commercial real estate	2,528	15	8,934	9	2,548	30	8,949	38
Residential real estate:								
One- to four- family first liens	48	1	1,609	—	49	1	1,628	(1)
One- to four- family junior liens	43	1	8	—	44	2	8	—
Total residential real estate	91	2	1,617	—	93	3	1,636	(1)
Consumer	—	—	51	—	—	—	52	—
Total	$5,032	$ 40	$14,936	$ 18	$5,089	$ 98	$14,934	$ 68
With an allowance recorded:								
Agricultural	$1,723	$ 13	1,731	9	$2,433	$ 23	1,736	40
Commercial and industrial	1,648	20	1,219	(13)	1,704	23	1,218	1
Credit cards	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—
Commercial real estate:								
Construction and development	407	1	448	7	1,983	1	449	13
Farmland	2,517	28	363	(2)	280	57	373	—
Multifamily	—	—	—	—	—	—	—	—
Commercial real estate-other	1,073	11	2,416	25	1,183	22	2,422	73

Total commercial real estate	3,997	40	3,227	30	3,446	80	3,244	86
Residential real estate:								
One- to four- family first liens	884	8	1,118	9	912	17	1,124	17
One- to four- family junior liens	—	—	108	1	—	—	108	2
Total residential real estate	884	8	1,226	10	912	17	1,232	19
Consumer	24	1	27	1	39	1	27	2
Total	$8,276	$ 82	$7,430	$ 37	$8,534	$ 144	$7,457	$ 148
Total:								
Agricultural	$3,323	$ 29	5,159	30	$4,033	$ 51	5,126	73
Commercial and industrial	2,461	27	2,125	(25)	2,552	60	2,125	(1)
Credit cards	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—
Commercial real estate:								
Construction and development	1,114	1	1,706	7	2,690	1	1,713	(5)
Farmland	2,517	28	4,591	8	280	57	4,625	31
Multifamily	—	—	—	—	—	—	—	—
Commercial real estate-other	2,894	26	5,864	24	3,024	52	5,855	98
Total commercial real estate	6,525	55	12,161	39	5,994	110	12,193	124
Residential real estate:								
One- to four- family first liens	932	9	2,727	9	961	961	2,752	16
One- to four- family junior liens	43	1	116	1	44	44	116	2
Total residential real estate	975	10	2,843	10	1,005	1,005	2,868	18
Consumer	24	1	78	1	39	1	79	2
Total	$13,308	$ 122	$22,366	$ 55	$13,623	$ 1,227	$22,391	$ 216

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The following table sets forth the composition of the Company's past due and nonaccrual loans at June 30, 2012 and December 31, 2011:

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days Past Due and Accruing
(in thousands)							
June 30, 2012							
Agricultural	$291	$26	$—	$317	$81,236	$ 81,553	$—
Commercial and industrial	1,249	816	1,116	3,181	243,882	247,063	68
Credit cards	15	—	10	25	987	1,012	10
Overdrafts	29	13	64	106	523	629	—
Commercial real estate:							
Construction and development	230	—	1,159	1,389	77,947	79,336	—
Farmland	73	—	—	73	70,594	70,667	—
Multifamily	384	—	—	384	34,833	35,217	—
Commercial real estate-other	397	80	1,270	1,747	215,943	217,690	25
Total commercial real estate	1,084	80	2,429	3,593	399,317	402,910	25
Residential real estate:							
One- to four- family first liens	2,425	1,190	632	4,247	181,741	185,988	152
One- to four- family junior liens	152	191	242	585	57,253	57,838	91
Total residential real estate	2,577	1,381	874	4,832	238,994	243,826	243
Consumer	115	93	29	237	19,192	19,429	1
Total	$5,360	$2,409	$4,522	$12,291	$984,131	$ 996,422	$347
December 31, 2011							
Agricultural	$55	$284	$176	$515	$88,783	$ 89,298	$—
Commercial and industrial	390	1,732	1,709	3,831	236,159	239,990	537
Credit cards	5	—	—	5	929	934	—
Overdrafts	92	21	32	145	740	885	—
Commercial real estate:							
Construction and development	148	—	1,159	1,307	71,951	73,258	—
Farmland	—	—	2,765	2,765	71,689	74,454	—
Multifamily	259	—	—	259	34,460	34,719	—
Commercial real estate-other	686	203	1,555	2,444	211,164	213,608	49
Total commercial real estate	1,093	203	5,479	6,775	389,264	396,039	49
Residential real estate:							

One- to four- family first liens	2,316	1,373	1,916	5,605	169,824	175,429	262
One- to four- family junior liens	87	114	292	493	62,926	63,419	206
Total residential real estate	2,403	1,487	2,208	6,098	232,750	238,848	468
Consumer	211	47	34	292	19,887	20,179	—
Total	$4,249	$3,774	$9,638	$17,661	$968,512	$ 986,173	$1,054

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 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. Loans shown in the 30-59 days and 60-89 days columns in the table above reflect contractual delinquency status only, and include loans considered nonperforming due to classification as a TDR or being placed on non-accrual.

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The following table sets forth the composition of the Company's recorded investment in loans on nonaccrual status as of June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
(in thousands)		
Agricultural	$25	$1,453
Commercial and industrial	1,064	1,494
Credit cards	—	—
Overdrafts	—	—
Commercial real estate:		
Construction and development	1,159	1,159
Farmland	35	2,927
Multifamily	—	259
Commercial real estate-other	1,319	1,507
Total commercial real estate	2,513	5,852
Residential real estate:		
One- to four- family first liens	657	1,959
One- to four- family junior liens	193	125
Total residential real estate	850	2,084
Consumer	28	34
Total	$4,480	$10,917

As of June 30, 2012, the Company has no commitments to lend additional funds to any borrowers who have nonperforming loans.

Loan Pool Participations

ASC Topic 310 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. The loans underlying the loan pool participations were evaluated individually when purchased for application of ASC Topic 310, utilizing various criteria including: past-due status, late payments, legal status of the loan (not in foreclosure, judgment against the borrower, or referred to legal counsel), frequency of payments made, collateral adequacy and the borrower's financial condition. If all the criteria were met, the individual loan utilized the accounting treatment required by ASC Topic 310 with the accretable yield difference between the expected cash flows and the purchased basis accreted into income on the level yield basis over the anticipated life of the loan. If any of the six criteria were not met at the time of purchase, the loan was accounted for on the cash-basis of accounting.

The loan servicer reviews the portfolio quarterly on a loan-by-loan basis, and loans that are deemed to be impaired are charged-down to their estimated value. As of June 30, 2012, approximately 60% of the loans were contractually current or less than 90 days past-due, while 40% were contractually past-due 90 days or more. Many of the loans were acquired in a contractually past due status, which is reflected in the discounted purchase price of the loans. Performance status is monitored on a monthly basis. The 40% contractually past-due includes loans in litigation and foreclosed property.

6.Income Taxes

Federal income tax expense for the three and six months ended June 30, 2012 and 2011 was computed using the consolidated effective federal tax rate. The Company also recognized income tax expense pertaining to state franchise taxes payable by the subsidiary bank.

7.Defined Benefit Pension Plan

Prior to the merger, the Bank sponsored a noncontributory defined benefit pension plan for substantially all its employees. Effective December 31, 2007, the Bank elected to curtail the plan by limiting this employee benefit to those employees vested as of December 31, 2007. During the second quarter of 2012, the Company completed the liquidation of plan assets and full termination of the plan, including full benefit payout to plan participants. The total amount of the Company's required contribution to fully fund the plan for liquidation was $6.1 million, pre-tax, which is included in Salaries and Employee Benefits on the consolidated statements of operations.

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8.Fair Value Measurements

ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability is not adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

ASC Topic 820 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, ASC Topic 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 Inputs – Unadjusted quoted prices for identical assets or liabilities in active markets that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
- Level 3 Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

It is the Company's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements. Recent market conditions have led to diminished, and in some cases, non-existent trading in certain of the financial asset classes. The Company is required to use observable inputs, to the extent available, in the fair value estimation process unless that data results from forced liquidations or distressed sales. Despite the Company's best efforts to maximize the use of relevant observable inputs, the current market environment has diminished the observability of trades and assumptions that have historically been available. A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Valuation methods for instruments measured at fair value on a recurring basis.

Securities Available for Sale - The Company's investment securities classified as available for sale include: debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies, debt securities issued by state and political subdivisions, mortgage-backed securities, collateralized mortgage obligations, corporate debt securities, and equity securities. Quoted exchange prices are available for equity securities, which are classified as Level 1. The Company utilizes an independent pricing service to obtain the fair value of debt securities. On a quarterly basis, the Company selects a sample of 30 securities from its primary pricing service and compares them to a secondary independent pricing service to validate value. In addition, the Company periodically reviews the pricing methodology utilized by the primary independent service for reasonableness. Debt securities issued by the U.S.

Treasury and other U.S. government corporations and agencies and mortgage-backed obligations are priced utilizing industry-standard models that consider various assumptions, including time value, yield curves, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace and are classified as Level 2. Municipal securities are valued using a type of matrix, or grid, pricing in which securities are benchmarked against the

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treasury rate based on credit rating. These model and matrix measurements are classified as Level 2 in the fair value hierarchy. On an annual basis, a group of selected municipal securities are priced by a securities dealer and that price is used to verify the primary independent service's valuation.

The Company classifies its pooled trust preferred collateralized debt obligations as Level 3. The portfolio consists of six investments in collateralized debt obligations backed by pools of trust preferred securities issued by financial institutions and insurance companies. The Company has determined that the observable market data associated with these assets do not represent orderly transactions in accordance with ASC Topic 820 and reflect forced liquidations or distressed sales. Based on the lack of observable market data, the Company estimated fair value based on the observable data available and reasonable unobservable market data. The Company estimated fair value based on a discounted cash flow model which used appropriately adjusted discount rates reflecting credit and liquidity risks.

Mortgage Servicing Rights - The Company recognizes the rights to service mortgage loans for others on residential real estate loans internally originated and then sold. Mortgage servicing rights are recorded at fair value based on assumptions through a third-party valuation service. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the servicing cost per loan, the discount rate, the escrow float rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Because many of these inputs are unobservable, the valuations are classified as Level 3.

The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011. There were no liabilities subject to measurement as of these dates. The assets are segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value Measurement at June 30, 2012 Using			
(in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale debt securities:				
U.S. Government agencies and corporations	$72,105	$ —	$72,105	$—
State and political subdivisions	224,873	—	224,873	—
Mortgage-backed securities and collateralized mortgage obligations	237,309	—	237,309	—
Corporate debt securities	10,345	—	10,345	—
Collateralized debt obligations	1,035	—	—	1,035
Total available for sale debt securities	545,667	—	544,632	1,035
Available for sale equity securities:				
Financial services industry	1,536	1,536	—	—
Total available for sale equity securities	1,536	1,536	—	—
Total securities available for sale	$547,203	$ 1,536	$544,632	$ 1,035
Mortgage servicing rights	$1,391	$ —	$—	$ 1,391

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	Fair Value Measurement at December 31, 2011 Using			
(in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale debt securities:				
U.S. Government agencies and corporations	$56,981	$ —	$ 56,981	$ —
State and political subdivisions	219,261	—	219,261	—
Mortgage-backed securities and collateralized mortgage obligations	244,802	—	244,802	—
Corporate debt securities	10,799	—	10,799	—
Collateralized debt obligations	806	—	—	806
Total available for sale debt securities	532,649	—	531,843	806
Available for sale equity securities:				
Financial services industry	1,431	1,431	—	—
Total available for sale equity securities	1,431	1,431	—	—
Total securities available for sale	$534,080	$ 1,431	$ 531,843	$ 806
Mortgage servicing rights	$1,265	$ —	$ —	$ 1,265

There were no transfers of assets between levels 1 and 2 during the three and six months ended June 30, 2012 and 2011.

The following table presents additional information about assets measured at fair market value on a recurring basis for which the Company has utilized Level 3 inputs to determine fair value:

(in thousands)	Collateralized Debt Obligations	Mortgage Servicing Rights
Level 3 fair value at December 31, 2011	$ 806	$1,265
Transfers into Level 3	—	—
Transfers out of Level 3	—	—
Total gains (losses):		
Included in earnings	—	(231)
Included in other comprehensive income	229	—
Purchases, issuances, sales, and settlements:		
Purchases	—	—
Issuances	—	357
Sales	—	—
Settlements	—	—
Level 3 fair value at June 30, 2012	$ 1,035	$1,391

The following table presents the amount of gains and losses included in earnings for the six months ended June 30, 2012 that are attributable to the change in unrealized gains and losses relating to those assets still held at June 30, 2012, and the line item in the consolidated financial statements in which they are included:

Collateralized Debt	Mortgage Servicing

(in thousands)	Obligations	Rights
Total gains for the period in earnings*	$ —	$126
Change in unrealized gains for the period included in comprehensive net income	229	—

* included in mortgage origination and loan servicing fees in the consolidated statements of operations.

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Changes in the fair value of available for sale securities are included in other comprehensive income to the extent the changes are not considered other-than-temporary impairments. Other-than-temporary impairment tests are performed on a quarterly basis and any decline in the fair value of an individual security below its cost that is deemed to be other-than-temporary results in a write-down that is reflected directly in the Company's consolidated statements of operations.

Valuation methods for instruments measured at fair value on a nonrecurring basis

Collateral Dependent Impaired Loans - From time to time, a loan is considered impaired and an allowance for credit losses is established. The specific reserves for collateral dependent impaired loans are based on the fair value of the collateral less estimated costs to sell. The fair value of collateral is determined based on appraisals. In some cases, adjustments are made to the appraised values due to various factors, including age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in the collateral from the date of the appraisal. Because many of these inputs are unobservable, the valuations are classified as Level 3.

Other Real Estate Owned (OREO) - Other real estate owned represents property acquired through foreclosures and settlements of loans. Property acquired is carried at the lower of the carrying amount of the loan at the time of acquisition, or the estimated fair value of the property, less disposal costs. The Company considers third-party appraisals as well as independent fair value assessments from real estate brokers or persons involved in selling OREO in determining the fair value of particular properties. Accordingly, the valuation of OREO is subject to significant external and internal judgment. The Company also periodically reviews OREO to determine whether the property continues to be carried at the lower of its recorded book value or fair value of the property, less disposal costs. Because many of these inputs are unobservable, the valuations are classified as Level 3.

The following table discloses the Company's estimated fair value amounts of its assets recorded at fair value on a nonrecurring basis. It is management's belief that the fair values presented below are reasonable based on the valuation techniques and data available to the Company as of June 30, 2012 and December 31, 2011, as more fully described previously.

	Fair Value Measurements at June 30, 2012 Using			
(in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Collateral dependent impaired loans:				
Commercial and industrial	1,118	—	—	1,118
Commercial real estate:				
Construction and development	328	—	—	328
Commercial real estate-other	294	—	—	294
Total commercial real estate	622	—	—	622
Residential real estate:				
One- to four- family first liens	308	—	—	308
Total residential real estate	308	—	—	308
Consumer	24	—	—	24
Collateral dependent impaired loans	2,072	—	—	2,072
Other real estate owned	3,869	—	—	3,869

	Fair Value Measurements at December 31, 2011 Using			
(in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Assets:	
Collateral dependent impaired loans	$