MidWestOne Financial Group, Inc.
Form 10-Q
May 03, 2018

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-35968

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

Iowa	42-1206172
(State or other jurisdiction of incorporation or 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. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of May 1, 2018, there were 12,215,342 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)	March 31, 2018 (unaudited)	December 31, 2017
ASSETS		
Cash and due from banks	$39,929	$44,818
Interest-bearing deposits in banks	2,467	5,474
Federal funds sold	—	680
Cash and cash equivalents	42,396	50,972
Investment securities:		
Equity securities	2,815	2,336
Available for sale debt securities	446,087	445,324
Held to maturity debt securities (fair value of $190,593 as of March 31, 2018 and $194,343 as of December 31, 2017)	194,617	195,619
Loans held for sale	870	856
Loans	2,326,158	2,286,695
Allowance for loan losses	(29,671)	(28,059)
Net loans	2,296,487	2,258,636
Premises and equipment, net	77,552	75,969
Accrued interest receivable	13,337	14,732
Goodwill	64,654	64,654
Other intangible assets, net	11,389	12,046
Bank-owned life insurance	59,812	59,831
Other real estate owned	1,001	2,010
Deferred income taxes, net	7,866	6,525
Other assets	22,759	22,761
Total assets	$3,241,642	$3,212,271
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand	$450,168	$461,969
Interest-bearing checking	1,240,208	1,228,112
Savings	215,940	213,430
Certificates of deposit under $100,000	332,727	324,681
Certificates of deposit $100,000 and over	392,878	377,127
Total deposits	2,631,921	2,605,319
Federal funds purchased	25,573	1,000
Securities sold under agreements to repurchase	67,738	96,229
Federal Home Loan Bank borrowings	123,000	115,000
Junior subordinated notes issued to capital trusts	23,817	23,793
Long-term debt	11,250	12,500
Deferred compensation liability	5,258	5,199
Accrued interest payable	1,459	1,428
Other liabilities	10,249	11,499
Total liabilities	2,900,265	2,871,967
Shareholders' equity:		

Preferred stock, no par value; authorized 500,000 shares; no shares issued and outstanding at March 31, 2018 and December 31, 2017	$—	$—
Common stock, $1.00 par value; authorized 30,000,000 shares at March 31, 2018 and December 31, 2017; issued 12,463,481 shares at March 31, 2018 and December 31, 2017; outstanding 12,214,942 shares at March 31, 2018 and 12,219,611 shares at December 31, 2017	12,463	12,463
Additional paid-in capital	187,188	187,486
Treasury stock at cost, 248,539 shares as of March 31, 2018 and 243,870 shares as of December 31, 2017	(5,612)	(5,121)
Retained earnings	153,542	148,078
Accumulated other comprehensive loss	(6,204)	(2,602)
Total shareholders' equity	341,377	340,304
Total liabilities and shareholders' equity	$3,241,642	$3,212,271

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
(unaudited) (dollars in thousands, except per share amounts)	2018	2017
Interest income:		
Interest and fees on loans	$26,567	$ 24,279
Interest on bank deposits	8	5
Interest on investment securities:		
Taxable securities	2,888	2,718
Tax-exempt securities	1,529	1,565
Total interest income	30,992	28,567
Interest expense:		
Interest on deposits:		
Interest-bearing checking	1,085	798
Savings	63	51
Certificates of deposit under $100,000	995	859
Certificates of deposit $100,000 and over	1,393	917
Total interest expense on deposits	3,536	2,625
Interest on federal funds purchased	125	46
Interest on securities sold under agreements to repurchase	134	38
Interest on Federal Home Loan Bank borrowings	517	443
Interest on other borrowings	2	3
Interest on junior subordinated notes issued to capital trusts	258	221
Interest on long-term debt	107	110
Total interest expense	4,679	3,486
Net interest income	26,313	25,081
Provision for loan losses	1,850	1,041
Net interest income after provision for loan losses	24,463	24,040
Noninterest income:		
Trust, investment, and insurance fees	1,640	1,612
Service charges and fees on deposit accounts	1,168	1,283
Loan origination and servicing fees	941	802
Other service charges and fees	1,380	1,458
Bank-owned life insurance income	433	328
Gain on sale or call of available for sale debt securities	9	—
Gain on sale or call of held to maturity debt securities	—	43
Loss on sale of premises and equipment	(1)	(2)
Other gain	102	13
Total noninterest income	5,672	5,537
Noninterest expense:		
Salaries and employee benefits	12,371	11,884
Net occupancy and equipment expense	3,251	3,304
Professional fees	794	1,022
Data processing expense	688	711
FDIC insurance expense	319	367
Amortization of intangible assets	657	849
Other operating expense	2,278	2,198

Total noninterest expense	20,358	20,335
Income before income tax expense	9,777	9,242
Income tax expense	1,984	2,529
Net income	$7,793	$ 6,713
Share and per share information:		
Ending number of shares outstanding	12,214,942	11,959,521
Average number of shares outstanding	12,222,690	11,505,687
Diluted average number of shares	12,241,714	11,555,356
Earnings per common share - basic	$0.64	$ 0.58
Earnings per common share - diluted	0.64	0.58
Dividends paid per common share	0.195	0.165

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
(unaudited) (dollars in thousands, except per share amounts)	2018	2017
Net income	$7,793	$6,713
Other comprehensive income, available for sale debt securities:		
Unrealized holding gains (losses) arising during period	(4,788)	1,567
Reclassification adjustment for gains included in net income	(9)	—
Income tax (expense) benefit	1,252	(616)
Other comprehensive income (loss) on available for sale debt securities	(3,545)	951
Other comprehensive income (loss), net of tax	(3,545)	951
Comprehensive income	$4,248	$7,664

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, 2016	$ —	$ 11,713	$ 163,667	$ (5,766)	$ 136,975	$ (1,133)	$ 305,456
Net income	—	—	—	—	6,713	—	6,713
Issuance of common stock (500,000 shares), net of expenses of $983	—	500	15,642	—	—	—	16,142
Dividends paid on common stock ($0.165 per share)	—	—	—	—	(1,891)	—	(1,891)
Stock options exercised (5,800 shares)	—	—	(74)	121	—	—	47
Release/lapse of restriction on RSUs (20,200 shares)	—	—	(420)	317	—	—	(103)
Stock compensation	—	—	199	—	—		199
Other comprehensive income, net of tax	—	—	—	—	—	951	951
Balance at March 31, 2017	$ —	$ 12,213	$ 179,014	$ (5,328)	$ 141,797	$ (182)	$ 327,514
Balance at December 31, 2017	$ —	$ 12,463	$ 187,486	$ (5,121)	$ 148,078	$ (2,602)	$ 340,304
Net income	—	—	—	—	7,793	—	7,793
Dividends paid on common stock ($0.195 per share)	—	—	—	—	(2,386)	—	(2,386)
Stock options exercised (9,700 shares)	—	—	(68)	204	—	—	136
Release/lapse of restriction on RSUs (22,200 shares)	—	—	(467)	387	—	—	(80)
Repurchase of common stock (33,998 shares)	—	—	—	(1,082)	—	—	(1,082)
Stock compensation	—	—	237	—	—	—	237
ASU 2016-01, reclassification from AOCI to Retained Earnings, unrealized gain on equity securities, net of tax	—	—	—	—	57	(57)	—
Other comprehensive loss, net of tax	—	—	—	—	—	(3,545)	(3,545)
Balance at March 31, 2018	$ —	$ 12,463	$ 187,188	$ (5,612)	$ 153,542	$ (6,204)	$ 341,377

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
(unaudited) (dollars in thousands)	2018	2017
Cash flows from operating activities:		
Net income	$7,793	$6,713
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,850	1,041
Depreciation of premises and equipment	1,034	1,040
Amortization of other intangibles	657	849
Amortization of premiums and discounts on investment securities, net	244	373
Loss on sale of premises and equipment	1	2
Deferred income taxes	(89)	(289)
Excess tax benefit from share-based award activity	—	(75)
Stock-based compensation	237	199
Net losses on equity securities	24	—
Net gain on sale or call of available for sale debt securities	(9)	—
Net gain on sale or call of held to maturity debt securities	—	(43)
Net gain on sale of other real estate owned	(93)	(19)
Net gain on sale of loans held for sale	(253)	(323)
Writedown of other real estate owned	5	23
Origination of loans held for sale	(12,916)	(18,770)
Proceeds from sales of loans held for sale	13,155	22,953
Decrease in accrued interest receivable	1,395	1,175
Increase in cash surrender value of bank-owned life insurance	(433)	(328)
Decrease in other assets	2	784
Increase in deferred compensation liability	59	20
Increase (decrease) in accrued interest payable, accounts payable, accrued expenses, and other liabilities	(1,219)	2,921
Net cash provided by operating activities	11,444	18,246
Cash flows from investing activities:		
Purchases of equity securities	(503)	(1,002)
Proceeds from sales of available for sale debt securities	496	—
Proceeds from maturities and calls of available for sale debt securities	13,546	15,005
Purchases of available for sale debt securities	(19,770)	(6,811)
Proceeds from sales of held to maturity debt securities	—	1,153
Proceeds from maturities and calls of held to maturity debt securities	1,488	1,047
Purchase of held to maturity debt securities	(553)	(8,474)
Net increase in loans	(40,065)	(672)
Purchases of premises and equipment	(2,594)	(1,004)
Proceeds from sale of other real estate owned	1,461	494
Proceeds of principal and earnings from bank-owned life insurance	452	—
Net cash used in investing activities	(46,042)	(264)
Cash flows from financing activities:		
Net increase in deposits	26,602	50,445
Increase (decrease) in federal funds purchased	24,573	(35,684)
Decrease in securities sold under agreements to repurchase	(28,491)	(14,596)

Proceeds from Federal Home Loan Bank borrowings	35,000	50,000
Repayment of Federal Home Loan Bank borrowings	(27,000)	(70,000)
Proceeds from stock options exercised	135	123
Excess tax benefit from share-based award activity	—	75
Taxes paid relating to net share settlement of equity awards	(79)	(104)
Payments on long-term debt	(1,250)	(1,250)
Dividends paid	(2,386)	(1,891)
Proceeds from issuance of common stock	—	17,125
Payment of stock issuance costs	—	(983)
Repurchase of common stock	(1,082)	—
Net cash provided by (used in) financing activities	26,022	(6,740)
Net increase (decrease) in cash and cash equivalents	(8,576)	11,242
Cash and cash equivalents at beginning of period	50,972	43,228
Cash and cash equivalents at end of period	$42,396	$54,470

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(unaudited) (dollars in thousands)	Three Months Ended March 31,	
	2018	2017
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$4,648	$3,553
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	$364	$97
Transfer due to adoption of ASU 2016-01, equity securities fair value adjustment, reclassification from AOCI to Retained Earnings, net of tax	$57	$—

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, as amended, 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 MidWestOne Bank, our bank subsidiary, and MidWestOne Insurance Services, Inc., our wholly-owned subsidiary that operates an insurance agency business through six offices located in central and east-central Iowa.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all the information and notes necessary for complete financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”). The information in this Quarterly Report on Form 10-Q is written with the presumption that the users of the interim financial statements have read or have access to the most recent Annual Report on Form 10-K of the Company, which contains the latest audited financial statements and notes thereto, together with Management’s Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2017 and for the year then ended. Management believes that the disclosures in this Form 10-Q are adequate to make the information presented not misleading. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the Company’s financial position as of March 31, 2018 and December 31, 2017, and the results of operations and cash flows for the three months ended March 31, 2018 and 2017. All significant intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect: (1) the reported amounts of assets and liabilities, (2) the disclosure of contingent assets and liabilities at the date of the financial statements, and (3) the reported amounts of revenues and expenses during the reporting period. These estimates are based on information available to management at the time the estimates are made. Actual results could differ from those estimates. The results for the three months ended March 31, 2018 may not be indicative of results for the year ending December 31, 2018, 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, 2017.

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. Effect of New Financial Accounting Standards

Accounting Guidance Adopted in 2018

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contract with Customers (Topic 606). Subsequent to the issuance of ASU 2014-09, the FASB issued targeted updates to clarify specific implementation issues including ASU No. 2016-08, “Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” ASU No. 2016-10, “Identifying Performance Obligations and Licensing,” ASU No. 2016-12, “Narrow-Scope Improvements and Practical Expedients,” and ASU No. 2016-20 “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.” For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most

current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. Since the guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP, the new guidance did not have a material impact on revenue most closely associated with financial instruments, including interest income and expense. The Company completed its overall assessment of revenue streams and review of related contracts potentially affected by the ASU, including trust

and asset management fees, service charges on deposit accounts, sales of other real estate, and debit card interchange fees. Based on this assessment, the Company concluded that ASU 2014-09 did not materially change the method in which the Company currently recognizes revenue for these revenue streams. The Company also completed its evaluation of certain costs related to these revenue streams to determine whether such costs should be presented as expenses or contra-revenue (i.e., gross vs. net). Based on its evaluation, the Company determined that ASU 2014-09 also did not materially change the method in which the Company currently recognizes costs for these revenue streams. The Company adopted this update on January 1, 2018, utilizing the modified retrospective transition method. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary. See Note 14 “Revenue Recognition” for more information.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. The guidance in this update makes changes to the current GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The treatment of gains and losses for all equity securities, including those without a readily determinable market value, is expected to result in additional volatility in the income statement, with the loss of mark to market via equity for these investments. Additionally, changes in the allowable method for determining the fair value of financial instruments in the financial statement footnotes (“exit price” only) require changes to current methodologies of determining these vales, and how they are disclosed in the financial statement footnotes. The new standard applies to public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this update on January 1, 2018. With the elimination of the classification of available for sale equity securities, the net unrealized gain or loss on these securities that had been included in accumulated other comprehensive income at December 31, 2017, in the amount of $57,000, has been transferred to retained earnings, as shown in the Consolidated Statement of Shareholders’ Equity. Changes in the fair value of equity securities with readily determinable fair values are now reflected in the noninterest income portion of the Consolidated Statements of Operations, in the other gains (losses) line item. In accordance with the ASU requirements, the Company measured the fair value of its loan portfolio as of March 31, 2018 using an exit price notion. See Note 13. “Estimated Fair Value of Financial Instruments and Fair Value Measurements” to our consolidated financial statements.

Accounting Guidance Pending Adoption at March 31, 2018

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842). The guidance in this update is meant to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. All leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, Elements of Financial Statements, and, therefore, recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. Disclosures are required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. To meet that objective, qualitative disclosures along with specific quantitative disclosures are required. The new standard applies to public business entities in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company has several lease agreements, such as branch locations, which are currently considered operating leases, and therefore not recognized on the Company’s consolidated balance sheets. The Company expects the new guidance will require these lease agreements to now be recognized on the consolidated balance sheets as right-of-use assets and a corresponding lease liability. However, the Company continues to evaluate the extent of the potential impact the new guidance will have on the Company’s consolidated financial statements and the availability of outside vendor products

to assist in the implementation, and does not expect to early adopt the standard.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, Financial Instruments-Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The amendment requires the use of a new model covering current expected credit losses (CECL), which will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. Upon initial recognition of the exposure, the CECL model requires an entity to estimate the credit losses expected over the life of an exposure (or pool of exposures). The estimate of expected credit losses (ECL) should consider historical information, current information, and reasonable and supportable forecasts,

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including estimates of prepayments. The new guidance also amends the current available for sale (AFS) security OTTI model for debt securities. The new model will require an estimate of ECL only when the fair value is below the amortized cost of the asset. The length of time the fair value of an AFS debt security has been below the amortized cost will no longer impact the determination of whether a credit loss exists. As such, it is no longer an other-than-temporary model. Finally, the purchased financial assets with credit deterioration (PCD) model applies to purchased financial assets (measured at amortized cost or AFS) that have experienced more than insignificant credit deterioration since origination. This represents a change from the scope of what are considered purchased credit-impaired assets under today's model. Different than the accounting for originated or purchased assets that do not qualify as PCD, the initial estimate of expected credit losses for a PCD would be recognized through an allowance for loan and lease losses with an offset to the cost basis of the related financial asset at acquisition. The new standard applies to public business entities that are SEC filers in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted for fiscal years beginning after December 31, 2018, including interim periods within those fiscal years, and is expected to increase the allowance for loan losses upon adoption. The Company has formed a working group to evaluate the impact of the standard's adoption on the Company's consolidated financial statements, and has completed viewing demonstrations of the capabilities of outside vendor software systems, and is currently evaluating the ability of these systems to meet the processing necessary to support the data collection, retention, and disclosure requirements of the Company in implementation of the new standard.

3. Investment Securities

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

	As of March 31, 2018			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations	$15,678	$ —	$ 279	$15,399
State and political subdivisions	146,386	1,663	523	147,526
Mortgage-backed securities	48,065	147	952	47,260
Collateralized mortgage obligations	178,068	13	7,276	170,805
Corporate debt securities	66,285	25	1,213	65,097
Total	$454,482	$ 1,848	$ 10,243	$446,087

	As of December 31, 2017			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations	$15,716	$ —	$ 90	$15,626
State and political subdivisions	139,561	2,475	197	141,839
Mortgage-backed securities	48,744	181	428	48,497
Collateralized mortgage obligations	173,339	29	5,172	168,196
Corporate debt securities	71,562	31	427	71,166
Total debt securities	448,922	2,716	6,314	445,324
Other equity securities	2,268	124	56	2,336
Total	$451,190	$ 2,840	$ 6,370	$447,660

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

As of March 31, 2018

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations	$10,047	$ —	$ 278	$9,769
State and political subdivisions	126,356	315	3,089	123,582
Mortgage-backed securities	1,882	2	45	1,839
Collateralized mortgage obligations	21,204	—	932	20,272
Corporate debt securities	35,128	504	501	35,131
Total	$194,617	$ 821	$ 4,845	$190,593

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(in thousands)	As of December 31, 2017 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations	$10,049	$ —	$ —	$10,049
State and political subdivisions	126,413	804	1,631	125,586
Mortgage-backed securities	1,906	4	13	1,897
Collateralized mortgage obligations	22,115	—	707	21,408
Corporate debt securities	35,136	548	281	35,403
Total	$195,619	$ 1,356	$ 2,632	$194,343

Investment securities with a carrying value of $238.2 million and $237.4 million at March 31, 2018 and December 31, 2017, respectively, were pledged on public deposits, securities sold under agreements to repurchase and for other purposes, as required or permitted by law.

As of March 31, 2018, the Company owned $0.4 million of equity securities in banks and financial service-related companies, and $2.4 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. Prior to January 1, 2018, we accounted for our marketable equity securities at fair value with unrealized gains and losses recognized in accumulated other comprehensive income on the balance sheet. Realized gains and losses on marketable equity securities sold or impaired were recognized in noninterest income. Effective with the January 1, 2018 adoption of ASU 2016-01, both the realized and unrealized net gains and losses on equity securities are required to be recognized in the statement of operations. A breakdown between net realized and unrealized gains and losses is provided later in this financial statement footnote. These net changes are included in the other gains line item in the noninterest income section of the Consolidated Statements of Operations.

The summary of investment securities shows that some of the securities in the available for sale and held to maturity investment portfolios had unrealized losses, or were temporarily impaired, as of March 31, 2018 and December 31, 2017. 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 March 31, 2018 and December 31, 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

		As of March 31, 2018					
	Number	Less than 12 Months		12 Months or More		Total	
Available for Sale	of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(in thousands, except number of securities)							
U.S. Government agencies and corporations	3	$15,399	$ 279	$—	$ —	$15,399	$ 279
State and political subdivisions	72	33,470	452	2,757	71	36,227	523
Mortgage-backed securities	21	36,330	871	3,627	81	39,957	952
Collateralized mortgage obligations	41	47,328	1,010	117,834	6,266	165,162	7,276
Corporate debt securities	12	54,639	995	8,576	218	63,215	1,213
Total	149	$187,166	$ 3,607	$132,794	$ 6,636	$319,960	$ 10,243

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	As of December 31, 2017						
	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)							
U.S. Government agencies and corporations	3	$15,626	$ 90	$—	$ —	$15,626	$ 90
State and political subdivisions	34	11,705	167	1,800	30	13,505	197
Mortgage-backed securities	20	37,964	359	3,961	69	41,925	428
Collateralized mortgage obligations	35	37,881	489	122,757	4,683	160,638	5,172
Corporate debt securities	12	55,340	298	8,778	129	64,118	427
Other equity securities	1	—	—	1,944	56	1,944	56
Total	105	$158,516	$ 1,403	$139,240	$ 4,967	$297,756	$ 6,370

	As of March 31, 2018						
Held to Maturity	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)							
U.S. Government agencies and corporations	1	$9,769	$ 278	$—	$ —	$9,769	$ 278
State and political subdivisions	227	52,946	1,212	25,191	1,877	78,137	3,089
Mortgage-backed securities	5	902	15	857	30	1,759	45
Collateralized mortgage obligations	7	4,941	155	15,314	777	20,255	932
Corporate debt securities	5	11,236	222	2,616	279	13,852	501
Total	245	$79,794	$ 1,882	$43,978	$ 2,963	$123,772	$ 4,845

	As of December 31, 2017						
	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	167	$33,237	$ 393	$25,843	$ 1,238	$59,080	$ 1,631
Mortgage-backed securities	4	349	2	887	11	1,236	13
Collateralized mortgage obligations	7	5,221	90	16,168	617	21,389	707
Corporate debt securities	3	3,093	4	2,617	277	5,710	281
Total	181	$41,900	$ 489	$45,515	$ 2,143	$87,415	$ 2,632

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 debt security at the time such assessments are made. The Company reviews and considers factual information, including expected cash flows, the structure of the debt security, the creditworthiness of the issuer, the type of underlying assets and the current and anticipated market conditions.

At March 31, 2018 and December 31, 2017, 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 March 31, 2018, approximately 56% of the municipal bonds held by the Company were Iowa-based, and approximately 22% 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

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and other objective evidence, the Company believed that the municipal obligations identified in the tables above were temporarily impaired as of March 31, 2018 and December 31, 2017.

At March 31, 2018 and December 31, 2017, 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 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 in the corporate bond portfolio.

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.

During the first quarter of 2017 as part of the Company's annual review and analysis of municipal investments, $1.2 million of municipal bonds from a single issuer in the held to maturity portfolio, which did not carry a credit rating from one of the major statistical rating agencies, were identified as having an elevated level of credit risk. While the instruments were currently making payments as agreed, certain financial trends were identified that provided material doubt as to the ability of the entity to continue to service the debt in the future. The investment securities were classified as "watch," and the Company's asset and liability management committee was notified of the situation. In early March 2017 the Company learned of a potential buyer for the investments and a bid to purchase was received and accepted. Investment securities designated as held to maturity may generally not be sold without calling into question the Company's stated intention to hold other debt securities to maturity in the future ("tainting"), unless certain conditions are met that provide for an exception to accounting policy. One of these exceptions, as outlined under Accounting Standards Codification ("ASC") 320-10-25-6(a), allows for the sale of an investment that is classified as held to maturity due to significant deterioration of the issuer's creditworthiness. Since the bonds had been internally classified as "watch" due to credit deterioration, the Company believes that the sale was in accordance with the allowable provisions of ASC 320-10-25-6(a), and as such, does not "taint" the remainder of the held to maturity portfolio. A small gain was realized on the sale.

The contractual maturity distribution of investment debt securities at March 31, 2018, is summarized as follows:

	Available For Sale		Held to Maturity	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$28,726	$28,807	$—	$—
Due after one year through five years	116,063	115,334	18,777	18,573
Due after five years through ten years	70,509	71,045	91,309	90,725
Due after ten years	13,051	12,836	61,445	59,184
Debt securities without a single maturity date	226,133	218,065	23,086	22,111
Total	$454,482	$446,087	$194,617	$190,593

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.

Proceeds from the sales of investment debt securities available for sale during the three months ended March 31, 2018 and March 31, 2017 were $0.5 million and zero, respectively.

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Realized gains and losses on sales are determined on the basis of specific identification of investments based on the trade date. Realized gains (losses) on investments, including impairment losses for the three months ended March 31, 2018 and 2017, were as follows:

	Three Months Ended March 31,	
(in thousands)	2018	2017
Available for sale debt securities:		
Gross realized gains	$ 9	$ —
Gross realized losses	—	—
Other-than-temporary impairment	—	—
	9	—
Held to maturity debt securities:		
Gross realized gains	—	43

The following tables present the net gains and losses on equity investments during the three months ended March 31, 2018, disaggregated into realized and unrealized gains and losses:

	Three Months Ended March 31,
(in thousands)	2018
Net losses recognized	$ (24)
Less: Net gains and losses recognized due to sales	—
Unrealized losses on securities still held at the reporting date	$ (24)

4. 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 March 31, 2018 and December 31, 2017					
(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Total
March 31, 2018						
Allowance for loan losses:						
Individually evaluated for impairment	$580	$ 1,708	$3,338	$ 167	$ —	$5,793
Collectively evaluated for impairment	2,573	6,654	11,408	2,254	282	23,171
Purchased credit impaired loans	—	—	251	456	—	707
Total	$3,153	$ 8,362	$14,997	$ 2,877	$ 282	$29,671
Loans receivable						
Individually evaluated for impairment	$10,945	$ 10,899	$17,448	$ 3,855	$ —	$43,147
Collectively evaluated for impairment	101,030	502,824	1,166,913	457,180	36,030	2,263,977
Purchased credit impaired loans	—	55	14,085	4,894	—	19,034
Total	$111,975	$ 513,778	$1,198,446	$465,929	$ 36,030	$2,326,158
(in thousands)	Agricultural	Commercial and	Commercial Real Estate	Residential Real	Consumer	Total

		Industrial		Estate		
December 31, 2017						
Allowance for loan losses:						
Individually evaluated for impairment	$ 140	$ 1,126	$ 2,157	$ 226	$ —	$ 3,649
Collectively evaluated for impairment	2,650	7,392	11,144	2,182	244	23,612
Purchased credit impaired loans	—	—	336	462	—	798
Total	$ 2,790	$ 8,518	$ 13,637	$ 2,870	$ 244	$ 28,059
Loans receivable						
Individually evaluated for impairment	$ 2,969	$ 9,734	$ 10,386	$ 3,722	$ —	$ 26,811
Collectively evaluated for impairment	102,543	493,844	1,147,133	460,475	36,158	2,240,153
Purchased credit impaired loans	—	46	14,452	5,233	—	19,731
Total	$ 105,512	$ 503,624	$ 1,171,971	$ 469,430	$ 36,158	$ 2,286,695

As of March 31, 2018, the gross purchased credit impaired loans included above were $20.5 million, with a discount of $1.5 million.

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Loans with unpaid principal in the amount of $487.7 million and $477.6 million at March 31, 2018 and December 31, 2017, 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 were as follows:

Allowance for Loan Loss Activity
For the Three Months Ended March 31, 2018 and 2017

(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Total
2018						
Beginning balance	$2,790	$ 8,518	$ 13,637	$ 2,870	$ 244	$28,059
Charge-offs	—	(87)	(264)	(104)	(21)	(476)
Recoveries	6	79	76	62	15	238
Provision	357	(148)	1,548	49	44	1,850
Ending balance	$3,153	$ 8,362	$ 14,997	$ 2,877	$ 282	$29,671
2017						
Beginning balance	$2,003	$ 6,274	$ 9,860	$ 3,458	$ 255	$21,850
Charge-offs	(537)	(65)	(61)	(28)	(25)	(716)
Recoveries	10	19	10	—	3	42
Provision	984	(207)	(58)	334	(12)	1,041
Ending balance	$2,460	$ 6,021	$ 9,751	$ 3,764	$ 221	$22,217

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.

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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.

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 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 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.

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."
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

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terms of the loan agreement. Specific areas of consideration include: size of credit exposure, risk rating, delinquency, nonaccrual status, and loan classification.

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

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:

(dollars in thousands)	Three Months Ended March 31, 2018			2017		
	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 and industrial						
Extended maturity date	—	$ —	$ —	6	$ 2,037	$ 2,083
Commercial real estate:						
Commercial real estate-other						
Extended maturity date	—	—	—	1	968	968
Total	—	$ —	$ —	7	$ 3,005	$ 3,051

(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:

(dollars in thousands)	Three Months Ended March 31, 2018		2017	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Troubled Debt Restructurings[(1)] That Subsequently Defaulted:				
Commercial and industrial				
Extended maturity date	—	$ —	3	$ 954
Commercial real estate:				
Commercial real estate-other				
Extended maturity date	1	2,657	—	—
Total	1	$ 2,657	3	$ 954

(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 or more 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 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.

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- 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.

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 is 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 March 31, 2018 and December 31, 2017:

(in thousands)	Pass	Special Mention/ Watch	Substandard	Doubtful	Loss	Total
March 31, 2018						
Agricultural	$80,471	$19,883	$11,621	$—	$—	$111,975
Commercial and industrial	465,235	30,574	17,963	6	—	513,778
Commercial real estate:						
Construction and development	192,384	1,054	1,274	—	—	194,712
Farmland	71,590	8,216	7,224	—	—	87,030
Multifamily	124,203	1,417	1,182	—	—	126,802
Commercial real estate-other	737,765	33,505	18,632	—	—	789,902
Total commercial real estate	1,125,942	44,192	28,312	—	—	1,198,446
Residential real estate:						
One- to four- family first liens	338,419	2,495	8,828	—	—	349,742
One- to four- family junior liens	114,074	641	1,472	—	—	116,187
Total residential real estate	452,493	3,136	10,300	—	—	465,929
Consumer	35,817	136	47	30	—	36,030
Total	$2,159,958	$97,921	$68,243	$36	$—	$2,326,158

(in thousands)	Pass	Special Mention/ Watch	Substandard	Doubtful	Loss	Total
December 31, 2017						
Agricultural	$80,377	$21,989	$3,146	$—	$—	$105,512
Commercial and industrial	453,363	23,153	27,102	6	—	503,624
Commercial real estate:						
Construction and development	162,968	1,061	1,247	—	—	165,276
Farmland	76,740	10,357	771	—	—	87,868
Multifamily	131,507	2,498	501	—	—	134,506
Commercial real estate-other	731,231	34,056	19,034	—	—	784,321
Total commercial real estate	1,102,446	47,972	21,553	—	—	1,171,971
Residential real estate:						
One- to four- family first liens	340,446	2,776	9,004	—	—	352,226
One- to four- family junior liens	114,763	952	1,489	—	—	117,204

Total residential real estate	455,209	3,728	10,493	—	—	469,430
Consumer	36,059	—	68	31	—	36,158
Total	$2,127,454	$96,842	$62,362	$37	$—	$2,286,695

Included within the special mention/watch, substandard, and doubtful categories at March 31, 2018 and December 31, 2017 are purchased credit impaired loans totaling $12.0 million and $12.6 million, respectively.

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Below are descriptions of the risk classifications of our loan portfolio.
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 March 31, 2018 and December 31, 2017:

	March 31, 2018			December 31, 2017		
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Agricultural	$ 8,764	$ 9,264	$ —	$ 1,523	$ 2,023	$ —
Commercial and industrial	3,781	4,147	—	7,588	7,963	—
Commercial real estate:						
Construction and development	84	84	—	84	84	—
Farmland	3,952	3,952	—	287	287	—
Multifamily	826	826	—	—	—	—
Commercial real estate-other	6,806	7,312	—	5,746	6,251	—
Total commercial real estate	11,668	12,174	—	6,117	6,622	—
Residential real estate:						
One- to four- family first liens	2,591	2,634	—	2,449	2,482	—
One- to four- family junior liens	292	293	—	26	26	—
Total residential real estate	2,883	2,927	—	2,475	2,508	—
Consumer	—	—	—	—	—	—
Total	$ 27,096	$ 28,512	$ —	$ 17,703	$ 19,116	$ —
With an allowance recorded:						