MidWestOne Financial Group, Inc.
Form 10-Q
October 31, 2013

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

FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from to

Commission file number 001-35968

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

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

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

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

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

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

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

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

As of October 30, 2013, there were 8,470,058 shares of common stock, $1.00 par value per share, outstanding.

Table of Contents

MIDWESTONE FINANCIAL GROUP, INC.
Form 10-Q Quarterly Report
Table of Contents

Table of Contents

PART I – FINANCIAL INFORMATION
Item 1. Financial Statements.

MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	September 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Cash and due from banks	$ 25,288	$ 30,197
Interest-bearing deposits in banks	778	16,242
Federal funds sold	—	752
Cash and cash equivalents	26,066	47,191
Investment securities:		
Available for sale	490,148	557,541
Held to maturity (fair value of $30,743 as of September 30, 2013 and $32,920 as of December 31, 2012)	32,825	32,669
Loans held for sale	206	1,195
Loans	1,076,837	1,035,284
Allowance for loan losses	(16,505)	(15,957)
Net loans	1,060,332	1,019,327
Loan pool participations, net	28,071	35,650
Premises and equipment, net	26,535	25,609
Accrued interest receivable	10,554	10,292
Intangible assets, net	8,971	9,469
Bank-owned life insurance	29,367	28,676
Other real estate owned	1,917	3,278
Assets held for sale	—	764
Deferred income taxes	7,217	776
Other assets	16,316	20,382
Total assets	$ 1,738,525	$ 1,792,819
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand	$ 201,886	$ 190,491
Interest-bearing checking	576,318	582,283
Savings	94,043	91,603
Certificates of deposit under $100,000	270,275	312,489
Certificates of deposit $100,000 and over	179,129	222,867
Total deposits	1,321,651	1,399,733
Federal funds purchased	8,395	—
Securities sold under agreements to repurchase	58,663	68,823
Federal Home Loan Bank borrowings	145,187	120,120
Deferred compensation liability	3,492	3,555
Long-term debt	15,464	15,464
Accrued interest payable	1,267	1,475
Other liabilities	8,872	9,717
Total liabilities	1,562,991	1,618,887
Shareholders' equity:		

Preferred stock, no par value; authorized 500,000 shares; no shares issued and outstanding at September 30, 2013 and December 31, 2012	$ —	$ —
Common stock, $1.00 par value; authorized 15,000,000 shares at September 30, 2013 and December 31, 2012; issued 8,690,398 shares at September 30, 2013 and December 31, 2012; outstanding 8,470,058 shares at September 30, 2013 and 8,480,488 shares at December 31, 2012	8,690	8,690
Additional paid-in capital	80,314	80,383
Treasury stock at cost, 220,340 shares as of September 30, 2013 and 209,910 shares at December 31, 2012	(3,796)	(3,316)
Retained earnings	88,110	77,125
Accumulated other comprehensive income	2,216	11,050
Total shareholders' equity	175,534	173,932
Total liabilities and shareholders' equity	$ 1,738,525	$ 1,792,819

See accompanying notes to consolidated financial statements.

Table of Contents

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

(unaudited) (dollars in thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest income:				
Interest and fees on loans	$12,215	$12,760	$36,606	$38,639
Interest and discount on loan pool participations	226	886	1,916	1,741
Interest on bank deposits	2	7	8	29
Interest on federal funds sold	—	—	—	1
Interest on investment securities:				
Taxable securities	2,395	2,654	7,571	8,224
Tax-exempt securities	1,278	1,279	3,973	3,744
Total interest income	16,116	17,586	50,074	52,378
Interest expense:				
Interest on deposits:				
Interest-bearing checking	544	691	1,815	2,281
Savings	34	36	105	105
Certificates of deposit under $100,000	987	1,433	3,347	4,519
Certificates of deposit $100,000 and over	493	715	1,695	2,242
Total interest expense on deposits	2,058	2,875	6,962	9,147
Interest on federal funds purchased	10	6	37	11
Interest on securities sold under agreements to repurchase	31	43	96	145
Interest on Federal Home Loan Bank borrowings	671	767	2,068	2,353
Interest on notes payable	7	8	22	26
Interest on long-term debt	74	168	224	503
Total interest expense	2,851	3,867	9,409	12,185
Net interest income	13,265	13,719	40,665	40,193
Provision for loan losses	250	575	1,050	1,729
Net interest income after provision for loan losses	13,015	13,144	39,615	38,464
Noninterest income:				
Trust, investment, and insurance fees	1,297	1,294	4,069	3,767
Service charges and fees on deposit accounts	786	846	2,236	2,424
Mortgage origination and loan servicing fees	1,083	919	2,844	2,514
Other service charges, commissions and fees	406	303	1,574	1,636
Bank-owned life insurance income	230	225	691	676
Impairment losses on investment securities	—	(337)	—	(337)
Gain on sale or call of available for sale securities (Includes $84 reclassified from accumulated other comprehensive income for net gains on available for sale securities for the nine months ended September 30, 2013)	—	8	84	741
Gain (loss) on sale of premises and equipment	(2)	—	(4)	4,205
Total noninterest income	3,800	3,258	11,494	15,626
Noninterest expense:				
Salaries and employee benefits	6,099	6,207	18,565	24,167
Net occupancy and equipment expense	1,580	1,537	4,806	4,741
Professional fees	615	612	2,016	2,137
Data processing expense	364	443	1,092	1,258

FDIC insurance expense	255	326	845	929
Amortization of intangible assets	166	195	498	584
Other operating expense	1,204	1,393	4,040	4,280
Total noninterest expense	10,283	10,713	31,862	38,096
Income before income tax expense	6,532	5,689	19,247	15,994
Income tax expense (Includes $32 income tax expense reclassified from accumulated other comprehensive income for the nine months ended September 30, 2013)	1,668	1,451	5,062	3,812
Net income	$4,864	$4,238	$14,185	$12,182
Share and Per share information:				
Ending number of shares outstanding	8,470,058	8,487,518	8,470,058	8,487,518
Average number of shares outstanding	8,468,755	8,483,918	8,478,928	8,484,404
Diluted average number of shares	8,517,645	8,534,908	8,524,451	8,526,161
Earnings per common share - basic	$0.57	$0.50	$1.67	$1.44
Earnings per common share - diluted	0.57	0.50	1.66	1.43
Dividends paid per common share	0.13	0.10	0.38	0.27

See accompanying notes to consolidated financial statements.

2

Table of Contents

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

(unaudited) (dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	$4,864	$4,238	$14,185	$12,182
Other comprehensive income (loss), available for sale securities:				
Unrealized holding gains (losses) arising during period	(1,045)	1,790	(14,013)	4,205
Reclassification adjustment for gains included in net income	—	(8)	(84)	(741)
Income tax (expense) benefit	387	(665)	5,263	(1,295)
Other comprehensive income (loss) on available for sale securities	(658)	1,117	(8,834)	2,169
Other comprehensive income, pension plan:				
Reclassification of pension plan expense due to plan settlement	—	—	—	5,968
Income tax benefit	—	—	—	(2,226)
Defined benefit pension plans	—	—	—	3,742
Other comprehensive income (loss), net of tax	(658)	1,117	(8,834)	5,911
Comprehensive income	$4,206	$5,355	$5,351	$18,093

See accompanying notes to consolidated financial statements.

Table of Contents

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, 2011	$ —	$ 8,690	$ 80,333	$ (2,312)	$ 63,646	$ 6,137	$ 156,494
Net income	—	—	—	—	12,182	—	12,182
Dividends paid on common stock ($0.265 per share)	—	—	—	—	(2,250)	—	(2,250)
Stock options exercised (38,204 shares)	—	—	(21)	442	—	—	421
Release/lapse of restriction on RSUs (15,810 shares)	—	—	(201)	213	—	—	12
Repurchase of common stock (86,083 shares)	—	—	—	(1,445)	—	—	(1,445)
Stock compensation	—	—	199	—	—	—	199
Other comprehensive income, net of tax	—	—	—	—	—	5,911	5,911
Balance at September 30, 2012	$ —	$ 8,690	$ 80,310	$ (3,102)	$ 73,578	$ 12,048	$ 171,524
Balance at December 31, 2012	$ —	$ 8,690	$ 80,383	$ (3,316)	$ 77,125	$ 11,050	$ 173,932
Net income	—	—	—	—	14,185	—	14,185
Dividends paid on common stock ($0.375 per share)	—	—	—	—	(3,200)	—	(3,200)
Stock options exercised (30,678 shares)	—	—	(76)	202	—	—	126
Release/lapse of restriction on RSUs (19,585 shares)	—	—	(267)	285	—	—	18
Repurchase of common stock (40,713 shares)	—	—	—	(967)	—	—	(967)
Stock compensation	—	—	274	—	—	—	274
Other comprehensive loss, net of tax	—	—	—	—	—	(8,834)	(8,834)
Balance at September 30, 2013	$ —	$ 8,690	$ 80,314	$ (3,796)	$ 88,110	$ 2,216	$ 175,534

See accompanying notes to consolidated financial statements.

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

(unaudited) (dollars in thousands)	Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income	$14,185	$12,182
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,050	1,729
Depreciation, amortization and accretion	3,976	4,047
(Gain) loss on sale of premises and equipment	4	(4,205)
Deferred income taxes	(1,178)	503
Stock-based compensation	274	199
Net gain on sale or call of available for sale securities	(84)	(741)
Net (gain) loss on sale of other real estate owned	169	(95)
Net gain on sale of loans held for sale	(1,123)	(1,466)
Writedown of other real estate owned	33	326
Other-than-temporary impairment of investment securities	—	337
Origination of loans held for sale	(73,405)	(112,979)
Proceeds from sales of loans held for sale	75,517	114,744
Recognition of previously deferred expense related to pension plan settlement	—	3,002
Pension plan contribution	—	(3,031)
Increase in accrued interest receivable	(262)	(770)
Increase in cash surrender value of bank-owned life insurance	(691)	(677)
(Increase) decrease in other assets	4,066	(260)
Decrease in deferred compensation liability	(63)	(68)
Decrease in accrued interest payable, accounts payable, accrued expenses, and other liabilities	(1,053)	(263)
Net cash provided by operating activities	21,415	12,514
Cash flows from investing activities:		
Proceeds from sales of available for sale securities	12,205	16,232
Proceeds from maturities and calls of available for sale securities	83,241	97,424
Purchases of available for sale securities	(43,637)	(87,255)
Proceeds from maturities and calls of held to maturity securities	1,029	556
Purchase of held to maturity securities	(1,185)	(24,429)
Increase in loans	(42,228)	(28,258)
Decrease in loan pool participations, net	7,579	12,150
Purchases of premises and equipment	(2,785)	(2,777)
Proceeds from sale of other real estate owned	1,332	2,274
Proceeds from sale of premises and equipment	15	5,220
Proceeds from sale of assets held for sale	764	—
Net cash provided by (used in) investing activities	16,330	(8,863)
Cash flows from financing activities:		
Net increase (decrease) in deposits	(78,082)	22,001
Increase (decrease) in federal funds purchased	8,395	(8,920)
Increase (decrease) in securities sold under agreements to repurchase	(10,160)	14,153
Proceeds from Federal Home Loan Bank borrowings	151,000	20,000
Repayment of Federal Home Loan Bank borrowings	(126,000)	(30,000)

Stock options exercised	144	433
Dividends paid	(3,200)	(2,250)
Repurchase of common stock	(967)	(1,445)
Net cash (used in) provided by financing activities	(58,870)	13,972
Net (decrease) increase in cash and cash equivalents	(21,125)	17,623
Cash and cash equivalents at beginning of period	47,191	32,623
Cash and cash equivalents at end of period	$26,066	$50,246
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$9,617	$12,071
Cash paid during the period for income taxes	$6,070	$4,455
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	$173	$1,589
Transfer of property to assets held for sale	$—	$764

See accompanying notes to consolidated financial statements.

5

Table of Contents

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

1.Principles of Consolidation and Presentation

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all the information and notes necessary for complete financial statements in conformity with U.S. generally accepted accounting principles. The information in this Quarterly Report on Form 10-Q is written with the presumption that the users of the interim financial statements have read or have access to the most recent Annual Report on Form 10-K of the Company, which contains the latest audited financial statements and notes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2012 and for the year then ended. Management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 30, 2013, and the results of operations and cash flows for the three and nine months ended September 30, 2013 and 2012. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

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

As a result, the Company has adjusted prior period amounts for the immaterial error. Specifically, on the Company's consolidated statement of shareholders' equity the balance of retained earnings was reduced by $2,653,000, from $66,299,000 to $63,646,000, and accumulated other comprehensive income was increased by $2,653,000, from $3,484,000 to $6,137,000, as of December 31, 2011, to reflect the effect of the error in the years ended December 31, 2009, 2010, and 2011. On the Company's consolidated balance sheets, retained earnings and accumulated other comprehensive income as of December 31, 2012, were decreased and increased, respectively, by $2,870,000. Of the adjustment amounts as of December 31, 2011 and 2012, $2,322,000 relates to the after-tax effect of credit impairments that should have been recognized in the Company's consolidated statements of operations for the year ended December 31, 2009. Downward adjustments of $212,000 to the Company's net income in the consolidated statements of operations for the three- and nine-month periods ended September 30, 2012 were necessary as a result of this correction.

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

Table of Contents

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share amounts)	2013	2012	2013	2012
Basic earnings per common share computation				
Numerator:				
Net income	$4,864	$4,238	$14,185	$12,182
Denominator:				
Weighted average shares outstanding	8,468,755	8,483,918	8,478,928	8,484,404
Basic earnings per common share	$0.57	$0.50	$1.67	$1.44
Diluted earnings per common share computation				
Numerator:				
Net income	$4,864	$4,238	$14,185	$12,182
Denominator:				
	8,517,645	8,534,908	8,524,451	8,526,161

Weighted average shares outstanding, included all dilutive potential shares				
Diluted earnings per common share	$0.57	$0.50	$1.66	$1.43

7

Table of Contents

4.Investment Securities

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

(in thousands)	As of September 30, 2013 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations	$51,202	$587	$778	$51,011
State and political subdivisions	200,133	6,143	2,486	203,790
Mortgage-backed securities and collateralized mortgage obligations	203,679	3,247	2,384	204,542
Corporate debt securities	28,925	276	1,291	27,910
Total debt securities	483,939	10,253	6,939	487,253
Other equity securities	2,652	282	39	2,895
Total	$486,591	$10,535	$6,978	$490,148

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

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

(in thousands)	As of September 30, 2013 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
State and political subdivisions	$19,894	$—	$1,278	$18,616
Mortgage-backed securities	9,670	3	752	8,921
Corporate debt securities	3,261	—	55	3,206
Total	$32,825	$3	$2,085	$30,743

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

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

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

Table of Contents

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

	As of September 30, 2013						
	Number	Less than 12 Months		12 Months or More		Total	
Available for Sale	of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(in thousands, except number of securities)							
U.S. Government agencies and corporations	3	$22,083	$ 778	$—	$ —	$22,083	$ 778
State and political subdivisions	134	43,345	2,486	—	—	43,345	2,486
Mortgage-backed securities and collateralized mortgage obligations	14	95,204	2,384	—	—	95,204	2,384
Corporate debt securities	8	14,266	180	1,260	1,111	15,526	1,291
Other equity securities	1	960	39	—	—	960	39
Total	160	$175,858	$ 5,867	$1,260	$ 1,111	$177,118	$ 6,978

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

	As of September 30, 2013						
	Number	Less than 12 Months		12 Months or More		Total	
Held to Maturity	of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(in thousands, except number of securities)							
State and political subdivisions	30	$18,616	$ 1,278	$—	$ —	$18,616	$ 1,278
Mortgage-backed securities and collateralized mortgage obligations	1	8,883	752	—	—	8,883	752
Corporate debt securities	1	2,329	55	—	—	2,329	55
Total	32	$29,828	$ 2,085	$—	$ —	$29,828	$ 2,085

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

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

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

At September 30, 2013, approximately 60% of the municipal bonds held by the Company were Iowa based. The Company does not intend to sell these municipal obligations, and it is not more likely than not that the Company will be required to sell them before the recovery of its cost. Due to the issuers' continued satisfaction of their obligations under the securities

9

Table of Contents

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 September 30, 2013 and December 31, 2012.

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

At September 30, 2013, the Company owned six collateralized debt obligations backed by pools of trust preferred securities with an original cost basis of $9.8 million. The book value of these securities as of September 30, 2013 totaled $2.4 million, after OTTI charges have been recognized. All of the Company's trust preferred collateralized debt obligations are in mezzanine tranches and are currently rated less than investment grade by Moody's Investor Services. They are secured by trust preferred securities of banks and insurance companies throughout the United States, and were rated as investment grade securities when purchased between March 2006 and December 2007. However, as the banking climate eroded during 2008, the securities experienced cash flow problems. Due to continued market deterioration in these securities, additional pre-tax charges to earnings were recorded from 2009 to 2012. The market for these securities is considered to be inactive according to the guidance issued in ASC Topic 820, “Fair Value Measurements and Disclosures.” The Company uses a discounted cash flow model to determine the estimated fair value of its pooled trust preferred collateralized debt obligations and to assess OTTI. 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 September 30, 2013, the Company also owned $1.9 million of equity securities in banks and financial service-related companies, and $1.0 million of mutual funds invested in debt securities and other debt instruments that will cause units of the fund to be deemed to be qualified under the Community Reinvestment Act (the "CRA"). Equity securities are considered to have OTTI whenever they have been in a loss position, compared to current book value, for twelve consecutive months, and the Company does not expect them to recover to their original cost basis. For the first nine months of 2013 and the full year of 2012, no impairment charges were recorded, as the affected equity securities were not deemed impaired due to stabilized market prices in relation to the Company's original purchase price.

The following table provides a roll forward of credit losses on fixed maturity securities recognized in net income:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
(in thousands)				
Beginning balance	$7,379	$7,034	$7,379	$7,034
Additional credit losses:				
Securities with no previous other than temporary impairment	—	—	—	—
Securities with previous other than temporary impairments	—	337	—	337
Ending balance	$7,379	$7,371	$7,379	$7,371

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

Table of Contents

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

	Available For Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(in thousands)				
Due in one year or less	$15,706	$15,910	$185	$184
Due after one year through five years	105,380	108,449	2,574	2,517
Due after five years through ten years	104,048	105,438	7,587	7,370
Due after ten years	55,126	52,914	12,809	