ISABELLA BANK CORP
Form 10-Q
November 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2014
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: 0-18415

Isabella Bank Corporation
(Exact name of registrant as specified in its charter)

Michigan	38-2830092
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
401 N. Main St, Mt. Pleasant, MI	48858
(Address of principal executive offices)	(Zip code)

(989) 772-9471
(Registrant's telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

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. ý 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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
¨ Yes ý No
The number of shares outstanding of the registrant's Common Stock (no par value) was 7,762,481 as of November 4, 2014.

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QUARTERLY REPORT ON FORM 10-Q
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Forward Looking Statements

This report contains certain forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward looking statements to be covered by the safe harbor provisions for forward looking statements contained in the Private Securities Litigation Reform Act of 1995, and are included in this statement for purposes of these safe harbor provisions. Forward looking statements, which are based on certain assumptions and describe future plans, strategies and expectations, are generally identifiable by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project
similar expressions. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations and future prospects include, but are not limited to, changes in: interest rates, general economic conditions, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the FRB, the quality or composition of the loan or investment portfolios, demand for loan products, fluctuation in the value of collateral securing our loan portfolio, deposit flows, competition, demand for financial services in our market area, and accounting principles, policies and guidelines. These risks and uncertainties should be considered in evaluating forward looking statements and undue reliance should not be placed on such statements. Further information concerning our business, including additional factors that could materially affect our financial results, is included in our filings with the SEC.

The acronyms and abbreviations identified below may be used throughout this Quarterly Report on Form 10-Q, or in our other filings. You may find it helpful to refer back to this page while reading this report.

AFS: Available-for-sale
ALLL: Allowance for loan and lease losses
AOCI: Accumulated other comprehensive income (loss)
ASC: FASB Accounting Standards Codification
ASU: FASB Accounting Standards Update
ATM: Automated Teller Machine
BHC Act: Bank Holding Company Act of 1956
CFPB: Consumer Financial Protection Bureau
CIK: Central Index Key
CRA: Community Reinvestment Act
DIF: Deposit Insurance Fund
DIFS: Department of Insurance and Financial Services
Directors Plan: Isabella Bank Corporation and Related Companies Deferred Compensation Plan for Directors
Dividend Reinvestment Plan: Isabella Bank Corporation Stockholder Dividend Reinvestment Plan and Employee Stock Purchase Plan
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
ESOP: Employee stock ownership plan
Exchange Act: Securities Exchange Act of 1934
FASB: Financial Accounting Standards Board
FDI Act: Federal Deposit Insurance Act
FDIC: Federal Deposit Insurance Corporation
FFIEC: Federal Financial Institutions Examinations Council
FRB: Federal Reserve Bank
FHLB: Federal Home Loan Bank
Freddie Mac: Federal Home Loan Mortgage Corporation
FTE: Fully taxable equivalent
GAAP: U.S. generally accepted accounting principles
GLB Act: Gramm-Leach-Bliley Act of 1999
IFRS: International Financial Reporting Standards
IRR: Interest rate risk
JOBS Act: Jumpstart our Business Startups Act
LIBOR: London Interbank Offered Rate
N/A: Not applicable
N/M: Not meaningful
NASDAQ: NASDAQ Stock Market Index
NASDAQ Banks: NASDAQ Bank Stock Index
NAV: Net asset value
NOW: Negotiable order of withdrawal
NSF: Non-sufficient funds
OCI: Other comprehensive income (loss)
OMSRs: Originated mortgage servicing rights
OREO: Other real estate owned
OTTI: Other-than-temporary impairment
PBO: Projected benefit obligation
PCAOB: Public Company Accounting Oversight Board
Rabbi Trust: A trust established to fund the Directors Plan
SEC: U.S. Securities & Exchange Commission
SOX: Sarbanes-Oxley Act of 2002
TDR: Troubled debt restructuring
XBRL: eXtensible Business Reporting Language

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PART I – FINANCIAL INFORMATION
Item 1. Interim Condensed Consolidated Financial Statements (Unaudited)
INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	September 30 2014	December 31 2013
ASSETS		
Cash and cash equivalents		
Cash and demand deposits due from banks	$22,431	$21,755
Interest bearing balances due from banks	3,100	19,803
Total cash and cash equivalents	25,531	41,558
Certificates of deposit held in other financial institutions	580	580
Trading securities	—	525
AFS securities (amortized cost of $572,087 in 2014 and $517,614 in 2013)	575,080	512,062
Mortgage loans AFS	421	1,104
Loans		
Commercial	416,824	392,104
Agricultural	101,795	92,589
Residential real estate	271,033	289,931
Consumer	32,647	33,413
Gross loans	822,299	808,037
Less allowance for loan and lease losses	10,400	11,500
Net loans	811,899	796,537
Premises and equipment	25,843	25,719
Corporate owned life insurance policies	24,957	24,401
Accrued interest receivable	6,906	5,442
Equity securities without readily determinable fair values	19,063	18,293
Goodwill and other intangible assets	46,168	46,311
Other assets	17,526	20,605
TOTAL ASSETS	$1,553,974	$1,493,137
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$175,634	$158,428
NOW accounts	192,211	192,089
Certificates of deposit under $100 and other savings	468,909	455,547
Certificates of deposit over $100	245,136	237,702
Total deposits	1,081,890	1,043,766
Borrowed funds	290,438	279,326
Accrued interest payable and other liabilities	9,570	9,436
Total liabilities	1,381,898	1,332,528
Shareholders' equity		
Common stock — no par value 15,000,000 shares authorized; issued and outstanding 7,741,530 shares (including 10,579 shares held in the Rabbi Trust) in 2014 and 7,723,023 shares (including 12,761 shares held in the Rabbi Trust) in 2013	138,023	137,580
Shares to be issued for deferred compensation obligations	4,129	4,148
Retained earnings	30,410	25,222
Accumulated other comprehensive income (loss)	(486)	(6,341)
Total shareholders' equity	172,076	160,609
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,553,974	$1,493,137

See notes to interim condensed consolidated financial statements.

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands except per share amounts)

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Interest income				
Loans, including fees	$9,863	$10,330	$29,413	$30,940
AFS securities				
Taxable	2,016	1,787	6,007	5,419
Nontaxable	1,485	1,275	4,428	3,753
Trading securities	—	7	6	30
Federal funds sold and other	119	106	384	331
Total interest income	13,483	13,505	40,238	40,473
Interest expense				
Deposits	1,562	1,742	4,767	5,438
Borrowings	936	994	2,699	2,900
Total interest expense	2,498	2,736	7,466	8,338
Net interest income	10,985	10,769	32,772	32,135
Provision for loan losses	(162)	351	(604)	866
Net interest income after provision for loan losses	11,147	10,418	33,376	31,269
Noninterest income				
Service charges and fees	1,366	1,700	4,120	4,426
Net gain on sale of mortgage loans	170	215	436	822
Earnings on corporate owned life insurance policies	182	185	556	544
Net gains (losses) on sale of AFS securities	97	72	97	171
Other	401	690	1,690	2,082
Total noninterest income	2,216	2,862	6,899	8,045
Noninterest expenses				
Compensation and benefits	5,174	5,340	16,045	16,021
Furniture and equipment	1,348	1,303	3,835	3,684
Occupancy	697	676	2,115	1,982
Other	2,295	2,001	6,305	6,148
Total noninterest expenses	9,514	9,320	28,300	27,835
Income before federal income tax expense	3,849	3,960	11,975	11,479
Federal income tax expense	444	674	1,696	1,893
NET INCOME	$3,405	$3,286	$10,279	$9,586
Earnings per common share				
Basic	$0.44	$0.43	$1.33	$1.25
Diluted	$0.43	$0.42	$1.30	$1.22
Cash dividends per common share	$0.22	$0.21	$0.66	$0.63

See notes to interim condensed consolidated financial statements.

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Dollars in thousands)

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Net income	$3,405	$3,286	$10,279	$9,586
Unrealized gains (losses) on AFS securities				
Unrealized gains (losses) arising during the period	(1,326)	665	8,642	(13,293)
Reclassification adjustment for net realized (gains) losses included in net income	(97)	(72)	(97)	(171)
Net unrealized gains (losses)	(1,423)	593	8,545	(13,464)
Tax effect (1)	469	(447)	(2,690)	4,455
Other comprehensive income (loss), net of tax	(954)	146	5,855	(9,009)
Comprehensive income (loss)	$2,451	$3,432	$16,134	$577

(1) See “Note 11 – Accumulated Other Comprehensive Income (Loss)” for tax effect reconciliation.

See notes to interim condensed consolidated financial statements.

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in thousands except per share amounts)

	Common Stock					
	Shares Outstanding	Amount	Shares to be Issued for Deferred Compensation Obligations	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Totals
Balance, January 1, 2013	7,671,846	$136,580	$ 3,734	$19,168	$ 5,007	$164,489
Comprehensive income (loss)	—	—	—	9,586	(9,009)	577
Issuance of common stock	111,904	2,754	—	—	—	2,754
Common stock issued for deferred compensation obligations	—	—	—	—	—	—
Common stock transferred from the Rabbi Trust to satisfy deferred compensation obligations	—	122	(122)	—	—	—
Share-based payment awards under equity compensation plan	—	—	423	—	—	423
Common stock purchased for deferred compensation obligations	—	(285)	—	—	—	(285)
Common stock repurchased pursuant to publicly announced repurchase plan	(73,969)	(1,815)	—	—	—	(1,815)
Cash dividends ($0.63 per share)	—	—	—	(4,838)	—	(4,838)
Balance, September 30, 2013	7,709,781	$137,356	$ 4,035	$23,916	$ (4,002)	$161,305
Balance, January 1, 2014	7,723,023	$137,580	$ 4,148	$25,222	$ (6,341)	$160,609
Comprehensive income (loss)	—	—	—	10,279	5,855	16,134
Issuance of common stock	122,261	2,845	—	—	—	2,845
Common stock issued for deferred compensation obligations	6,126	143	(143)	—	—	—
Common stock transferred from the Rabbi Trust to satisfy deferred compensation obligations	—	258	(258)	—	—	—
Share-based payment awards under equity compensation plan	—	—	382	—	—	382
Common stock purchased for deferred compensation obligations	—	(253)	—	—	—	(253)
Common stock repurchased pursuant to publicly announced repurchase plan	(110,680)	(2,550)	—	—	—	(2,550)
Cash dividends ($0.66 per share)	—	—	—	(5,091)	—	(5,091)

Balance, September 30, 2014	7,740,730	$138,023	$ 4,129	$30,410	$ (486)	$172,076

See notes to interim condensed consolidated financial statements.

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Nine Months Ended September 30	
	2014	2013
OPERATING ACTIVITIES		
Net income	$10,279	$9,586
Reconciliation of net income to net cash provided by operating activities:		
Provision for loan losses	(604)	866
Impairment of foreclosed assets	83	131
Depreciation	1,902	1,903
Amortization of OMSRs	206	453
Amortization of acquisition intangibles	143	171
Net amortization of AFS securities	1,382	1,595
Net (gains) losses on sale of AFS securities	(97)	(171)
Net unrealized (gains) losses on trading securities	5	23
Net gain on sale of mortgage loans	(436)	(822)
Increase in cash value of corporate owned life insurance policies	(556)	(544)
Share-based payment awards under equity compensation plan	382	423
Origination of loans held-for-sale	(21,746)	(45,992)
Proceeds from loan sales	22,865	49,735
Net changes in operating assets and liabilities which provided (used) cash:		
Trading securities	520	805
Accrued interest receivable	(1,464)	(1,357)
Other assets	(958)	319
Accrued interest payable and other liabilities	134	622
Net cash provided by (used in) operating activities	12,040	17,746
INVESTING ACTIVITIES		
Net change in certificates of deposit held in other financial institutions	—	2,420
Activity in AFS securities		
Sales	13,362	16,229
Maturities and calls	47,527	70,164
Purchases	(116,647)	(98,328)
Loan principal (originations) collections, net	(15,952)	(37,385)
Proceeds from sales of foreclosed assets	1,482	1,788
Purchases of premises and equipment	(2,026)	(2,134)
Purchases of corporate owned life insurance policies	—	(1,092)
Proceeds from redemption of corporate owned life insurance policies	—	196
Net cash provided by (used in) investing activities	(72,254)	(48,142)

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Dollars in thousands)

	Nine Months Ended September 30	
	2014	2013
FINANCING ACTIVITIES		
Net increase (decrease) in deposits	38,124	6,264
Increase (decrease) in borrowed funds	11,112	25,000
Cash dividends paid on common stock	(5,091)	(4,838)
Proceeds from issuance of common stock	2,845	2,754
Common stock repurchased	(2,550)	(1,815)
Common stock purchased for deferred compensation obligations	(253)	(285)
Net cash provided by (used in) financing activities	44,187	27,080
Increase (decrease) in cash and cash equivalents	(16,027)	(3,316)
Cash and cash equivalents at beginning of period	41,558	24,920
Cash and cash equivalents at end of period	$25,531	$21,604
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Interest paid	$7,536	$8,376
Federal income taxes paid	979	1,333
SUPPLEMENTAL NONCASH INFORMATION:		
Transfers of loans to foreclosed assets	$1,194	$1,087

See notes to interim condensed consolidated financial statements.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share amounts)

Note 1 – Basis of Presentation

As used in these notes as well as in Management's Discussion and Analysis of Financial Condition and Results of Operations, references to “Isabella,” “we,” “our,” “us,” and similar terms refer to the consolidated entity consisting of Isabella Bank Corporation and its subsidiaries. Isabella Bank Corporation refers solely to the parent holding company, and Isabella Bank refers to Isabella Bank Corporation’s subsidiary, Isabella Bank.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In our opinion, all adjustments considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2013.

Our accounting policies are materially the same as those discussed in Note 1 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2013.

Note 2 – Computation of Earnings Per Common Share

Basic earnings per common share represents income available to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued relate solely to outstanding shares in the Directors Plan.

Earnings per common share have been computed based on the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Average number of common shares outstanding for basic calculation	7,733,362	7,698,066	7,725,706	7,689,350
Average potential effect of common shares in the Directors Plan (1)	170,897	170,420	170,955	168,020
Average number of common shares outstanding used to calculate diluted earnings per common share	7,904,259	7,868,486	7,896,661	7,857,370
Net income	$3,405	$3,286	$10,279	$9,586
Earnings per common share				
Basic	$0.44	$0.43	$1.33	$1.25
Diluted	$0.43	$0.42	$1.30	$1.22

(1) Exclusive of shares held in the Rabbi Trust

Note 3 – Pending Accounting Standards Updates

ASU No. 2014-01: “Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)”

In January 2014, ASU No. 2014-01 amended ASC Topic 323, “Investments" to allow investors in low income housing tax credits to use the proportional amortization method if the following criteria are met:

- It is probable that the tax credits allocable to the investor will be available.
- The investor does not have the ability to exercise significant influence over the operating and financial policies of the limited liability entity.
- Substantially all of the projected benefits are from tax credits and other tax benefits (e.g., operating losses).
- The investor’s projected yield is based solely on the cash flows from the tax credits and other tax benefits are positive.
- The investor is a limited liability investor in the limited liability entity for both legal and tax purposes, and the investor’s liability is limited to its capital investment.

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Investors that do not meet the above criteria must utilize the cost method or equity method in accordance with previously issued authoritative accounting guidance. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2014 and is not expected to have a significant impact on our operations.

ASU No. 2014-04: “Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)”

In January 2014, ASU No. 2014-04 amended ASC Topic 310, “Receivables” to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2014 and is not expected to have a significant impact on our operations.

ASU No. 2014-11: “Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures”

In June 2014, ASU No. 2014-11 amended ASC Topic 860, “Transfers and Servicing” to address concerns that current accounting guidance distinguishes between repurchase agreements that settle at the same time as the maturity of the transferred financial asset and those that settle any time before maturity. The update changes the accounting for repurchase-to-maturity transactions to secured borrowing accounting and, for repurchase financing arrangements, separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2014 and is not expected to impact our financial statement disclosures.

ASU No. 2014-14: “Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)”

In August 2014, ASU No. 2014-14 amended ASC Topic 310, “Receivables” to provide specific guidance on how to classify and measure foreclosed loans that are government guaranteed. The update requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met:

- The loan has a government guarantee that is not separable from the loan before foreclosure.
- At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim.
- At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed.

Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2014 and is not expected to have a significant impact on our operations.

ASU No. 2014-15: “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern”

In August 2014, ASU No. 2014-15 amended ASC Topic 205, “Presentation of Financial Statements” to provide guidance on how to determine whether to disclose relevant conditions or events that raise substantial doubt about the entity's ability to continue as a going concern. If conditions or events raise substantial doubt about an entity’s ability to continue as a going concern, financial statements would continue to be prepared under the going concern assumption; however, disclosures may be necessary depending upon the conditions or events raising substantial doubt. Additionally, if identified substantial doubt is not alleviated after consideration of management’s plans, an entity should include a statement in the footnotes indicating that there is substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued). The new authoritative guidance is effective for annual periods beginning after December 15, 2016 and is not expected to impact our financial statement disclosures.

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Note 4 – AFS Securities

The amortized cost and fair value of AFS securities, with gross unrealized gains and losses, are as follows at:

	September 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government sponsored enterprises	$24,645	$5	$733	$23,917
States and political subdivisions	217,195	7,337	987	223,545
Auction rate money market preferred	3,200	—	337	2,863
Preferred stocks	6,800	13	640	6,173
Mortgage-backed securities	171,856	1,144	2,233	170,767
Collateralized mortgage obligations	148,391	1,361	1,937	147,815
Total	$572,087	$9,860	$6,867	$575,080

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government sponsored enterprises	$24,860	$7	$1,122	$23,745
States and political subdivisions	200,323	5,212	3,547	201,988
Auction rate money market preferred	3,200	—	623	2,577
Preferred stocks	6,800	20	993	5,827
Mortgage-backed securities	147,292	657	3,834	144,115
Collateralized mortgage obligations	135,139	1,016	2,345	133,810
Total	$517,614	$6,912	$12,464	$512,062

The amortized cost and fair value of AFS securities by contractual maturity at September 30, 2014 are as follows:

	Maturing				Securities with Variable Monthly Payments or Noncontractual Maturities	
	Due in One Year or Less	After One Year But Within Five Years	After Five Years But Within Ten Years	After Ten Years		Total
Government sponsored enterprises	$—	$9,068	$15,577	$—	$ —	$24,645
States and political subdivisions	16,838	52,050	98,035	50,272	—	217,195
Auction rate money market preferred	—	—	—	—	3,200	3,200
Preferred stocks	—	—	—	—	6,800	6,800
Mortgage-backed securities	—	—	—	—	171,856	171,856
Collateralized mortgage obligations	—	—	—	—	148,391	148,391
Total amortized cost	$16,838	$61,118	$113,612	$50,272	$ 330,247	$572,087
Fair value	$16,883	$63,150	$116,389	$51,040	$ 327,618	$575,080

Expected maturities for government sponsored enterprises and states and political subdivisions may differ from contractual maturities because issuers may have the right to call or prepay obligations.

As the auction rate money market preferred and preferred stocks have continual call dates, they are not reported by a specific maturity group. Because of their variable monthly payments, mortgage-backed securities and collateralized mortgage obligations are not reported by a specific maturity group.

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A summary of the sales activity of AFS securities was as follows for the three and nine month periods ended:

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Proceeds from sales of AFS securities	$13,362	$6,372	$13,362	$16,229
Gross realized gains (losses)	$97	$72	$97	$171
Applicable income tax expense (benefit)	$33	$24	$33	$58

The cost basis used to determine the realized gains or losses of AFS securities sold was the amortized cost of the individual investment security as of the trade date.

Information pertaining to AFS securities with gross unrealized losses at September 30, 2014 and December 31, 2013, respectively, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	September 30, 2014				
	Less Than Twelve Months		Twelve Months or More		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
Government sponsored enterprises	$—	$—	$733	$23,262	$733
States and political subdivisions	106	10,836	881	21,430	987
Auction rate money market preferred	—	—	337	2,863	337
Preferred stocks	—	—	640	3,160	640
Mortgage-backed securities	165	33,358	2,068	62,800	2,233
Collateralized mortgage obligations	323	44,308	1,614	40,702	1,937
Total	$594	$88,502	$6,273	$154,217	$6,867
Number of securities in an unrealized loss position:		77		96	173

	December 31, 2013				
	Less Than Twelve Months		Twelve Months or More		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
Government sponsored enterprises	$1,122	$22,873	$—	$—	$1,122
States and political subdivisions	2,566	42,593	981	6,115	3,547
Auction rate money market preferred	—	—	623	2,577	623
Preferred stocks	—	—	993	2,807	993
Mortgage-backed securities	2,424	101,816	1,410	21,662	3,834
Collateralized mortgage obligations	2,345	84,478	—	—	2,345
Total	$8,457	$251,760	$4,007	$33,161	$12,464
Number of securities in an unrealized loss position:		182		19	201

As of September 30, 2014 and December 31, 2013, we conducted an analysis to determine whether any securities currently in an unrealized loss position should be other-than-temporarily impaired. Such analyses considered, among other factors, the following criteria:

- Has the value of the investment declined more than what is deemed to be reasonable based on a risk and maturity adjusted discount rate?
- Is the investment credit rating below investment grade?
- Is it probable the issuer will be unable to pay the amount when due?
- Is it more likely than not that we will have to sell the security before recovery of its cost basis?
- Has the duration of the investment been extended?

Based on our analyses, the fact that we have asserted that we do not have the intent to sell AFS securities in an unrealized loss position, and considering it is unlikely that we will have to sell AFS securities in an unrealized loss position before recovery of

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their cost basis, we do not believe that the values of any AFS securities are other-than-temporarily impaired as of September 30, 2014, or December 31, 2013.

Note 5 – Loans and ALLL

We grant commercial, agricultural, residential real estate, and consumer loans to customers situated primarily in Clare, Gratiot, Isabella, Mecosta, Midland, Montcalm, and Saginaw counties in Michigan. The ability of the borrowers to honor their repayment obligations is often dependent upon the real estate, agricultural, light manufacturing, retail, gaming, tourism, higher education, and general economic conditions of this region. Substantially all of our consumer and residential real estate loans are secured by various items of property, while commercial loans are secured primarily by real estate, business assets, and personal guarantees; a portion of loans are unsecured.

Loans that we have the intent and ability to hold in our portfolio are reported at their outstanding principal balance adjusted for any charge-offs, the ALLL, and any deferred fees or costs. Interest income is accrued over the term of the loan based on the principal amount outstanding. Loan origination fees and certain direct loan origination costs are capitalized and recognized as a component of interest income over the term of the loan using the level yield method.

The accrual of interest on commercial, agricultural, and residential real estate loans is typically discontinued at the time the loan is 90 days or more past due unless the credit is well-secured and in the process of collection. Upon transferring the loans to nonaccrual status, we perform an evaluation to determine the net realizable value of the underlying collateral. This evaluation is used to help determine if any charge-offs are necessary. Consumer loans are typically charged-off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

For loans that are placed on nonaccrual status or charged-off, all interest accrued in the current calendar year, but not collected, is reversed against interest income while interest accrued in prior calendar years, but not collected, is charged against the ALLL. Loans are typically returned to accrual status after six months of continuous performance.

For impaired loans not classified as nonaccrual, interest income continues to be accrued over the term of the loan based on the principal amount outstanding.

Commercial and agricultural loans include loans for commercial real estate, commercial operating loans, farmland and agricultural production, and states and political subdivisions. Repayment of these loans is often dependent upon the successful operation and management of a business. We minimize our risk by limiting the amount of credit exposure to any one borrower to $15,000. Borrowers with credit needs of more than $15,000 are serviced through the use of loan participations with other commercial banks. Commercial and agricultural real estate loans generally require loan-to-value limits of less than 80%. Depending upon the type of loan, past credit history, and current operating results, we may require the borrower to pledge accounts receivable, inventory, and property and equipment. Personal guarantees are generally required from the owners of closely held corporations, partnerships, and sole proprietorships. In addition, we require annual financial statements, prepare cash flow analyses, and review credit reports as deemed necessary.

We offer adjustable rate mortgages, construction loans, and fixed rate residential real estate loans which typically have amortization periods up to a maximum of 30 years. Fixed rate residential real estate loans with an amortization of greater than 15 years are generally sold upon origination to Freddie Mac. Fixed rate residential real estate loans with an amortization of 15 years or less may be held in our portfolio or sold to Freddie Mac upon origination. We consider the direction of interest rates, the sensitivity of our balance sheet to changes in interest rates, and overall loan demand to determine whether or not to sell these loans to Freddie Mac.

Our lending policies generally limit the maximum loan-to-value ratio on residential real estate loans to 95% of the lower of the appraised value of the property or the purchase price, with the condition that private mortgage insurance is required on loans with loan-to-value ratios in excess of 80%. Substantially all loans upon origination have a loan to value ratio of less than 80%. Underwriting criteria for residential real estate loans include: evaluation of the borrower’s ability to make monthly payments, the value of the property securing the loan, ensuring the payment of principal, interest, taxes, and hazard insurance does not exceed 28% of a borrower’s gross income, all debt servicing does not exceed 36% of income, acceptable credit reports, verification of employment, income, and financial information. Appraisals are performed by independent appraisers and reviewed internally. All mortgage loan requests are reviewed by our mortgage loan committee or through a secondary market automated underwriting system; loans in excess of $500 require the approval of our Internal Loan Committee, the Executive Loan Committee, the Board of Directors' Loan Committee, or the Board of Directors.

Consumer loans include secured and unsecured personal loans. Loans are amortized for a period of up to 12 years based on the age and value of the underlying collateral. The underwriting emphasis is on a borrower's perceived intent and ability to pay rather than collateral value. No consumer loans are sold to the secondary market.

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The ALLL is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the ALLL when we believe the uncollectability of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the ALLL.

The ALLL is evaluated on a regular basis and is based upon a periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The primary factors behind the determination of the level of the ALLL are specific allocations for impaired loans, historical loss percentages, as well as unallocated components. Specific allocations for impaired loans are primarily determined based on the difference between the loan's outstanding balance to the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral, less cost to sell. Historical loss allocations were calculated at the loan class and segment levels based on a migration analysis of the loan portfolio over the preceding five years. An unallocated component is maintained to cover uncertainties that we believe affect our estimate of probable losses based on qualitative factors. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A summary of changes in the ALLL and the recorded investment in loans by segments follows:

	Allowance for Loan Losses Three Months Ended September 30, 2014					
	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
July 1, 2014	$5,012	$219	$3,981	$802	$686	$10,700
Loans charged-off	(163)	—	(180)	(73)	—	(416)
Recoveries	171	—	68	39	—	278
Provision for loan losses	(704)	(31)	92	(47)	528	(162)
September 30, 2014	$4,316	$188	$3,961	$721	$1,214	$10,400

	Allowance for Loan Losses Nine Months Ended September 30, 2014					
	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
January 1, 2014	$6,048	$434	$3,845	$639	$534	$11,500
Loans charged-off	(434)	(31)	(557)	(255)	—	(1,277)
Recoveries	477	—	190	114	—	781
Provision for loan losses	(1,775)	(215)	483	223	680	(604)
September 30, 2014	$4,316	$188	$3,961	$721	$1,214	$10,400

	Allowance for Loan Losses and Recorded Investment in Loans September 30, 2014					
	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
ALLL						
Individually evaluated for impairment	$1,318	$—	$2,335	$1	$—	$3,654
Collectively evaluated for impairment	2,998	188	1,626	720	1,214	6,746
Total	$4,316	$188	$3,961	$721	$1,214	$10,400
Loans						
Individually evaluated for impairment	$11,955	$1,625	$12,925	$69		$26,574

Collectively evaluated for impairment	404,869	100,170	258,108	32,578	795,725
Total	$416,824	$101,795	$271,033	$32,647	$822,299

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Allowance for Loan Losses
Three Months Ended September 30, 2013

	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
July 1, 2013	$6,472	$335	$3,676	$647	$570	$11,700
Loans charged-off	(394)	(12)	(94)	(102)	—	(602)
Recoveries	66	—	38	47	—	151
Provision for loan losses	69	108	127	74	(27)	351
September 30, 2013	$6,213	$431	$3,747	$666	$543	$11,600

Allowance for Loan Losses
Nine Months Ended September 30, 2013

	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
January 1, 2013	$6,862	$407	$3,627	$666	$374	$11,936
Loans charged-off	(839)	(12)	(681)	(311)	—	(1,843)
Recoveries	289	—	152	200	—	641
Provision for loan losses	(99)	36	649	111	169	866
September 30, 2013	$6,213	$431	$3,747	$666	$543	$11,600

Allowance for Loan Losses and Recorded Investment in Loans
December 31, 2013

	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
ALLL						
Individually evaluated for impairment	$2,035	$30	$2,287	$—	$—	$4,352
Collectively evaluated for impairment	4,013	404	1,558	639	534	7,148
Total	$6,048	$434	$3,845	$639	$534	$11,500
Loans						
Individually evaluated for impairment	$13,816	$1,538	$14,302	$119		$29,775
Collectively evaluated for impairment	378,288	91,051	275,629	33,294		778,262
Total	$392,104	$92,589	$289,931	$33,413		$808,037

The following table displays the credit quality indicators for commercial and agricultural credit exposures based on internally assigned credit risk ratings as of:

	September 30, 2014					
	Commercial			Agricultural		
	Real Estate	Other	Total	Real Estate	Other	Total
Rating						
2 - High quality	$14,268	$10,078	$24,346	$6,138	$3,899	$10,037
3 - High satisfactory	90,321	47,674	137,995	27,278	13,181	40,459
4 - Low satisfactory	186,866	41,368	228,234	30,556	16,908	47,464
5 - Special mention	9,859	1,343	11,202	1,729	68	1,797
6 - Substandard	12,139	137	12,276	1,658	265	1,923
7 - Vulnerable	2,579	179	2,758	115	—	115
8 - Doubtful	—	13	13	—	—	—
Total	$316,032	$100,792	$416,824	$67,474	$34,321	$101,795

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	December 31, 2013					
	Commercial			Agricultural		
	Real Estate	Other	Total	Real Estate	Other	Total
Rating						
2 - High quality	$18,671	$14,461	$33,132	$3,527	$3,235	$6,762
3 - High satisfactory	91,323	39,403	130,726	26,015	17,000	43,015
4 - Low satisfactory	149,921	43,809	193,730	26,874	10,902	37,776
5 - Special mention	13,747	1,843	15,590	1,609	922	2,531
6 - Substandard	16,974	473	17,447	1,232	1,273	2,505
7 - Vulnerable	1,041	238	1,279	—	—	—
8 - Doubtful	183	17	200	—	—	—
Total	$291,860	$100,244	$392,104	$59,257	$33,332	$92,589

Internally assigned credit risk ratings are reviewed, at a minimum, when loans are renewed or when management has knowledge of improvements or deterioration of the credit quality of individual credits. Descriptions of the internally assigned credit risk ratings for commercial and agricultural loans are as follows:

1. EXCELLENT – Substantially Risk Free

Credit has strong financial condition and solid earnings history, characterized by:

- High liquidity, strong cash flow, low leverage.
- Unquestioned ability to meet all obligations when due.
- Experienced management, with management succession in place.
- Secured by cash.

2. HIGH QUALITY – Limited Risk

Credit with sound financial condition and has a positive trend in earnings supplemented by:

- Favorable liquidity and leverage ratios.
- Ability to meet all obligations when due.
- Management with successful track record.
- Steady and satisfactory earnings history.
- If loan is secured, collateral is of high quality and readily marketable.
- Access to alternative financing.
- Well defined primary and secondary source of repayment.
- If supported by guaranty, the financial strength and liquidity of the guarantor(s) are clearly evident.

3. HIGH SATISFACTORY – Reasonable Risk

Credit with satisfactory financial condition and further characterized by:

- Working capital adequate to support operations.
- Cash flow sufficient to pay debts as scheduled.
- Management experience and depth appear favorable.
- Loan performing according to terms.
- If loan is secured, collateral is acceptable and loan is fully protected.

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4. LOW SATISFACTORY – Acceptable Risk

Credit with bankable risks, although some signs of weaknesses are shown:

- Would include most start-up businesses.
- Occasional instances of trade slowness or repayment delinquency – may have been 10-30 days slow within the past year.
- Management's abilities are apparent, yet unproven.
- Weakness in primary source of repayment with adequate secondary source of repayment.
- Loan structure generally in accordance with policy.
- If secured, loan collateral coverage is marginal.
- Adequate cash flow to service debt, but coverage is low.

To be classified as less than satisfactory, only one of the following criteria must be met.

5. SPECIAL MENTION – Criticized

Credit constitutes an undue and unwarranted credit risk but not to the point of justifying a classification of substandard. The credit risk may be relatively minor yet constitute an unwarranted risk in light of the circumstances surrounding a specific loan:

- Downward trend in sales, profit levels, and margins.
- Impaired working capital position.
- Cash flow is strained in order to meet debt repayment.
- Loan delinquency (30-60 days) and overdrafts may occur.
- Shrinking equity cushion.
- Diminishing primary source of repayment and questionable secondary source.
- Management abilities are questionable.
- Weak industry conditions.
- Litigation pending against the borrower.
- Collateral or guaranty offers limited protection.
- Negative debt service coverage, however the credit is well collateralized and payments are current.

6. SUBSTANDARD – Classified

Credit where the borrower's current net worth, paying capacity, and value of the collateral pledged is inadequate. There is a distinct possibility that we will implement collection procedures if the loan deficiencies are not corrected. In addition, the following characteristics may apply:

- Sustained losses have severely eroded the equity and cash flow.
- Deteriorating liquidity.
- Serious management problems or internal fraud.
- Original repayment terms liberalized.
- Likelihood of bankruptcy.
- Inability to access other funding sources.
- Reliance on secondary source of repayment.
- Litigation filed against borrower.
- Collateral provides little or no value.
- Requires excessive attention of the loan officer.
- Borrower is uncooperative with loan officer.

7. VULNERABLE – Classified

Credit is considered "Substandard" and warrants placing on nonaccrual. Risk of loss is being evaluated and exit strategy options are under review. Other characteristics that may apply:

- Insufficient cash flow to service debt.
- Minimal or no payments being received.
- Limited options available to avoid the collection process.

- Transition status, expect action will take place to collect loan without immediate progress being made.

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8. DOUBTFUL – Workout
Credit has all the weaknesses inherent in a “Substandard” loan with the added characteristic that collection and/or liquidation is pending. The possibility of a loss is extremely high, but its classification as a loss is deferred until liquidation procedures are completed, or reasonably estimable. Other characteristics that may apply:

- Normal operations are severely diminished or have ceased.
- Seriously impaired cash flow.
- Original repayment terms materially altered.
- Secondary source of repayment is inadequate.
- Survivability as a “going concern” is impossible.
- Collection process has begun.
- Bankruptcy petition has been filed.
- Judgments have been filed.
- Portion of the loan balance has been charged-off.

Our primary credit quality indicator for residential real estate and consumer loans is the individual loan’s past due aging. The following tables summarize the past due and current loans as of:

	September 30, 2014						
	Accruing Interest and Past Due:				Total Past Due and Nonaccrual		
	30-59 Days	60-89 Days	90 Days or More	Nonaccrual		Current	Total
Commercial							
Commercial real estate	$315	$58	$—	$2,579	$2,952	$313,080	$316,032
Commercial other	582	—	—	179	761	100,031	100,792
Total commercial	897	58	—	2,758	3,713	413,111	416,824
Agricultural							
Agricultural real estate	—	—	—	115	115	67,359	67,474
Agricultural other	76	—	—	—	76	34,245	34,321
Total agricultural	76	—	—	115	191	101,604	101,795
Residential real estate							
Senior liens	1,373	254	138	1,220	2,985	215,295	218,280
Junior liens	265	—	—	135	400	11,397	11,797
Home equity lines of credit	330	38	—	258	626	40,330	40,956
Total residential real estate	1,968	292	138	1,613	4,011	267,022	271,033
Consumer							
Secured	86	—	—	10	96	28,303	28,399
Unsecured	12	—	26	—	38	4,210	4,248
Total consumer	98	—	26	10	134	32,513	32,647
Total	$3,039	$350	$164	$4,496	$8,049	$814,250	$822,299

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	December 31, 2013 Accruing Interest and Past Due: 30-59 Days	60-89 Days	90 Days or More	Nonaccrual	Total Past Due and Nonaccrual	Current	Total
Commercial							
Commercial real estate	$1,226	$296	$—	$1,136	$2,658	$289,202	$291,860
Commercial other	368	15	13	238	634	99,610	100,244
Total commercial	1,594	311	13	1,374	3,292	388,812	392,104
Agricultural							
Agricultural real estate	34	295	—	—	329	58,928	59,257
Agricultural other	—	—	—	—	—	33,332	33,332
Total agricultural	34	295	—	—	329	92,260	92,589
Residential real estate							
Senior liens	3,441	986	129	1,765	6,321	229,865	236,186
Junior liens	408	44	—	29	481	13,074	13,555
Home equity lines of credit	181	—	—	25	206	39,984	40,190
Total residential real estate	4,030	1,030	129	1,819	7,008	282,923	289,931
Consumer							
Secured	167	11	—	50	228	28,444	28,672
Unsecured	25	5	—	1	31	4,710	4,741
Total consumer	192	16	—	51	259	33,154	33,413
Total	$5,850	$1,652	$142	$3,244	$10,888	$797,149	$808,037

Impaired Loans

Loans may be classified as impaired if they meet one or more of the following criteria:

1. There has been a charge-off of its principal balance (in whole or in part),
2. The loan has been classified as a TDR, or
3. The loan is in nonaccrual status.

Impairment is measured on a loan-by-loan basis for commercial and agricultural loans by comparing the loan’s outstanding balance to the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral, less cost to sell, if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Impairment is measured on a loan-by-loan basis for residential real estate and consumer loans by comparing the loan’s unpaid principal balance to the present value of expected future cash flows discounted at the loan’s effective interest rate.

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We do not recognize interest income on impaired loans in nonaccrual status. For impaired loans not in nonaccrual status, interest income is recognized daily, as earned, according to the terms of the loan agreement. The following is a summary of information pertaining to impaired loans as of:

	September 30, 2014			December 31, 2013		
	Outstanding Balance	Unpaid Principal Balance	Valuation Allowance	Outstanding Balance	Unpaid Principal Balance	Valuation Allowance
Impaired loans with a valuation allowance						
Commercial real estate	$7,614	$7,732	$1,314	$6,748	$6,888	$1,915
Commercial other	548	767	4	521	521	120
Agricultural real estate	—	—	—	90	90	30
Residential real estate senior liens	12,425	13,679	2,259	14,061	15,315	2,278
Residential real estate junior liens	241	251	50	48	64	9
Home equity lines of credit	259	659	26	—	—	—
Consumer secured	59	59	1	—	—	—
Total impaired loans with a valuation allowance	21,146	23,147	3,654	21,468	22,878	4,352
Impaired loans without a valuation allowance						
Commercial real estate	3,480	3,958		5,622	6,499	
Commercial other	313	324		925	1,035	
Agricultural real estate	1,558	1,558		1,370	1,370	
Agricultural other	67	187		78	198	
Home equity lines of credit	—	—		193	493	
Consumer secured	10	10		119	148	
Total impaired loans without a valuation allowance	5,428	6,037		8,307	9,743	
Impaired loans						
Commercial	11,955	12,781	1,318	13,816	14,943	2,035
Agricultural	1,625	1,745	—	1,538	1,658	30
Residential real estate	12,925	14,589	2,335	14,302	15,872	2,287
Consumer	69	69	1	119	148	—
Total impaired loans	$26,574	$29,184	$3,654	$29,775	$32,621	$4,352

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The following is a summary of information pertaining to impaired loans for the three and nine month periods ended:

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	Average Outstanding Balance	Interest Income Recognized	Average Outstanding Balance	Interest Income Recognized
Impaired loans with a valuation allowance				
Commercial real estate	$7,063	$106	$6,822	$291
Commercial other	589	11	746	40
Agricultural real estate	102	—	113	—
Agricultural other	—	—	—	—
Residential real estate senior liens	12,440	124	12,938	388
Residential real estate junior liens	167	(8)	94	(7)
Home equity lines of credit	310	2	220	13
Consumer secured	62	1	72	3
Total impaired loans with a valuation allowance	20,733	236	21,005	728
Impaired loans without a valuation allowance				
Commercial real estate	4,594	69	5,396	262
Commercial other	314	5	397	12
Agricultural real estate	1,460	22	1,425	59
Agricultural other	43	1	112	29
Home equity lines of credit	—	—	32	—
Consumer secured	10	—	5	—
Total impaired loans without a valuation allowance	6,421	97	7,367	362
Impaired loans				
Commercial	12,560	191	13,361	605
Agricultural	1,605	23	1,650	88
Residential real estate	12,917	118	13,284	394
Consumer	72	1	77	3
Total impaired loans	$27,154	$333	$28,372	$1,090

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	Average Outstanding Balance	Interest Income Recognized	Average Outstanding Balance	Interest Income Recognized
Impaired loans with a valuation allowance				
Commercial real estate	$6,471	$157	$7,546	$378
Commercial other	1,063	29	976	67
Agricultural real estate	91	2	91	4
Agricultural other	—	—	70	—
Residential real estate senior liens	10,865	230	10,595	439
Residential real estate junior liens	80	4	84	5
Home equity lines of credit	—	—	—	—
Consumer secured	—	—	—	—
Total impaired loans with a valuation allowance	18,570	422	19,362	893
Impaired loans without a valuation allowance				
Commercial real estate	4,531	169	4,037	327
Commercial other	833	29	1,029	88
Agricultural real estate	231	15	144	19
Agricultural other	361	2	402	(2)
Home equity lines of credit	173	8	178	17
Consumer secured	60	1	66	3
Total impaired loans without a valuation allowance	6,189	224	5,856	452
Impaired loans				
Commercial	12,898	384	13,588	860
Agricultural	683	19	707	21
Residential real estate	11,118	242	10,857	461
Consumer	60	1	66	3
Total impaired loans	$24,759	$646	$25,218	$1,345

As of September 30, 2014 and December 31, 2013, we had committed to advance $65 and $134, respectively, in connection with impaired loans, which include TDRs.

Troubled Debt Restructurings

Loan modifications are considered to be TDRs when the modification includes terms outside of normal lending practices to a borrower who is experiencing financial difficulties.

Typical concessions granted include, but are not limited to:

1. Agreeing to interest rates below prevailing market rates for debt with similar risk characteristics.
2. Extending the amortization period beyond typical lending guidelines for loans with similar risk characteristics.
3. Forgiving principal.
4. Forgiving accrued interest.

To determine if a borrower is experiencing financial difficulties, factors we consider include:

1. The borrower is currently in default on any of their debt.
2. The borrower would likely default on any of their debt if the concession was not granted.
3. The borrower’s cash flow was insufficient to service all of their debt if the concession was not granted.
4. The borrower has declared, or is in the process of declaring, bankruptcy.
5. The borrower is unlikely to continue as a going concern (if the entity is a business).

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The following is a summary of information pertaining to TDRs granted for the:

	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial other	2	$ 23	$ 23	7	$ 386	$ 386
Agricultural other	1	49	49	1	49	49
Residential real estate						
Senior liens	2	144	144	14	805	805
Junior liens	1	40	40	2	81	81
Home equity lines of credit	—	—	—	1	160	160
Total residential real estate	3	184	184	17	1,046	1,046
Consumer unsecured	1	10	10	4	18	18
Total	7	$ 266	$ 266	29	$ 1,499	$ 1,499

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial other	3	$ 159	$ 159	10	$ 3,313	$ 3,116
Agricultural other	1	198	198	2	332	332
Residential real estate						
Senior liens	15	1,176	1,176	30	2,611	2,595
Junior liens	1	20	20	1	20	20
Home equity lines of credit	—	—	—	—	—	—
Total residential real estate	16	1,196	1,196	31	2,631	2,615
Consumer unsecured	2	34	34	2	34	34
Total	22	$ 1,587	$ 1,587	45	$ 6,310	$ 6,097

The following tables summarize concessions we granted to borrowers in financial difficulty for the:

	Three Months Ended September 30, 2014				Nine Months Ended September 30, 2014			
	Below Market Interest Rate		Below Market Interest Rate and Extension of Amortization Period		Below Market Interest Rate		Below Market Interest Rate and Extension of Amortization Period	
	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment
Commercial other	2	$ 23	—	$ —	6	$ 378	1	$ 8
Agricultural other	—	—	1	49	—	—	1	49
Residential real estate								
Senior liens	—	—	2	144	3	98	11	707
Junior liens	—	—	1	40	—	—	2	81
Home equity lines of credit	—	—	—	—	1	160	—	—
Total residential real estate	—	—	3	184	4	258	13	788
Consumer unsecured	1	10	—	—	3	15	1	3
Total	3	$ 33	4	$ 233	13	$ 651	16	$ 848

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	Three Months Ended September 30, 2013				Nine Months Ended September 30, 2013			
	Below Market Interest Rate		Below Market Interest Rate and Extension of Amortization Period		Below Market Interest Rate		Below Market Interest Rate and Extension of Amortization Period	
	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment
Commercial other	3	$ 159	—	$ —	6	$ 1,517	4	$ 1,796
Agricultural other	1	198	—	—	2	332	—	—
Residential real estate								
Senior liens	10	924	5	252	17	1,548	13	1,063
Junior liens	—	—	1	20	—	—	1	20
Home equity lines of credit	—	—	—	—	—	—	—	—
Total residential real estate	10	924	6	272	17	1,548	14	1,083
Consumer unsecured	1	16	1	18	1	16	1	18
Total	15	$ 1,297	7	$ 290	26	$ 3,413	19	$ 2,897

We did not restructure any loans by forgiving principal or accrued interest in the three and nine month periods ended September 30, 2014 or 2013.

Based on our historical loss experience, losses associated with TDRs are not significantly different than other impaired loans within the same loan segment. As such, TDRs, including TDRs that have been modified in the past 12 months that subsequently defaulted, are analyzed in the same manner as other impaired loans within their respective loan segment.

Following is a summary of loans that defaulted in the three and nine month periods ended September 30, 2014, which were modified within 12 months prior to the default date:

	Three Months Ended September 30, 2014				Nine Months Ended September 30, 2014			
	Number of Loans	Pre-Default Recorded Investment	Charge-Off Recorded Upon Default	Post-Default Recorded Investment	Number of Loans	Pre-Default Recorded Investment	Charge-Off Recorded Upon Default	Post-Default Recorded Investment
Consumer unsecured	2	$ 7	$ 7	$ —	2	$ 7	$ 7	$ —

We had no loans that defaulted in the three and nine month periods ended September 30, 2013, which were modified within 12 months prior to the default date.

The following is a summary of TDR loan balances as of:

	September 30, 2014	December 31, 2013
TDRs	$ 24,015	$ 25,865

Note 6 – Equity Securities Without Readily Determinable Fair Values

Included in equity securities without readily determinable fair values are restricted securities, which are carried at cost, and investments in unconsolidated entities accounted for under the equity method of accounting.

Equity securities without readily determinable fair values consist of the following as of:

	September 30 2014	December 31 2013
FHLB Stock	$ 9,100	$ 8,100
Corporate Settlement Solutions, LLC	6,743	6,970
FRB Stock	1,879	1,879
Valley Financial Corporation	1,000	1,000

Other	341	344
Total	$19,063	$18,293

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Note 7 – Borrowed Funds

Borrowed funds consist of the following obligations as of:

	September 30, 2014			December 31, 2013		
	Amount	Rate		Amount	Rate	
FHLB advances	$182,000	1.94	%	$162,000	2.02	%
Securities sold under agreements to repurchase without stated maturity dates	89,535	0.13	%	106,025	0.13	%
Securities sold under agreements to repurchase with stated maturity dates	1,203	4.24	%	11,301	3.30	%
Federal funds purchased	17,700	0.56	%	—	—	
Total	$290,438	1.31	%	$279,326	1.35	%

FHLB advances are collateralized by a blanket lien on all qualified 1-4 family residential real estate loans, AFS securities, and FHLB stock.

The following table lists the maturity and weighted average interest rates of FHLB advances as of:

	September 30, 2014			December 31, 2013		
	Amount	Rate		Amount	Rate	
Fixed rate advances due 2014	$10,000	0.48	%	$10,000	0.48	%
Fixed rate advances due 2015	42,000	0.72	%	32,000	0.84	%
Fixed rate advances due 2016	10,000	2.15	%	10,000	2.15	%
Fixed rate advances due 2017	30,000	1.95	%	30,000	1.95	%
Fixed rate advances due 2018	40,000	2.35	%	40,000	2.35	%
Fixed rate advances due 2019	20,000	3.11	%	20,000	3.11	%
Fixed rate advances due 2020	10,000	1.98	%	10,000	1.98	%
Fixed rate advances due 2021	10,000	2.37	%	—	—	
Fixed rate advances due 2023	10,000	3.90	%	10,000	3.90	%
Total	$182,000	1.94	%	$162,000	2.02	%

Securities sold under agreements to repurchase are classified as secured borrowings and are reflected at the amount of cash received in connection with the transaction. The securities underlying the agreements have a carrying value and a fair value of $139,350 and $148,930 at September 30, 2014 and December 31, 2013, respectively. Such securities remain under our control. We may be required to provide additional collateral based on the fair value of underlying securities.

The following table lists the maturity and weighted average interest rates of securities sold under agreements to repurchase with stated maturity dates as of:

	September 30 2014			December 31 2013		
	Amount	Rate		Amount	Rate	
Repurchase agreements due 2014	$750	4.89	%	$10,876	3.30	%
Repurchase agreements due 2015	436	3.25	%	425	3.25	%
Repurchase agreements due 2018	17	1.00	%	—	—	
Total	$1,203	4.24	%	$11,301	3.30	%

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Securities sold under repurchase agreements without stated maturity dates, federal funds purchased, and FRB Discount Window advances generally mature within one to four days from the transaction date. The following table provides a summary of securities sold under repurchase agreements without stated maturity dates, federal funds purchased, and FRB Discount Window advances borrowings for the three and nine month periods ended:

	Three Months Ended September 30, 2014				Three Months Ended September 30, 2013			
	Maximum Month End Balance	Average Balance	Weighted Average Interest Rate During the Period		Maximum Month End Balance	Average Balance	Weighted Average Interest Rate During the Period	
Securities sold under agreements to repurchase without stated maturity dates	$91,472	$88,906	0.13	%	$81,405	$78,148	0.15	%
Federal funds purchased	17,700	2,252	0.48	%	6,300	5,052	0.62	%

	Nine Months Ended September 30, 2014				Nine Months Ended September 30, 2013			
	Maximum Month End Balance	Average Balance	Weighted Average Interest Rate During the Period		Maximum Month End Balance	Average Balance	Weighted Average Interest Rate During the Period	
Securities sold under agreements to repurchase without stated maturity dates	$94,741	$91,231	0.13	%	$81,405	$69,224	0.15	%
Federal funds purchased	17,700	4,939	0.48	%	13,700	4,133	0.57	%

We had pledged trading securities, AFS securities, and 1-4 family residential real estate loans in the following amounts at:

	September 30 2014	December 31 2013
Pledged to secure borrowed funds	$278,512	$320,173
Pledged to secure repurchase agreements	139,350	148,930
Pledged for public deposits and for other purposes necessary or required by law	18,791	20,922
Total	$436,653	$490,025

As of September 30, 2014, we had the ability to borrow up to an additional $111,890, based on assets pledged as collateral. We had no investment securities that are restricted to be pledged for specific purposes.

Note 8 – Other Noninterest Expenses

A summary of expenses included in other noninterest expenses is as follows for the:

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Marketing and community relations	$512	$271	$966	$945
FDIC insurance premiums	196	267	619	812
Directors fees	191	203	569	607
Audit and related fees	185	189	505	490
Education and travel	154	110	418	348
Postage and freight	105	103	303	296
Printing and supplies	89	106	278	291
Loan underwriting fees	83	97	270	336
Consulting fees	96	68	263	223
All other	684	587	2,114	1,800

Total other	$2,295	$2,001	$6,305	$6,148

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Note 9 – Federal Income Taxes

The reconciliation of the provision for federal income taxes and the amount computed at the federal statutory tax rate of 34% of income before federal income tax expense is as follows for the:

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Income taxes at 34% statutory rate	$1,309	$1,347	$4,072	$3,903
Effect of nontaxable income				
Interest income on tax exempt municipal securities	(501)	(433)	(1,498)	(1,278)
Earnings on corporate owned life insurance policies	(62)	(63)	(189)	(185)
Effect of tax credits	(187)	(191)	(575)	(588)
Other	(158)	(27)	(235)	(79)
Total effect of nontaxable income	(908)	(714)	(2,497)	(2,130)
Effect of nondeductible expenses	43	41	121	120
Federal income tax expense	$444	$674	$1,696	$1,893

Note 10 – Fair Value

Following is a description of the valuation methodologies, key inputs, and an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

Cash and cash equivalents: The carrying amounts of cash and demand deposits due from banks and interest bearing balances due from banks approximate fair values. As such, we classify cash and cash equivalents as Level 1.

Certificates of deposit held in other financial institutions: Certificates of deposit held in other financial institutions include certificates of deposit and other short term interest bearing balances that mature within 3 years. Fair value is determined using prices for similar assets with similar characteristics. As such, we classify certificates of deposits held in other financial institutions as Level 2.

AFS and trading securities: AFS and trading securities are recorded at fair value on a recurring basis. Level 1 fair value measurement is based upon quoted prices for identical instruments. Level 2 fair value measurement is based upon quoted prices for similar instruments. If quoted prices are not available, fair values are measured using independent pricing models or other model based valuation techniques such as the present value of future cash flows, adjusted for the security’s credit rating, prepayment assumptions and other factors such as credit loss and liquidity assumptions. The values for Level 1 and Level 2 investment securities are generally obtained from an independent third party. On a quarterly basis, we compare the values provided to alternative pricing sources.

Mortgage loans AFS: Mortgage loans AFS are carried at the lower of cost or fair value. The fair value of Mortgage loans AFS are based on what price secondary markets are currently offering for portfolios with similar characteristics. As such, we classify Mortgage loans AFS subject to nonrecurring fair value adjustments as Level 2.

Loans: For variable rate loans with no significant change in credit risk, fair values are based on carrying values. Fair values for fixed rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The resulting amounts are adjusted to estimate the effect of changes in the credit quality of borrowers since the loans were originated. As such, we classify loans as Level 3 assets.

We do not record loans at fair value on a recurring basis. However, from time-to-time, loans are classified as impaired and a specific allowance for loan losses may be established. Loans for which it is probable that payment of interest and principal will be significantly different than the contractual terms of the original loan agreement are considered impaired. Once a loan is identified as impaired, we measure the estimated impairment. The fair value of impaired loans is estimated using one of several methods, including the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral, less cost to sell, if the loan is collateral dependent. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans.

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We review the net realizable values of the underlying collateral for collateral dependent impaired loans on at least a quarterly basis for all loan types. To determine the collateral value, we utilize independent appraisals, broker price opinions, or internal evaluations. We review these valuations to determine whether an additional discount should be applied given the age of market information that may have been considered as well as other factors such as costs to carry and sell an asset if it is determined that the collateral will be liquidated in connection with the ultimate settlement of the loan. We use these valuations to determine if any specific reserves or charge-offs are necessary. We may obtain new valuations in certain circumstances, including when there has been significant deterioration in the condition of the collateral, if the foreclosure process has begun, or if the existing valuation is deemed to be outdated.
The following tables list the quantitative fair value information about impaired loans as of:

	September 30, 2014		
Valuation Techniques	Fair Value	Unobservable Input	Range
		Discount applied to collateral appraisal:	
		Real Estate	20% - 25%
		Equipment	30% - 40%
Discounted appraisal value	$8,535	Cash crop inventory	40%
		Other inventory	75%
		Accounts receivable	50%
		Liquor license	75%

	December 31, 2013		
Valuation Techniques	Fair Value	Unobservable Input	Range
		Discount applied to collateral appraisal:	
		Real Estate	20% - 30%
		Equipment	50%
Discounted appraisal value	$13,902	Livestock	50%
		Cash crop inventory	50%
		Other inventory	75%
		Accounts receivable	75%

Discount factors with ranges are based on the age of the independent appraisal, broker price opinion, or internal evaluations.
Accrued interest receivable: The carrying amounts of accrued interest receivable approximate fair value. As such, we classify accrued interest receivable as Level 1.
Equity securities without readily determinable fair values: Included in equity securities without readily determinable fair values are FHLB stock and FRB stock as well as our ownership interests in Corporate Settlement Solutions, LLC and Valley Financial Corporation. The investment in Corporate Settlement Solutions, LLC, a title insurance company, was made in the first quarter 2008. We are not the managing entity of Corporate Settlement Solutions, LLC, and therefore, we account for our investment under the equity method of accounting. Valley Financial Corporation is the parent company of 1st State Bank in Saginaw, Michigan, which is a community bank that opened in 2005. We made investments in Valley Financial Corporation in 2004 and in 2007.
The lack of an active market, or other independent sources to validate fair value estimates coupled with the impact of future capital calls and transfer restrictions, is an inherent limitation in the valuation process. As the fair values of these investments are not readily determinable, they are not disclosed under a specific fair value hierarchy; however, they are reviewed quarterly for impairment. If we were to record an impairment adjustment related to these securities, it would be classified as a nonrecurring Level 3 fair value adjustment. During 2014 and 2013, there were no impairments recorded on equity securities without readily determinable fair values.
Foreclosed assets: Upon transfer from the loan portfolio, foreclosed assets (which are included in other assets) are adjusted to and subsequently carried at the lower of carrying value or fair value less costs to sell. Net realizable value is based upon independent market prices, appraised values of the collateral, or management’s estimation of the value of the collateral. Due to the inherent level of estimation in the valuation process, we record foreclosed assets as nonrecurring Level 3.

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The table below lists the quantitative fair value information related to foreclosed assets as of:

	September 30, 2014		
Valuation Techniques	Fair Value	Unobservable Input	Range
Discounted appraisal value	$1,041	Discount applied to collateral appraisal: Real Estate	20% - 25%

	December 31, 2013		
Valuation Techniques	Fair Value	Unobservable Input	Range
Discounted appraisal value	$1,412	Discount applied to collateral appraisal: Real Estate	20% - 30%

Discount factors with ranges are based on the age of the independent appraisal, broker price opinion, or internal evaluations.

Goodwill and other intangible assets: Acquisition intangibles and goodwill are evaluated for potential impairment on at least an annual basis. Acquisition intangibles and goodwill are typically qualitatively evaluated to determine if it is more likely than not that the carrying balance is impaired. If it is determined that the carrying balance of acquisition intangibles or goodwill is more likely than not to be impaired, we perform a cash flow valuation to determine the extent of the potential impairment. If the testing resulted in impairment, we would classify goodwill and other acquisition intangibles subjected to nonrecurring fair value adjustments as Level 3. During 2014 and 2013, there were no impairments recorded on goodwill and other acquisition intangibles.

OMSRs: OMSRs (which are included in other assets) are subject to impairment testing. To test for impairment, we utilize a discounted cash flow analysis using interest rates and prepayment speed assumptions currently quoted for comparable instruments and discount rates. If the valuation model reflects a value less than the carrying value, OMSRs are adjusted to fair value through a valuation allowance as determined by the model. As such, we classify OMSRs subject to nonrecurring fair value adjustments as Level 2.

Deposits: The fair value of demand, savings, and money market deposits are, by definition, equal their carrying amounts and are classified as Level 1. Fair values for variable rate certificates of deposit approximate their carrying value. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. As such, fixed rate certificates of deposit are classified as Level 2.

Borrowed funds: The carrying amounts of federal funds purchased, borrowings under overnight repurchase agreements, and other short-term borrowings maturing within ninety days approximate their fair values. The fair values of other borrowed funds are estimated using discounted cash flow analyses based on current incremental borrowing arrangements. As such, borrowed funds are classified as Level 2.

Accrued interest payable: The carrying amounts of accrued interest payable approximate fair value. As such, we classify accrued interest payable as Level 1.

Commitments to extend credit, standby letters of credit, and undisbursed loans: Our commitments to extend credit, standby letters of credit, and undisbursed funds have no carrying amount and are estimated to have no realizable fair value. Historically, a majority of the unused commitments to extend credit have not been drawn upon and, generally, we do not receive fees in connection with these commitments other than standby letter of credit fees, which are not significant.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Although we believe our valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement.

Estimated Fair Values of Financial Instruments Not Recorded at Fair Value in their Entirety on a Recurring Basis

Disclosure of the estimated fair values of financial instruments, which differ from carrying values, often requires the use of estimates. In cases where quoted market values in an active market are not available, we use present value techniques and other valuation methods to estimate the fair values of our financial instruments. These valuation methods require considerable judgment and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used.

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The carrying amount and estimated fair value of financial instruments not recorded at fair value in their entirety on a recurring basis were as follows as of:

	September 30, 2014				
	Carrying Value	Estimated Fair Value	(Level 1)	(Level 2)	(Level 3)
ASSETS					
Cash and cash equivalents	$25,531	$25,531	$25,531	$—	$—
Certificates of deposit held in other financial institutions	580	580	—	580	—
Mortgage loans AFS	421	434	—	434	—
Total loans	822,299	822,077	—	—	822,077
Less allowance for loan and lease losses	10,400	10,400	—	—	10,400
Net loans	811,899	811,677	—	—	811,677
Accrued interest receivable	6,906	6,906	6,906	—	—
Equity securities without readily determinable fair values (1)	19,063	19,063	—	—	—
OMSRs	2,577	2,655	—	2,655	—
LIABILITIES					
Deposits without stated maturities	637,320	637,320	637,320	—	—
Deposits with stated maturities	444,570	445,129	—	445,129	—
Borrowed funds	290,438	293,881	—	293,881	—
Accrued interest payable	563	563	563	—	—

	December 31, 2013				
	Carrying Value	Estimated Fair Value	(Level 1)	(Level 2)	(Level 3)
ASSETS					
Cash and cash equivalents	$41,558	$41,558	$41,558	$—	$—
Certificates of deposit held in other financial institutions	580	582	—	582	—
Mortgage loans AFS	1,104	1,123	—	1,123	—
Total loans	808,037	808,246	—	—	808,246
Less allowance for loan and lease losses	11,500	11,500	—	—	11,500
Net loans	796,537	796,746	—	—	796,746
Accrued interest receivable	5,442	5,442	5,442	—	—
Equity securities without readily determinable fair values (1)	18,293	18,293	—	—	—
OMSRs	2,555	2,667	—	2,667	—
LIABILITIES					
Deposits without stated maturities	593,754	593,754	593,754	—	—
Deposits with stated maturities	450,012	452,803	—	452,803	—
Borrowed funds	279,326	283,060	—	283,060	—
Accrued interest payable	633	633	633	—	—

(1) Due to the characteristics of equity securities without readily determinable fair values, they are not disclosed under a specific fair value hierarchy. If we were to record an impairment adjustment related to these securities, such amount would be classified as a nonrecurring Level 3 fair value adjustment.

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Financial Instruments Recorded at Fair Value

The table below presents the recorded amount of assets and liabilities measured at fair value on:

	September 30, 2014				December 31, 2013			
	Total	(Level 1)	(Level 2)	(Level 3)	Total	(Level 1)	(Level 2)	(Level 3)
Recurring items								
Trading securities								
States and political subdivisions	$—	$—	$—	$—	$525	$—	$525	$—
AFS securities								
Government-sponsored enterprises	23,917	—	23,917	—	23,745	—	23,745	—
States and political subdivisions	223,545	—	223,545	—	201,988	—	201,988	—
Auction rate money market preferred	2,863	—	2,863	—	2,577	—	2,577	—
Preferred stocks	6,173	6,173	—	—	5,827	5,827	—	—
Mortgage-backed securities	170,767	—	170,767	—	144,115	—	144,115	—
Collateralized mortgage obligations	147,815	—	147,815	—	133,810	—	133,810	—
Total AFS securities	575,080	6,173	568,907	—	512,062	5,827	506,235	—
Nonrecurring items								
Impaired loans (net of the ALLL)	8,535	—	—	8,535	13,902	—	—	13,902
Foreclosed assets	1,041	—	—	1,041	1,412	—	—	1,412
Total	$584,656	$6,173	$568,907	$9,576	$527,901	$5,827	$506,760	$15,314
Percent of assets and liabilities measured at fair value		1.06 %	97.31 %	1.63 %		1.10 %	96.00 %	2.90 %

The following table provides a summary of the changes in fair value of assets and liabilities recorded at fair value through earnings on a recurring basis and changes in assets and liabilities recorded at fair value on a nonrecurring basis, for which gains or losses were recognized in the:

	Three Months Ended September 30					
	2014			2013		
	Trading Losses	Other Gains (Losses)	Total	Trading Losses	Other Gains (Losses)	Total
Recurring items						
Trading securities	$—	$—	$—	$(5)	$—	$(5)
Nonrecurring items						
Foreclosed assets	—	(20)	(20)		(39)	(39)
Total	$—	$(20)	$(20)	$(5)	$(39)	$(44)

	Nine Months Ended September 30					
	2014			2013		
	Trading Losses	Other Gains (Losses)	Total	Trading Losses	Other Gains (Losses)	Total
Recurring items						
Trading securities	$(5)	$—	$(5)	$(23)	$—	$(23)
Nonrecurring items						
Foreclosed assets	—	(83)	(83)	—	(131)	(131)

Total	$(5)	$(83)	$(88)	$(23)	$(131)	$(154)

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Note 11 – Accumulated Other Comprehensive Income (Loss)

The following table summarizes the changes in AOCI by component for the:

	Three Months Ended September 30					
	2014			2013		
	Unrealized Holding Gains (Losses) on AFS Securities	Defined Benefit Pension Plan	Total	Unrealized Holding Gains (Losses) on AFS Securities	Defined Benefit Pension Plan	Total
Balance, July 1	$2,602	$(2,134)	$468	$(477)	$(3,671)	$(4,148)
OCI before reclassifications	(1,326)	—	(1,326)	665	—	665
Amounts reclassified from AOCI	(97)	—	(97)	(72)	—	(72)
Subtotal	(1,423)	—	(1,423)	593	—	593
Tax effect	469	—	469	(447)	—	(447)
OCI, net of tax	(954)	—	(954)	146	—	146
Balance, September 30	$1,648	$(2,134)	$(486)	$(331)	$(3,671)	$(4,002)

	Nine Months Ended September 30					
	2014			2013		
	Unrealized Holding Gains (Losses) on AFS Securities	Defined Benefit Pension Plan	Total	Unrealized Holding Gains (Losses) on AFS Securities	Defined Benefit Pension Plan	Total
Balance, January 1	$(4,207)	$(2,134)	$(6,341)	$8,678	$(3,671)	$5,007
OCI before reclassifications	8,642	—	8,642	(13,293)	—	(13,293)
Amounts reclassified from AOCI	(97)	—	(97)	(171)	—	(171)
Subtotal	8,545	—	8,545	(13,464)	—	(13,464)
Tax effect	(2,690)	—	(2,690)	4,455	—	4,455
OCI, net of tax	5,855	—	5,855	(9,009)	—	(9,009)
Balance, September 30	$1,648	$(2,134)	$(486)	$(331)	$(3,671)	$(4,002)

Included in OCI for the three and nine month periods ended September 30, 2014 and 2013 are changes in unrealized holding gains and losses related to auction rate money market preferred and preferred stocks. For federal income tax purposes, these securities are considered equity investments. As such, no deferred federal income taxes related to unrealized holding gains or losses are expected or recorded.

A summary of the components of unrealized holding gains on AFS securities included in OCI follows for the:

	Three Months Ended September 30					
	2014			2013		
	Auction Rate Money Market Preferred and Preferred Stocks	All Other AFS Securities	Total	Auction Rate Money Market Preferred and Preferred Stocks	All Other AFS Securities	Total
Unrealized gains (losses) arising during the period	$253	$(1,579)	$(1,326)	$(653)	$1,318	$665
Reclassification adjustment for net realized (gains) losses included in net income	—	(97)	(97)	—	(72)	(72)

Net unrealized gains (losses)	253	(1,676)	(1,423)	(653)	1,246	593
Tax effect	—	469	469	—	(447)	(447)
Unrealized gains (losses), net of tax	$253	$(1,207)	$(954)	$(653)		