

MidWestOne Financial Group, Inc.  
Form 10-Q  
August 03, 2017

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

FORM 10-Q

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

For the quarterly period ended June 30, 2017

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-35968

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

Iowa 42-1206172  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)  
102 South Clinton Street  
Iowa City, IA 52240  
(Address of principal executive offices, including zip code)  
319-356-5800  
(Registrant's telephone number, including area code)

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

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

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

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

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

Edgar Filing: MidWestOne Financial Group, Inc. - Form 10-Q

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

As of August 1, 2017, there were 12,218,528 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

	Page No.
PART I	
Item 1. <u>Financial Statements</u>	<u>1</u>
<u>Consolidated Balance Sheets</u>	<u>1</u>
<u>Consolidated Statements of Operations</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>3</u>
<u>Consolidated Statements of Shareholders' Equity</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>7</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>35</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>58</u>
Item 4. <u>Controls and Procedures</u>	<u>60</u>
Part II	
Item 1. <u>Legal Proceedings</u>	<u>61</u>
Item 1A. <u>Risk Factors</u>	<u>61</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>61</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>61</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>61</u>
Item 5. <u>Other Information</u>	<u>61</u>
Item 6. <u>Exhibits</u>	<u>62</u>
<u>Signatures</u>	<u>63</u>

Table of Contents

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements.

MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	June 30, 2017	December 31, 2016
(dollars in thousands, except per share amounts)	(unaudited)	
<b>ASSETS</b>		
Cash and due from banks	\$46,234	\$ 41,464
Interest-bearing deposits in banks	3,164	1,764
Cash and cash equivalents	49,398	43,228
Investment securities:		
Available for sale	442,958	477,518
Held to maturity (fair value of \$183,296 as of June 30, 2017 and \$164,792 as of December 31, 2016)	182,478	168,392
Loans held for sale	1,636	4,241
Loans	2,197,503	2,165,143
Allowance for loan losses	(22,510 )	(21,850 )
Net loans	2,174,993	2,143,293
Premises and equipment, net	74,711	75,043
Accrued interest receivable	12,606	13,871
Goodwill	64,654	64,654
Other intangible assets, net	13,518	15,171
Bank-owned life insurance	47,877	47,231
Other real estate owned	1,486	2,097
Deferred income taxes	5,482	6,523
Other assets	19,248	18,313
Total assets	\$3,091,045	\$ 3,079,575
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Non-interest-bearing demand	\$476,031	\$ 494,586
Interest-bearing checking	1,131,151	1,136,282
Savings	203,967	197,698
Certificates of deposit under \$100,000	325,847	326,832
Certificates of deposit \$100,000 and over	356,713	325,050
Total deposits	2,493,709	2,480,448
Federal funds purchased	45,319	35,684
Securities sold under agreements to repurchase	60,182	82,187
Federal Home Loan Bank borrowings	90,000	115,000
Junior subordinated notes issued to capital trusts	23,743	23,692
Long-term debt	15,000	17,500
Deferred compensation liability	5,224	5,180
Accrued interest payable	1,551	1,472
Other liabilities	13,445	12,956
Total liabilities	2,748,173	2,774,119
Shareholders' equity:		
Preferred stock, no par value; authorized 500,000 shares; no shares issued and outstanding at June 30, 2017 and December 31, 2016	\$ —	\$ —

Edgar Filing: MidWestOne Financial Group, Inc. - Form 10-Q

Common stock, \$1.00 par value; authorized 30,000,000 shares at June 30, 2017 and 15,000,000 shares at December 31, 2016; issued 12,463,481 shares at June 30, 2017 and 11,713,481 shares at December 31, 2016; outstanding 12,218,528 shares at June 30, 2017 and 11,436,360 shares at December 31, 2016	12,463	11,713
Additional paid-in capital	187,062	163,667
Treasury stock at cost, 244,953 shares as of June 30, 2017 and 277,121 shares as of December 31, 2016	(5,141	) (5,766
Retained earnings	147,015	136,975
Accumulated other comprehensive income (loss)	1,473	(1,133
Total shareholders' equity	342,872	305,456
Total liabilities and shareholders' equity	\$3,091,045	\$3,079,575
See accompanying notes to consolidated financial statements.		

Table of ContentsMIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited) (dollars in thousands, except per share amounts)	Three Months		Six Months Ended	
	Ended June 30, 2017	2016	June 30, 2017	2016
Interest income:				
Interest and fees on loans	\$25,650	\$ 24,635	\$49,929	\$ 49,751
Interest on bank deposits	26	70	31	78
Interest on federal funds sold	1	1	1	1
Interest on investment securities:				
Taxable securities	2,590	1,912	5,308	3,836
Tax-exempt securities	1,587	1,420	3,152	2,857
Total interest income	29,854	28,038	58,421	56,523
Interest expense:				
Interest on deposits:				
Interest-bearing checking	912	776	1,710	1,536
Savings	51	60	102	166
Certificates of deposit under \$100,000	886	719	1,745	1,288
Certificates of deposit \$100,000 and over	995	719	1,912	1,358
Total interest expense on deposits	2,844	2,274	5,469	4,348
Interest on federal funds purchased	25	—	71	25
Interest on securities sold under agreements to repurchase	34	32	72	85
Interest on Federal Home Loan Bank borrowings	404	467	847	918
Interest on other borrowings	3	6	6	12
Interest on junior subordinated notes issued to capital trusts	240	196	461	393
Interest on long-term debt	113	123	223	247
Total interest expense	3,663	3,098	7,149	6,028
Net interest income	26,191	24,940	51,272	50,495
Provision for loan losses	1,240	1,171	2,281	2,236
Net interest income after provision for loan losses	24,951	23,769	48,991	48,259
Noninterest income:				
Trust, investment, and insurance fees	1,528	1,440	3,140	2,938
Service charges and fees on deposit accounts	1,257	1,283	2,540	2,541
Loan origination and servicing fees	718	855	1,520	1,474
Other service charges and fees	1,497	1,378	2,955	2,808
Bank-owned life insurance income	318	332	646	716
Gain on sale or call of available for sale securities	20	223	20	467
Gain on sale of held to maturity securities	—	—	43	—
Gain (loss) on sale of premises and equipment	8	(40)	6	(251)
Other gain	37	124	50	1,307
Total noninterest income	5,383	5,595	10,920	12,000
Noninterest expense:				
Salaries and employee benefits	11,789	13,321	23,673	25,966
Net occupancy and equipment expense	3,033	3,326	6,337	6,577
Professional fees	1,036	1,221	2,058	2,167
Data processing expense	548	809	1,259	3,382
FDIC insurance expense	352	398	719	819
Amortization of intangible assets	804	1,015	1,653	2,076

Edgar Filing: MidWestOne Financial Group, Inc. - Form 10-Q

Other operating expense	2,402	2,725	4,600	5,274
Total noninterest expense	19,964	22,815	40,299	46,261
Income before income tax expense	10,370	6,549	19,612	13,998
Income tax expense	3,136	1,794	5,665	3,699
Net income	\$7,234	\$ 4,755	\$13,947	\$ 10,299
Share and per share information:				
Ending number of shares outstanding	12,218,528	11,435,860	12,218,528	11,435,860
Average number of shares outstanding	12,200,689	11,431,252	11,855,108	11,424,122
Diluted average number of shares	12,219,238	11,453,831	11,878,315	11,448,677
Earnings per common share - basic	\$0.59	\$ 0.42	\$ 1.18	\$ 0.90
Earnings per common share - diluted	0.59	0.42	1.17	0.90
Dividends paid per common share	0.165	0.16	0.33	0.32

See accompanying notes to consolidated financial statements.

Table of ContentsMIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited) (dollars in thousands)	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2017	2016	2017	2016
Net income	\$7,234	\$4,755	\$13,947	\$10,299
Other comprehensive income, available for sale securities:				
Unrealized holding gains arising during period	2,745	891	4,312	3,869
Reclassification adjustment for gains included in net income	(20 )	(223 )	(20 )	(467 )
Income tax expense	(1,070 )	(389 )	(1,686 )	(1,405 )
Other comprehensive income on available for sale securities	1,655	279	2,606	1,997
Other comprehensive income, net of tax	1,655	279	2,606	1,997
Comprehensive income	\$8,889	\$5,034	\$16,553	\$12,296

See accompanying notes to consolidated financial statements.

Table of ContentsMIDWESTONE 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, 2015	\$ —	—\$ 11,713	\$ 163,487	\$(6,331)	\$ 123,901	\$ 3,408	\$ 296,178
Net income	—	—	—	—	10,299	—	10,299
Dividends paid on common stock (\$0.32 per share)	—	—	—	—	(3,657)	—	(3,657)
Stock options exercised (2,900 shares)	—	—	(22)	60	—	—	38
Release/lapse of restriction on RSUs (25,633 shares)	—	—	(520)	495	—	—	(25)
Stock compensation	—	—	365	—	—	—	365
Other comprehensive income, net of tax	—	—	—	—	—	1,997	1,997
Balance at June 30, 2016	\$ —	—\$ 11,713	\$ 163,310	\$(5,776)	\$ 130,543	\$ 5,405	\$ 305,195
Balance at December 31, 2016	\$ —	—\$ 11,713	\$ 163,667	\$(5,766)	\$ 136,975	\$ (1,133)	\$ 305,456
Net income	—	—	—	—	13,947	—	13,947
Issuance of common stock (750,000 shares), net of expenses of \$1,328,000	—	750	23,610	—	—	—	24,360
Dividends paid on common stock (\$0.33 per share)	—	—	—	—	(3,907)	—	(3,907)
Stock options exercised (8,250 shares)	—	—	(81)	172	—	—	91
Release/lapse of restriction on RSUs (26,875 shares)	—	—	(560)	453	—	—	(107)
Stock compensation	—	—	426	—	—	—	426
Other comprehensive income, net of tax	—	—	—	—	—	2,606	2,606
Balance at June 30, 2017	\$ —	—\$ 12,463	\$ 187,062	\$(5,141)	\$ 147,015	\$ 1,473	\$ 342,872

See accompanying notes to consolidated financial statements.

Table of ContentsMIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (dollars in thousands)	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 13,947	\$ 10,299
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,281	2,236
Depreciation of premises and equipment	2,058	2,297
Amortization of other intangibles	1,653	2,076
Amortization of premiums and discounts on investment securities, net	650	916
(Gain) loss on sale of premises and equipment	(6	) 251
Deferred income taxes	(554	) (468
Excess tax benefit from share-based award activity	(91	) (13
Stock-based compensation	426	365
Net gain on sale or call of available for sale securities	(20	) (467
Net gain on sale or call of held to maturity securities	(43	) —
Net gain on sale of other real estate owned	(30	) (601
Net gain on sale of loans held for sale	(799	) (993
Writedown of other real estate owned	23	—
Origination of loans held for sale	(41,284	) (47,588
Proceeds from sales of loans held for sale	44,688	46,720
Decrease in accrued interest receivable	1,265	1,565
Increase in cash surrender value of bank-owned life insurance	(646	) (716
(Increase) decrease in other assets	(935	) 342
Increase in deferred compensation liability	44	58
Increase in accrued interest payable, accounts payable, accrued expenses, and other liabilities	568	3,973
Net cash provided by operating activities	23,195	20,252
Cash flows from investing activities:		
Proceeds from sales of available for sale securities	9,999	23,384
Proceeds from maturities and calls of available for sale securities	41,162	51,873
Purchases of available for sale securities	(12,841	) (15,818
Proceeds from sales of held to maturity securities	1,153	—
Proceeds from maturities and calls of held to maturity securities	2,998	9,259
Purchase of held to maturity securities	(18,292	) (16,821
Net increase in loans	(34,188	) (17,610
Purchases of premises and equipment	(1,697	) (3,964
Proceeds from sale of other real estate owned	825	6,252
Proceeds from sale of premises and equipment	28	1,233
Proceeds of principal and earnings from bank-owned life insurance	—	430
Net cash provided by (used in) investing activities	(10,853	) 38,218
Cash flows from financing activities:		
Net increase in deposits	13,261	40
Increase (decrease) in federal funds purchased	9,635	(1,500
Decrease in securities sold under agreements to repurchase	(22,005	) (7,005
Proceeds from Federal Home Loan Bank borrowings	50,000	30,000
Repayment of Federal Home Loan Bank borrowings	(75,000	) (10,000

Edgar Filing: MidWestOne Financial Group, Inc. - Form 10-Q

Proceeds from stock options exercised	1	38
Excess tax benefit from share-based award activity	91	13
Taxes paid relating to net share settlement of equity awards	(108 )	(38 )
Payments on long-term debt	(2,500 )	(2,500 )
Dividends paid	(3,907 )	(3,657 )
Proceeds from issuance of common stock	25,688	—
Payment of stock issuance costs	(1,328 )	—
Net cash provided by (used in) financing activities	(6,172 )	5,391
Net increase in cash and cash equivalents	6,170	63,861
Cash and cash equivalents at beginning of period	43,228	47,097
Cash and cash equivalents at end of period	\$49,398	\$110,958

5

---

Table of Contents

(unaudited) (dollars in thousands)	Six Months	
	Ended June 30,	
	2017	2016
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$7,070	\$5,915
Cash paid during the period for income taxes	\$5,975	\$4,225
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	\$207	\$960
See accompanying notes to consolidated financial statements.		

6

---

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, as amended, and a financial holding company under the Gramm-Leach-Bliley Act of 1999. Our principal executive offices are located at 102 South Clinton Street, Iowa City, Iowa 52240.

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all the information and notes necessary for complete financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”). The information in this Quarterly Report on Form 10-Q is written with the presumption that the users of the interim financial statements have read or have access to the most recent Annual Report on Form 10-K of the Company, which contains the latest audited financial statements and notes thereto, together with Management’s Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2016 and for the year then ended. Management believes that the disclosures in this Form 10-Q are adequate to make the information presented not misleading. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the Company’s financial position as of June 30, 2017, and the results of operations and cash flows for the three and six months ended June 30, 2017 and 2016. All significant intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect: (1) the reported amounts of assets and liabilities, (2) the disclosure of contingent assets and liabilities at the date of the financial statements, and (3) the reported amounts of revenues and expenses during the reporting period. These estimates are based on information available to management at the time the estimates are made. Actual results could differ from those estimates. The results for the three and six months ended June 30, 2017 may not be indicative of results for the year ending December 31, 2017, or for any other period.

The Company adopted ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting,” on January 1, 2017. The Company elected to account for forfeitures when they occur and recognize them in compensation cost at that time. There was no effect due to this accounting policy election on the Company’s consolidated financial statements.

The Company adopted ASU 2017-08, “Premium Amortization on Purchased Callable Debt Securities” during the second quarter of 2017. Since the Company was already amortizing premiums on callable investment securities between the date of purchase and the first call date, there was no cumulative effect adjustment necessary to the Company’s consolidated financial statements.

All significant accounting policies followed in the preparation of the quarterly financial statements are disclosed in the Annual Report on Form 10-K for the year ended December 31, 2016.

In the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits in banks, and federal funds sold.

Certain reclassifications have been made to prior periods' consolidated financial statements to present them on a basis comparable with the current period's consolidated financial statements.

Table of Contents

## 2. Shareholders' Equity

Preferred Stock: The number of authorized shares of preferred stock for the Company is 500,000. As of June 30, 2017, none were issued or outstanding.

Common Stock: As of June 30, 2017, the number of authorized shares of common stock for the Company was 30,000,000. At the Company's 2017 annual meeting of shareholders, the Company's shareholders approved an increase in the number of authorized shares of common stock to 30,000,000, which became effective on April 21, 2017. As of June 30, 2017, 12,218,528 shares were outstanding.

On March 17, 2017, the Company entered into an underwriting agreement to offer and sell, through an underwriter, up to 750,000 newly issued shares of the Company's common stock, \$1.00 par value per share, at a public purchase price of \$34.25 per share. This included 250,000 shares of the Company's common stock granted as a 30-day option to purchase to cover over-allotments, if any. On April 6, 2017, the underwriter purchased the full amount of its over-allotment option of 250,000 shares.

On July 21, 2016, the board of directors of the Company approved a share repurchase program, allowing for the repurchase of up to \$5.0 million of stock through December 31, 2018. During the second quarter of 2017 the Company repurchased no common stock. Of the \$5.0 million of stock authorized under the repurchase plan, \$5.0 million remained available for possible future repurchases as of June 30, 2017.

## 3. Earnings per Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands, except per share amounts)	2017	2016	2017	2016
Basic earnings per common share computation				
Numerator:				
Net income	\$7,234	\$ 4,755	\$13,947	\$ 10,299
Denominator:				
Weighted average shares outstanding	12,200,689	11,431,252	11,855,108	11,424,122
Basic earnings per common share	\$0.59	\$ 0.42	\$1.18	\$ 0.90
Diluted earnings per common share computation				
Numerator:				
Net income	\$7,234	\$ 4,755	\$13,947	\$ 10,299
Denominator:				
Weighted average shares outstanding, including all dilutive potential shares	12,219,238	11,453,831	11,878,315	11,448,677
Diluted earnings per common share	\$0.59	\$ 0.42	\$1.17	\$ 0.90

Table of Contents

## 4. Investment Securities

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

	As of June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
U.S. Government agencies and corporations	\$5,768	\$ 10	\$ —	\$5,778
State and political subdivisions	147,392	4,474	27	151,839
Mortgage-backed securities	53,654	490	29	54,115
Collateralized mortgage obligations	167,130	118	2,858	164,390
Corporate debt securities	64,331	326	155	64,502
Total debt securities	438,275	5,418	3,069	440,624
Other equity securities	2,263	101	30	2,334
Total	\$440,538	\$ 5,519	\$ 3,099	\$442,958

	As of December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
U.S. Government agencies and corporations	\$5,895	\$ 10	\$ —	\$5,905
State and political subdivisions	162,145	3,545	418	165,272
Mortgage-backed securities	61,606	315	567	61,354
Collateralized mortgage obligations	175,506	148	4,387	171,267
Corporate debt securities	72,979	76	602	72,453
Total debt securities	478,131	4,094	5,974	476,251
Other equity securities	1,259	66	58	1,267
Total	\$479,390	\$ 4,160	\$ 6,032	\$477,518

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

	As of June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
State and political subdivisions	\$121,162	\$ 1,577	\$ 657	\$122,082
Mortgage-backed securities	2,202	7	5	2,204
Collateralized mortgage obligations	24,076	3	357	23,722
Corporate debt securities	35,038	601	351	35,288
Total	\$182,478	\$ 2,188	\$ 1,370	\$183,296

	As of December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				

Edgar Filing: MidWestOne Financial Group, Inc. - Form 10-Q

State and political subdivisions	\$107,941	\$ 156	\$ 2,713	\$ 105,384
Mortgage-backed securities	2,398	5	34	2,369
Collateralized mortgage obligations	26,036	—	598	25,438
Corporate debt securities	32,017	149	565	31,601
Total	\$168,392	\$ 310	\$ 3,910	\$ 164,792

9

---

Table of Contents

Investment securities with a carrying value of \$172.0 million and \$212.1 million at June 30, 2017 and December 31, 2016, respectively, were pledged on public deposits, securities sold under agreements to repurchase and for other purposes, as required or permitted by law.

The summary of investment securities shows that some of the securities in the available for sale and held to maturity investment portfolios had unrealized losses, or were temporarily impaired, as of June 30, 2017 and December 31, 2016. This temporary impairment represents the estimated amount of loss that would be realized if the securities were sold on the valuation date.

The following tables present information pertaining to securities with gross unrealized losses as of June 30, 2017 and December 31, 2016, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

Available for Sale	As of June 30, 2017						
	Number of Securities	Less than 12 Months Fair Value	12 Months or More Unrealized Losses	Total Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Unrealized Losses
(in thousands, except number of securities)							
State and political subdivisions	11	\$9,175	\$ 24	\$451	\$ 3	\$9,626	\$ 27
Mortgage-backed securities	11	11,495	28	23	1	11,518	29
Collateralized mortgage obligations	29	112,364	1,857	27,948	1,001	140,312	2,858
Corporate debt securities	4	18,769	155	—	—	18,769	155
Other equity securities	1	—	—	1,970	30	1,970	30
Total	56	\$151,803	\$ 2,064	\$30,392	\$ 1,035	\$182,195	\$ 3,099

Available for Sale	As of December 31, 2016						
	Number of Securities	Less than 12 Months Fair Value	12 Months or More Unrealized Losses	Total Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Unrealized Losses
(in thousands, except number of securities)							
State and political subdivisions	63	\$24,574	\$ 389	\$427	\$ 29	\$25,001	\$ 418
Mortgage-backed securities	20	40,752	566	23	1	40,775	567
Collateralized mortgage obligations	29	140,698	3,544	16,776	843	157,474	4,387
Corporate debt securities	11	54,891	602	—	—	54,891	602
Other equity securities	1	—	—	942	58	942	58
Total	124	\$260,915	\$ 5,101	\$18,168	\$ 931	\$279,083	\$ 6,032

Held to Maturity	As of June 30, 2017						
	Number of Securities	Less than 12 Months Fair Value	12 Months or More Unrealized Losses	Total Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Unrealized Losses
(in thousands, except number of securities)							
State and political subdivisions	77	\$29,935	\$ 581	\$1,943	\$ 76	\$31,878	\$ 657
Mortgage-backed securities	3	1,155	5	—	—	1,155	5
Collateralized mortgage obligations	6	11,787	220	6,105	137	17,892	357
Corporate debt securities	4	3,416	4	2,544	347	5,960	351
Total	90	\$46,293	\$ 810	\$10,592	\$ 560	\$56,885	\$ 1,370

Held to Maturity	As of December 31, 2016						
	Number of Securities	Less than 12 Months Fair Value	12 Months or More Unrealized Losses	Total Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Unrealized Losses
(in thousands, except number of securities)							

Edgar Filing: MidWestOne Financial Group, Inc. - Form 10-Q

		Value	Losses	Value	Losses	Value	Losses
(in thousands, except number of securities)							
State and political subdivisions	180	\$65,174	\$ 2,713	\$—	\$ —	\$65,174	\$ 2,713
Mortgage-backed securities	5	2,246	34	—	—	2,246	34
Collateralized mortgage obligations	7	18,964	369	6,435	229	25,399	598
Corporate debt securities	11	19,198	187	2,512	378	21,710	565
Total	203	\$105,582	\$ 3,303	\$8,947	\$ 607	\$114,529	\$ 3,910

10

---

Table of Contents

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 June 30, 2017 and December 31, 2016, the Company's mortgage-backed securities and collateralized mortgage obligations portfolios consisted of securities predominantly backed by one- to four-family mortgage loans and underwritten to the standards of and guaranteed by the following government-sponsored agencies: the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Government National Mortgage Association. The receipt of principal, at par, and interest on mortgage-backed securities is guaranteed by the respective government-sponsored agency guarantor, such that the Company believes that its mortgage-backed securities and collateralized mortgage obligations do not expose the Company to credit-related losses.

At June 30, 2017, approximately 56% of the municipal bonds held by the Company were Iowa-based, and approximately 21% were Minnesota-based. The Company does not intend to sell these municipal obligations, and it is more likely than not that the Company will not be required to sell them until the recovery of their cost. Due to the issuers' continued satisfaction of their obligations under the securities in accordance with their contractual terms and the expectation that they will continue to do so, management's intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value, as well as the evaluation of the fundamentals of the issuers' financial conditions and other objective evidence, the Company believed that the municipal obligations identified in the tables above were temporarily impaired as of June 30, 2017 and December 31, 2016.

At June 30, 2017 and December 31, 2016, all but one of the Company's corporate bonds held an investment grade rating from Moody's, S&P or Kroll, or carried a guarantee from an agency of the US government. We have evaluated financial statements of the company issuing the non-investment grade bond and found the company's earnings and equity position to be satisfactory and in line with industry norms. Therefore, we believe the low market value of this investment is temporary and expect to receive all contractual payments. The internal evaluation of the non-investment grade bond along with the investment grade ratings on the remainder of the corporate portfolio lead us to conclude that all of the corporate bonds in our portfolio will continue to pay according to their contractual terms. Since the Company has the ability and intent to hold securities until price recovery, we believe that there is no other-than-temporary-impairment in the corporate bond portfolio.

As of June 30, 2017, the Company also owned \$0.4 million of equity securities in banks and financial service-related companies, and \$2.0 million of mutual funds invested in debt securities and other debt instruments that will cause units of the fund to be deemed to be qualified under the Community Reinvestment Act. Equity securities are considered to have OTTI whenever they have been in a loss position, compared to current book value, for twelve consecutive months, and the Company does not expect them to recover to their original cost basis. For the six months ended June 30, 2017 and the full year of 2016, 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.

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

portfolio. A small gain was realized on the sale.

It is reasonably possible that the fair values of the Company's investment securities could decline in the future if interest rates increase or the overall economy or the financial conditions of the issuers deteriorate. As a result, there is a risk that OTTI may be recognized in the future, and any such amounts could be material to the Company's consolidated statements of operations.

Table of Contents

The contractual maturity distribution of investment debt securities at June 30, 2017, is summarized as follows:

	Available For Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(in thousands)				
Due in one year or less	\$12,458	\$12,566	\$2,385	\$2,385
Due after one year through five years	121,620	123,272	18,752	18,941
Due after five years through ten years	75,303	78,015	79,287	80,684
Due after ten years	8,110	8,266	55,776	55,360
Debt securities without a single maturity date	220,784	218,505	26,278	25,926
Total	\$438,275	\$440,624	\$182,478	\$183,296

Mortgage-backed securities and collateralized mortgage obligations are collateralized by mortgage loans and guaranteed by U.S. government agencies. Our experience has indicated that principal payments will be collected sooner than scheduled because of prepayments. Therefore, these securities are not scheduled in the maturity categories indicated above. Equity securities available for sale with an amortized cost of \$2.3 million and a fair value of \$2.3 million are also excluded from this table.

Proceeds from the sales of investment securities available for sale during the six months ended June 30, 2017 and June 30, 2016 were \$10.0 million and \$23.4 million, respectively.

Realized gains and losses on sales are determined on the basis of specific identification of investments based on the trade date. Gross realized gains on fixed maturity available for sale investment securities for the three and six months ended June 30, 2017 and 2016 were \$20,000 and \$467,000, respectfully, while gross realized gains on fixed maturity held to maturity investment securities were \$43,000 and zero, respectfully.

#### 5. Loans Receivable and the Allowance for Loan Losses

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

	Allowance for Loan Losses and Recorded Investment in Loan Receivables					
	As of June 30, 2017 and December 31, 2016					
(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Total
June 30, 2017						
Allowance for loan losses:						
Individually evaluated for impairment	\$400	\$2,125	\$697	\$236	\$—	\$3,458
Collectively evaluated for impairment	2,266	5,834	7,969	1,958	222	18,249
Purchased credit impaired loans	—	—	347	456	—	803
Total	\$2,666	\$7,959	\$9,013	\$2,650	\$222	\$22,510
Loans receivable						
Individually evaluated for impairment	\$3,044	\$11,700	\$16,697	\$3,752	\$—	\$35,193
Collectively evaluated for impairment	104,607	473,896	1,052,889	474,273	34,666	2,140,331
Purchased credit impaired loans	—	41	15,977	5,961	—	21,979
Total	\$107,651	\$485,637	\$1,085,563	\$483,986	\$34,666	\$2,197,503
(in thousands)						
December 31, 2016						
Allowance for loan losses:						
Individually evaluated for impairment	\$62	\$2,066	\$1,924	\$299	\$—	\$4,351

Edgar Filing: MidWestOne Financial Group, Inc. - Form 10-Q

Collectively evaluated for impairment	1,941	4,199	7,692	2,791	255	16,878
Purchased credit impaired loans	—	9	244	368	—	621
Total	\$ 2,003	\$ 6,274	\$ 9,860	\$ 3,458	\$ 255	\$ 21,850
Loans receivable						
Individually evaluated for impairment	\$ 5,339	\$ 11,434	\$ 11,450	\$ 3,955	\$ —	\$ 32,178
Collectively evaluated for impairment	108,004	449,380	1,036,049	480,143	36,591	2,110,167
Purchased credit impaired loans	—	156	16,744	5,898	—	22,798
Total	\$ 113,343	\$ 460,970	\$ 1,064,243	\$ 489,996	\$ 36,591	\$ 2,165,143

12

---

Table of Contents

Included above as of June 30, 2017, are loans with a contractual balance of \$27.6 million and a recorded balance of \$27.2 million, which are covered under loss sharing agreements with the FDIC. The agreements cover certain losses and expenses and expire at various dates through October 7, 2021. The related FDIC indemnification asset is reported separately in Note 7. "Other Assets." The FDIC loss sharing agreement was terminated on July 14, 2017, at which time the loans were reclassified to non-covered assets (see Note 15. "Subsequent Events").

As of June 30, 2017, the gross purchased credit impaired loans included above were \$24.5 million, with a discount of \$2.6 million.

Loans with unpaid principal in the amount of \$485.0 million and \$498.3 million at June 30, 2017 and December 31, 2016, respectively, were pledged to the Federal Home Loan Bank (the "FHLB") as collateral for borrowings.

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

Allowance for Loan Loss Activity							
For the Three Months Ended June 30, 2017 and 2016							
(in thousands)	Commercial		Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
	Agricultural	Industrial					
2017							
Beginning balance	\$2,460	\$ 6,021	\$ 9,751	\$ 3,764	\$ 221	\$	—\$22,217
Charge-offs	(347 )	(464 )	(45 )	(52 )	(135 )	—	(1,043 )
Recoveries	4	83	5	—	4	—	96
Provision	549	2,319	(698 )	(1,062 )	132	—	1,240
Ending balance	\$2,666	\$ 7,959	\$ 9,013	\$ 2,650	\$ 222	\$	—\$22,510
2016							
Beginning balance	\$2,235	\$ 4,680	\$ 9,713	\$ 3,429	\$ 188	\$	—\$20,245
Charge-offs	—	—	(1 )	(354 )	(77 )	—	(432 )
Recoveries	1	60	127	13	12	—	213
Provision	118	645	789	(625 )	244	—	1,171
Ending balance	\$2,354	\$ 5,385	\$ 10,628	\$ 2,463	\$ 367	\$	—\$21,197

Allowance for Loan Loss Activity							
For the Six Months Ended June 30, 2017 and 2016							
(in thousands)	Commercial		Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
	Agricultural	Industrial					
2017							
Beginning balance	\$2,003	\$ 6,274	\$ 9,860	\$ 3,458	\$ 255	\$ —	\$21,850
Charge-offs	(884 )	(529 )	(106 )	(80 )	(160 )	—	(1,759 )
Recoveries	14	102	15	—	7	—	138
Provision	1,533	2,112	(756 )	(728 )	120	—	2,281
Ending balance	\$2,666	\$ 7,959	\$ 9,013	\$ 2,650	\$ 222	\$ —	\$22,510
2016							
Beginning balance	\$1,417	\$ 5,451	\$ 8,556	\$ 3,968	\$ 409	\$ (374 )	\$19,427
Charge-offs	(125 )	(10 )	(41 )	(513 )	(127 )	—	(816 )
Recoveries	7	72	180	77	14	—	350
Provision	1,055	(128 )	1,933	(1,069 )	71	374	2,236
Ending balance	\$2,354	\$ 5,385	\$ 10,628	\$ 2,463	\$ 367	\$ —	\$21,197

**Loan Portfolio Segment Risk Characteristics**

**Agricultural** - Agricultural loans, most of which are secured by crops, livestock, and machinery, are provided to finance capital improvements and farm operations as well as acquisitions of livestock and machinery. The ability of

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

Commercial and Industrial - Commercial and industrial loans are primarily made based on the reported cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The collateral support provided by the borrower for most of these loans and the probability of repayment are based on the liquidation of the pledged collateral

Table of Contents

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

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

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

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

**Purchased Loans Policy**

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

Individual loans acquired through the completion of a transfer, including loans that have evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable, are referred to herein as "purchased credit impaired loans." In determining the acquisition date fair value and estimated credit losses of purchased credit impaired loans, and in subsequent accounting, the Company accounts for loans individually. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "nonaccretable difference," are not

recognized as a yield adjustment or as a loss accrual or valuation allowance. Expected cash flows at the purchase date in excess of the fair value of loans, if any, are recorded as interest income over the expected life of the loans if the timing and amount of future cash flows are reasonably estimable. Subsequent to the purchase date, increases in cash flows over those expected at the purchase date are recognized as interest income prospectively. The present value of any decreases in expected cash flows after the purchase date is recognized by recording an allowance for loan losses and a provision for loan losses. If the Company does not have the information necessary to reasonably estimate cash flows to be expected, it may use the cost-recovery method or cash-basis method of income recognition.

## Table of Contents

### Charge-off Policy

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

### Allowance for Loan and Lease Losses

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

As part of the merger between MidWestOne Bank and Central Bank, management developed a single methodology for determining the amount of the ALLL that would be needed at the combined bank. The new methodology is a hybrid of the methods used at MidWestOne Bank and Central Bank prior to the bank merger, and the results from the new ALLL model are consistent with the results that the two banks calculated individually. The refined allowance calculation allocates the portion of allowance that was previously deemed to be unallocated to instead be included in management's determination of appropriate qualitative factors.

### Loans Reviewed Individually for Impairment

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

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

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

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

- The debtor is currently in default on any of its debt.
- The debtor has declared or is in the process of declaring bankruptcy.
- There is significant doubt as to whether the debtor will continue to be a going concern.
- Currently, the debtor has securities being held as collateral that have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange.

Based on estimates and projections that only encompass the current business capabilities, the debtor forecasts that its entity-specific cash flows will be insufficient to service the debt (both interest and principal) in accordance with the contractual terms of the existing agreement through maturity.

Absent the current modification, the debtor cannot obtain funds from sources other than the existing creditors at an effective interest rate equal to the current market interest rate for similar debt for a non-troubled debtor.

Table of Contents

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

- The borrower receives a reduction of the stated interest rate for the remaining original life of the debt.
- The borrower receives an extension of the maturity date or dates at a stated interest rate lower than the current market interest rate for new debt with similar risk characteristics.
- The borrower receives a reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement.
- The borrower receives a deferral of required payments (principal and/or interest).
- The borrower receives a reduction of the accrued interest.

Table of Contents

The following table sets forth information on the Company's TDRs by class of loan occurring during the stated periods:

	Three Months Ended June 30, 2017		2016	
	Pre-Modification Number of Outstanding Recorded Contracts Investment	Post-Modification Outstanding Recorded Investment	Pre-Modification Number of Outstanding Recorded Contracts Investment	Post-Modification Outstanding Recorded Investment
(dollars in thousands)				
Troubled Debt Restructurings <sup>(1)</sup> :				
Commercial real estate:				
Farmland				
Extended maturity date	2 \$ 176	\$ 176	—\$	— \$ —
Commercial real estate-other				
Other	1 10,546	10,923	—	—
Total	3 \$ 10,722	\$ 11,099	—\$	— \$ —

	Six Months Ended June 30, 2017		2016	
	Pre-Modification Number of Outstanding Recorded Contracts Investment	Post-Modification Outstanding Recorded Investment	Pre-Modification Number of Outstanding Recorded Contracts Investment	Post-Modification Outstanding Recorded Investment
(dollars in thousands)				
Troubled Debt Restructurings <sup>(1)</sup> :				
Agricultural				
Extended maturity date	— \$ —	\$ —	1 \$ 25	\$ 25
Commercial and industrial				
Extended maturity date	6 2,037	2,083	—	—
Commercial real estate:				
Farmland				
Extended maturity date	2 176	176	—	—
Commercial real estate-other				
Extended maturity date	1 968	968	—	—
Other	1 10,546	10,923	—	—
Residential real estate:				
One- to four- family first liens				
Interest rate reduction	— —	—	1 104	104
One- to four- family junior liens				
Interest rate reduction	— —	—	1 71	71
Total	10 \$ 13,727	\$ 14,150	3 \$ 200	\$ 200

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

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

	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
--	----------------------------------------	------	-----------------------------------	------

Edgar Filing: MidWestOne Financial Group, Inc. - Form 10-Q

	Number of Recorded Investment Contracts	Number of Recorded Investment Contracts	Number of Recorded Investment Contracts	Number of Recorded Investment Contracts
(dollars in thousands)				
Troubled Debt Restructurings <sup>(1)</sup> That Subsequently Defaulted:				
Commercial and industrial				
Extended maturity date	1 \$ 550	— \$	—4 \$ 1,504	— \$ —
Commercial real estate:				
Commercial real estate-other				
Extended maturity date	1 968	— —	1 968	— —
Total	2 \$ 1,518	— \$	—5 \$ 2,472	— \$ —

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

Table of Contents

Loans Reviewed Collectively for Impairment

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

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

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

• Changes in national and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments.

• Changes in the quality and experience of lending staff and management.

• Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses.

• Changes in the volume and severity of past due loans, classified loans and non-performing loans.

• The existence and potential impact of any concentrations of credit.

• Changes in the nature and terms of loans such as growth rates and utilization rates.

• Changes in the value of underlying collateral for collateral-dependent loans, considering the Company's disposition bias.

• The effect of other external factors such as the legal and regulatory environment.

The Company may also consider other qualitative factors for additional allowance allocations, including changes in the Company's loan review process. Changes in the criteria used in this evaluation or the availability of new information could cause the allowance to be increased or decreased in future periods. In addition, bank regulatory agencies, as part of their examination process, may require adjustments to the allowance for loan losses based on their judgments and estimates.

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

Table of Contents

The following tables set forth the risk category of loans by class of loans and credit quality indicator based on the most recent analysis performed, as of June 30, 2017 and December 31, 2016:

	Pass	Special Mention/ Watch	Substandard	Doubtful	Loss	Total
(in thousands)						
June 30, 2017						
Agricultural	\$84,851	\$ 21,111	\$ 1,689	\$ —	\$ —	-\$107,651
Commercial and industrial <sup>(1)</sup>	443,739	25,041	16,849	8	—	485,637
Commercial real estate:						
Construction and development	132,112	1,230	2,387	—	—	135,729
Farmland	79,096	10,192	562	—	—	89,850
Multifamily	135,222	1,792	492	—	—	137,506
Commercial real estate-other	668,602	25,464	28,412	—	—	722,478
Total commercial real estate	1,015,032	38,678	31,853	—	—	1,085,563
Residential real estate:						
One- to four- family first liens	356,547	3,025	10,757	—	—	370,329
One- to four- family junior liens	110,606	1,145	1,906	—	—	113,657
Total residential real estate	467,153	4,170	12,663	—	—	483,986
Consumer	34,538	—	94	34	—	34,666
Total	\$2,045,313	\$ 89,000	\$ 63,148	\$ 42	\$ —	-\$2,197,503
	Pass	Special Mention/ Watch	Substandard	Doubtful	Loss	Total
(in thousands)						
December 31, 2016						
Agricultural	\$95,103	\$ 14,089	\$ 4,151	\$ —	\$ —	-\$113,343
Commercial and industrial	429,392	11,065	19,016	8	—	459,481
Credit cards	1,489	—	—	—	—	1,489
Commercial real estate:						
Construction and development	121,982	2,732	1,971	—	—	126,685
Farmland	83,563	8,986	2,430	—	—	94,979
Multifamily	134,975	548	480	—	—	136,003
Commercial real estate-other	666,767	20,955	18,854	—	—	706,576
Total commercial real estate	1,007,287	33,221	23,735	—	—	1,064,243
Residential real estate:						
One- to four- family first liens	359,029	2,202	11,002	—	—	372,233
One- to four- family junior liens	114,233	1,628	1,902	—	—	117,763
Total residential real estate	473,262	3,830	12,904	—	—	489,996
Consumer	36,419	1	134	37	—	36,591
Total	\$2,042,952	\$ 62,206	\$ 59,940	\$ 45	\$ —	-\$2,165,143

(1) As of the first quarter of 2017, the Company no longer considered credit cards a separate class of loans, and these balances are now included in commercial and industrial loans.

Included within the special mention/watch, substandard, and doubtful categories at June 30, 2017 and December 31, 2016 are purchased credit impaired loans totaling \$13.9 million and \$15.3 million, respectively.

Below are descriptions of the risk classifications of our loan portfolio.

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

and do not expose the Company to sufficient risk to warrant adverse classification.

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

Table of Contents

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

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

The following table presents loans individually evaluated for impairment, excluding purchased credit impaired loans, by class of loan, as of June 30, 2017 and December 31, 2016:

	June 30, 2017			December 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
(in thousands)						
With no related allowance recorded:						
Agricultural	\$ 1,192	\$ 1,692	\$ —	\$ 3,673	\$ 4,952	\$ —
Commercial and industrial	4,781	4,791	—	6,211	6,259	—
Commercial real estate:						
Construction and development	360	360	—	445	1,170	—
Farmland	524	524	—	2,230	2,380	—
Multifamily	—	—	—	—	—	—
Commercial real estate-other	3,359	3,359	—	2,224	2,384	—
Total commercial real estate	4,243	4,243	—	4,899	5,934	—
Residential real estate:						
One- to four- family first liens	2,371	2,375	—	2,429	2,442	—
One- to four- family junior liens	13	13	—	—	—	—
Total residential real estate	2,384	2,388	—	2,429	2,442	—
Consumer	—	—	—	—	—	—
Total	\$ 12,600	\$ 13,114	\$ —	\$ 17,212	\$ 19,587	\$ —
With an allowance recorded:						
Agricultural	\$ 1,852	\$ 1,852	\$ 400	\$ 1,666	\$ 1,669	\$ 62
Commercial and industrial	6,919	6,919	2,125	5,223	5,223	2,066
Commercial real estate:						
Construction and development	738	1,464	163	263	270	21
Farmland	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
Commercial real estate-other	11,716	11,716	534	6,288	6,344	1,903
Total commercial real estate	12,454	13,180	697	6,551	6,614	1,924
Residential real estate:						
One- to four- family first liens	1,368	1,368	236	1,526	1,526	299
One- to four- family junior liens	—	—	—	—	—	—
Total residential real estate	1,368	1,368	236	1,526	1,526	299
Consumer	—	—	—	—	—	—
Total	\$ 22,593	\$ 23,319	\$ 3,458	\$ 14,966	\$ 15,032	\$ 4,351
Total:						
Agricultural	\$ 3,044	\$ 3,544	\$ 400	\$ 5,339	\$ 6,621	\$ 62
Commercial and industrial	11,700	11,710	2,125	11,434	11,482	2,066
Commercial real estate:						
Construction and development	1,098	1,824	163	708	1,440	21

Edgar Filing: MidWestOne Financial Group, Inc. - Form 10-Q

Farmland	524	524	—	2,230	2,380	—
Multifamily	—	—	—	—	—	—
Commercial real estate-other	15,075	15,075	534	8,512	8,728	1,903
Total commercial real estate	16,697	17,423	697	11,450	12,548	1,924
Residential real estate:						
One- to four- family first liens	3,739	3,743	236	3,955	3,968	299
One- to four- family junior liens	13	13	—	—	—	—
Total residential real estate	3,752	3,756	236	3,955	3,968	299
Consumer	—	—	—	—	—	—
Total	\$35,193	\$36,433	\$ 3,458	\$32,178	\$34,619	\$ 4,351

Table of Contents

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017		2016		2017		2016	
	Average Recorded Investment	Average Interest Recognized						
(in thousands)								
With no related allowance recorded:								
Agricultural	\$ 1,192	\$ 66	\$ 1,266	\$ 13	\$ 1,216	\$ 79	\$ 1,291	\$ 27
Commercial and industrial	4,787	67	3,777	10	4,143	90	3,927	—
Commercial real estate:								
Construction and development	360	—	—	—	360	—	—	—
Farmland	1,686	36	2,568	28	2,073	69	2,580	49
Multifamily	—	—	—	—	—	—	—	—
Commercial real estate-other	3,118	71	1,979	3	3,040	103	2,009	12
Total commercial real estate	5,164	107	4,547	31	5,473	172	4,589	61
Residential real estate:								
One- to four- family first liens	2,409	46	2,200	23	2,417	70	2,209	44
One- to four- family junior liens	13	—	—	—	13	—	—	—
Total residential real estate	2,422	46	2,200	23	2,430	70	2,209	44
Consumer	—	—	—	—	—	—	—	—
Total	\$ 13,565	\$ 286	\$ 11,790	\$ 77	\$ 13,262	\$ 411	\$ 12,016	\$ 132
With an allowance recorded:								
Agricultural	\$ 1,855	\$ 53	\$ 1,856	\$ 7	\$ 1,875	\$ 67	\$ 1,878	\$ 20
Commercial and industrial	4,444	14	3,863	14	3,495	37	3,724	10
Commercial real estate:								
Construction and development	809	—	—	—	832	—	—	—
Farmland	—	—	—	—	—	—	—	—
Multifamily	—	—	158	—	—	—	158	—
Commercial real estate-other	6,294	16	5,416	—	4,410	—	2,415	—
Total commercial real estate	7,103	16	5,574	—	5,242	—	2,573	—
Residential real estate:								
One- to four- family first liens	1,372	17	1,351	11	1,389	26	1,357	19
One- to four- family junior liens	—	—	—	—	—	—	—	—
Total residential real estate	1,372	17	1,351	11	1,389	26	1,357	19
Consumer	—	—	—	—	—	—	—	—
Total	\$ 14,774	\$ 100	\$ 12,644	\$ 32	\$ 12,001	\$ 130	\$ 9,532	\$ 49
Total:								
Agricultural	\$ 3,047	\$ 119	\$ 3,122	\$ 20	\$ 3,091	\$ 146	\$ 3,169	\$ 47
Commercial and industrial	9,231	81	7,640	24	7,638	127	7,651	10
Commercial real estate:								
Construction and development	1,169	—	—	—	1,192	—	—	—
Farmland	1,686	36	2,568	28	2,073	69	2,580	49
Multifamily	—	—	158	—	—	—	158	—
Commercial real estate-other	9,412	87	7,395	3	7,450	103	4,424	12

Edgar Filing: MidWestOne Financial Group, Inc. - Form 10-Q

Total commercial real estate	12,267	123	10,121	31	10,715	172	7,162	61
Residential real estate:								
One- to four- family first liens	3,781	63	3,551	34	3,806	96	3,566	63
One- to four- family junior liens	13	—	—	—	13	—	—	—
Total residential real estate	3,794	63	3,551	34	3,819	96	3,566	63
Consumer	—	—	—	—	—	—	—	—
Total	\$28,339	\$ 386	\$24,434	\$ 109	\$25,263	\$ 541	\$21,548	\$ 181

21

---

Table of Contents

The following table presents the contractual aging of the recorded investment in past due loans by class of loans at June 30, 2017 and December 31, 2016:

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable
(in thousands)						
June 30, 2017						
Agricultural	\$101	\$—	\$430	\$531	\$107,120	\$107,651
Commercial and industrial <sup>(1)</sup>	981	1,920	2,253	5,154	480,483	485,637
Commercial real estate:						
Construction and development	254	90	1,098	1,442	134,287	135,729
Farmland	127	121	317	565	89,285	89,850
Multifamily	—	—	—	—	137,506	137,506
Commercial real estate-other	1,214	643	1,399	3,256	719,222	722,478
Total commercial real estate	1,595	854	2,814	5,263	1,080,300	1,085,563
Residential real estate:						
One- to four- family first liens	1,902	336	2,021	4,259	366,070	370,329
One- to four- family junior liens	232	245	21	498	113,159	113,657
Total residential real estate	2,134	581	2,042	4,757	479,229	483,986
Consumer	55	20	2	77	34,589	34,666
Total	\$4,866	\$3,375	\$7,541	\$15,782	\$2,181,721	\$2,197,503
Included in the totals above are the following purchased credit impaired loans	\$114	\$306	\$354	\$774	\$21,205	\$21,979
December 31, 2016						
Agricultural	\$44	\$—	\$399	\$443	\$112,900	\$113,343
Commercial and industrial	2,615	293	9,654	12,562	446,919	459,481
Credit cards	—	—	—	—	1,489	1,489
Commercial real estate:						
Construction and development	630	—	297	927	125,758	126,685
Farmland	373	—	91	464	94,515	94,979
Multifamily	—	129	—	129	135,874	136,003
Commercial real estate-other	1,238	763	6,655	8,656	697,920	706,576
Total commercial real estate	2,241	892	7,043	10,176	1,054,067	1,064,243
Residential real estate:						
One- to four- family first liens	2,851	1,143	1,328	5,322	366,911	372,233
One- to four- family junior liens	437	151	150	738	117,025	117,763
Total residential real estate	3,288	1,294	1,478	6,060	483,936	489,996
Consumer	50	23	33	106	36,485	36,591
Total	\$8,238	\$2,502	\$18,607	\$29,347	\$2,135,796	\$2,165,143
Included in the totals above are the following purchased credit impaired loans	\$965	\$489	\$549	\$2,003	\$20,795	\$22,798

(1) As of the first quarter of 2017, the Company no longer considered credit cards a separate class of loans, and these balances are now included in commercial and industrial loans.

Non-accrual and Delinquent Loans

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

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

Table of Contents

Delinquency status of a loan is determined by the number of days that have elapsed past the loan's payment due date, using the following classification groupings: 30-59 days, 60-89 days and 90 days or more. Once a TDR has gone 90 days or more past due or is placed on nonaccrual status, it is included in the 90 days or more past due or nonaccrual totals.

The following table sets forth the composition of the Company's recorded investment in loans on nonaccrual status and past due 90 days or more and still accruing by class of loans, excluding purchased credit impaired loans, as of June 30, 2017 and December 31, 2016:

	June 30, 2017		December 31, 2016	
	Loans Past Due 90 Days or More and Still Accruing		Loans Past Due 90 Days or More and Still Accruing	
	Non-Accrual		Non-Accrual	
(in thousands)				
Agricultural	\$494	\$ —	\$2,690	\$ —
Commercial and industrial	2,161	147	8,358	—
Commercial real estate:				
Construction and development	1,110	—	780	95
Farmland	364	89	227	—
Multifamily	—	—	—	—
Commercial real estate-other	12,095	—	7,360	—
Total commercial real estate	13,569	89	8,367	95
Residential real estate:				
One- to four- family first liens	1,364	702	1,127	375
One- to four- family junior liens	115	—	116	15
Total residential real estate	1,479	702	1,243	390
Consumer	37	—	10	—
Total	\$17,740	\$ 938	\$20,668	\$ 485

Not included in the loans above as of June 30, 2017 and December 31, 2016 were purchased credit impaired loans with an outstanding balance of \$0.4 million and \$2.6 million, net of a discount of \$0.1 million and \$0.5 million, respectively.

As of June 30, 2017, the Company had no commitments to lend additional funds to any borrowers who have had a TDR.

**Purchased Loans**

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

Purchased non-credit impaired loans are accounted for in accordance with ASC 310-20 "Nonrefundable Fees and Other Costs" as these loans do not have evidence of significant credit deterioration since origination and it is probable all contractually required payments will be received from the borrower.

Purchased credit impaired loans are accounted for in accordance with ASC 310-30 "Loans and Debt Securities Acquired with Deteriorated Credit Quality" as they display significant credit deterioration since origination and it is probable, as of the acquisition date, that the Company will be unable to collect all contractually required payments from the borrower.

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

For purchased credit impaired loans the difference between contractually required payments at acquisition and the cash flows expected to be collected is referred to as the non-accretable difference. Further, any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized into interest income over the expected remaining life of the loan if the timing and amount of the future cash flows are reasonably estimable.

Table of Contents

This discount includes an adjustment on loans that are not accruing or paying contractual interest so that interest income will be recognized at the estimated current market rate.

Subsequent to the purchase date, increases in cash flows over those expected at the purchase date are recognized as interest income prospectively. The present value of any decreases in expected cash flows after the purchase date is recognized by recording an allowance for credit losses and a provision for loan losses.

Changes in the accretable yield for loans acquired and accounted for under ASC 310-30 were as follows for the three and six months ended June 30, 2017 and 2016:

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
(in thousands)				
Balance at beginning of period	\$1,633	\$845	\$1,961	\$1,446
Accretion	(475 )	(509 )	(891 )	(1,110 )
Reclassification from nonaccretable difference	213	3,208	301	3,208
Balance at end of period	\$1,371	\$3,544	\$1,371	\$3,544

#### 6. Goodwill and Intangible Assets

The excess of the cost of an acquisition over the fair value of the net assets acquired, including core deposit, trade name, and client relationship intangibles, consists of goodwill. Under ASC Topic 350, goodwill and the non-amortizing portion of the trade name intangible are subject to at least annual assessments for impairment by applying a fair value based test. The Company reviews goodwill and the non-amortizing portion of the trade name intangible at the reporting unit level to determine potential impairment annually on October 1, or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable, by comparing the carrying value of the reporting unit with the fair value of the reporting unit. No impairment was recorded on either the goodwill or the trade name intangible assets during the six months ended June 30, 2017. The carrying amount of goodwill was \$64.7 million at June 30, 2017, the same as at December 31, 2016.

The following table presents the changes in the carrying amount of intangibles (excluding goodwill), gross carrying amount, accumulated amortization, and net book value as of and for the six months ended June 30, 2017:

	Insurance Agency Intangible	Core Deposit Intangible	Indefinite-Lived Trade Name Intangible	Finite-Lived Trade Name Intangible	Customer List Intangible	Total
(in thousands)						
June 30, 2017						
Balance, beginning of period	\$ 203	\$ 6,846	\$ 7,040	\$ 960	\$ 122	\$15,171
Amortization expense	(27 )	(1,506 )	—	(111 )	(9 )	(1,653 )
Balance at end of period	\$ 176	\$ 5,340	\$ 7,040	\$ 849	\$ 113	\$13,518
Gross carrying amount	\$ 1,320	\$ 18,206	\$ 7,040	\$ 1,380	\$ 330	\$28,276
Accumulated amortizations	(1,144 )	(12,866 )	—	(531 )	(217 )	(14,758 )
Net book value	\$ 176	\$ 5,340	\$ 7,040	\$ 849	\$ 113	\$13,518

#### 7. Other Assets

The components of the Company's other assets were as follows:

	June 30, 2017	December 31, 2016
(in thousands)		
Federal Home Loan Bank Stock	\$12,181	\$ 12,800
FDIC indemnification asset, net	—	479
Prepaid expenses	1,874	1,760

Mortgage servicing rights	2,136	1,951
Accounts receivable & other miscellaneous assets	3,057	1,323
	\$19,248	\$ 18,313

Table of Contents

The Bank is a member of the FHLB of Des Moines, and ownership of FHLB stock is a requirement for such membership. The amount of FHLB stock the Bank is required to hold is directly related to the amount of FHLB advances borrowed. Because this security is not readily marketable and there are no available market values, this security is carried at cost and evaluated for potential impairment each quarter. Redemption of this investment is at the option of the FHLB. No impairment was recorded on FHLB stock in the six months ended June 30, 2017 or in the year ended December 31, 2016.

As part of the Central merger, the Company became a party to certain loss-share agreements with the FDIC from previous Central-related acquisitions. These agreements cover realized losses on loans and foreclosed real estate for specified periods. These loss-share assets are measured separately from the loan portfolios because they are not contractually embedded in the loans and are not transferable with the loans should the Company choose to dispose of them. Fair values at the acquisition dates were estimated based on projected cash flows available for loss-share based on the credit adjustments estimated for each loan. The loss-share assets are recorded within other assets on the balance sheet. On July 14, 2017, the Bank, entered into an agreement with the FDIC that terminated all of the Bank's loss sharing agreements related to the former Central Bank. See Note 15. "Subsequent Events" to our consolidated financial statements for additional information related to our termination of the loss-share agreements.

Mortgage servicing rights are recorded at fair value based on assumptions provided by a third-party valuation service. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the servicing cost per loan, the discount rate, the escrow float rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses.

#### 8. Short-Term Borrowings

Short-term borrowings were as follows as of June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
(in thousands)	Weighted Average Balance	Weighted Average Balance
	Cost	Cost
Federal funds purchased	1.31 % \$45,319	0.83 % \$35,684
Securities sold under agreements to repurchase	0.23 60,182	0.22 82,187
Total	0.69 % \$105,501	0.40 % \$117,871

At June 30, 2017 and December 31, 2016, the Company had no borrowings through the Federal Reserve Discount Window, while the borrowing capacity was \$11.7 million as of June 30, 2017, the same as of December 31, 2016. As of both June 30, 2017 and December 31, 2016, the Bank had municipal securities pledged with a market value of \$13.0 million, to the Federal Reserve to secure potential borrowings. The Company also has various other unsecured federal funds agreements with correspondent banks. As of June 30, 2017 and December 31, 2016, there were \$45.3 million and \$35.7 million of borrowings through these correspondent bank federal funds agreements, respectively. Securities sold under agreements to repurchase are agreements in which the Company acquires funds by selling assets to another party under a simultaneous agreement to repurchase the same assets at a specified price and date. The Company enters into repurchase agreements and also offers a demand deposit account product to customers that sweeps their balances in excess of an agreed upon target amount into overnight repurchase agreements. All securities sold under agreements to repurchase are recorded on the face of the balance sheet.

On April 30, 2015, the Company entered into a \$5.0 million unsecured line of credit with a correspondent bank. Interest is payable at a rate of one-month LIBOR plus 2.00%. The line was renewed in May 2017, and is now scheduled to mature on April 28, 2018. The Company had no balance outstanding under this agreement as of June 30, 2017.

#### 9. Subordinated Notes Payable

The Company has established three statutory business trusts under the laws of the state of Delaware: Central Bancshares Capital Trust II, Barron Investment Capital Trust I, and MidWestOne Statutory Trust II. The trusts exist

for the exclusive purposes of (i) issuing trust securities representing undivided beneficial interests in the assets of the respective trust; (ii) investing the gross proceeds of the trust securities in junior subordinated deferrable interest debentures (junior subordinated notes); and (iii) engaging in only those activities necessary or incidental thereto. For regulatory capital purposes, these trust securities qualify as a component of Tier 1 capital.

Table of Contents

The table below summarizes the outstanding junior subordinated notes and the related trust preferred securities issued by each trust as of June 30, 2017 and December 31, 2016:

(in thousands)	Face Value	Book Value	Interest Rate	Interest Rate at 6/30/2017	Maturity Date	Callable Date
<b>June 30, 2017</b>						
Central Bancshares Capital Trust II <sup>(1) (2)</sup>	\$7,217	\$6,644	Three-month LIBOR + 3.50%	4.75 %	03/15/2038	03/15/2013
Barron Investment Capital Trust I <sup>(1) (2)</sup>	2,062	1,635	Three-month LIBOR + 2.15%	3.44 %	09/23/2036	09/23/2011
MidWestOne Statutory Trust II <sup>(1)</sup>	15,464	15,464	Three-month LIBOR + 1.59%	2.84 %	12/15/2037	12/15/2012
Total	\$24,743	\$23,743				
(in thousands)	Face Value	Book Value	Interest Rate	Interest Rate at 12/31/2016	Maturity Date	Callable Date
<b>December 31, 2016</b>						
Central Bancshares Capital Trust II <sup>(1) (2)</sup>	\$7,217	\$6,614	Three-month LIBOR + 3.50%	4.46 %	03/15/2038	03/15/2013
Barron Investment Capital Trust I <sup>(1) (2)</sup>	2,062	1,614	Three-month LIBOR + 2.15%	3.15 %	09/23/2036	09/23/2011
MidWestOne Statutory Trust II <sup>(1)</sup>	15,464	15,464	Three-month LIBOR + 1.59%	2.55 %	12/15/2037	12/15/2012
Total	\$24,743	\$23,692				

(1) All distributions are cumulative and paid in cash quarterly.

(2) Central Bancshares Capital Trust II and Barron Investment Capital Trust I were established by Central prior to the Company's merger with Central, and the junior subordinated notes issued by Central were assumed by the Company. The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated notes at the stated maturity date or upon redemption of the junior subordinated notes. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated notes. The Company's obligation under the junior subordinated notes and other relevant trust agreements, in aggregate, constitutes a full and unconditional guarantee by the Company of each trust's obligations under the trust preferred securities issued by each trust. The Company has the right to defer payment of interest on the junior subordinated notes and, therefore, distributions on the trust preferred securities, for up to five years, but not beyond the stated maturity date in the table above. During any such deferral period the Company may not pay cash dividends on its stock and generally may not repurchase its stock.

## 10. Long-Term Borrowings

Long-term borrowings were as follows as of June 30, 2017 and December 31, 2016:

(in thousands)	June 30, 2017	December 31, 2016
	Weighted Average Cost	Weighted Average Cost
FHLB Borrowings	1.61 % \$90,000	1.56 % \$115,000
Note payable to unaffiliated bank	2.98 15,000	2.52 17,500
Total	1.81 % \$105,000	1.69 % \$132,500

The Company utilizes FHLB borrowings as a supplement to customer deposits to fund interest-earning assets and to assist in managing interest rate risk. As a member of the Federal Home Loan Bank of Des Moines, the Bank may

borrow funds from the FHLB in amounts up to 35% of the Bank's total assets, provided the Bank is able to pledge an adequate amount of qualified assets to secure the borrowings. Advances from the FHLB are collateralized primarily by one- to four-family residential, commercial and agricultural real estate first mortgages equal to various percentages of the total outstanding notes. See Note 5 "Loans Receivable and the Allowance for Loan Losses" of the notes to the consolidated financial statements.

On April 30, 2015, the Company entered into a \$35.0 million unsecured note payable with a correspondent bank with a maturity date of June 30, 2020. The Company drew \$25.0 million on the note prior to June 30, 2015, at which time the

Table of Contents

ability to obtain additional advances ceased. Payments of principal and interest are payable quarterly, which began on September 30, 2015. As of June 30, 2017, \$15.0 million of that note was outstanding.

## 11. Income Taxes

The income tax provisions for the three and six months ended June 30, 2017 and 2016 were less than the amounts computed by applying the maximum effective federal income tax rate of 35% to the income before income taxes, because of the following items:

(in thousands)	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2017		2016		2017		2016	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
Expected provision	\$3,629	35.0 %	\$2,292	35.0 %	\$6,864	35.0 %	\$4,899	35.0 %
Tax-exempt interest	(795 )	(7.7 )	(745 )	(11.4 )	(1,581 )	(8.1 )	(1,499 )	(10.7 )
Bank-owned life insurance	(110 )	(1.1 )	(115 )	(1.8 )	(225 )	(1.1 )	(249 )	(1.8 )
State income taxes, net of federal income tax benefit	443	4.3	327	5.0	848	4.3	647	4.6
Non-deductible acquisition expenses	—	—	28	0.4	—	—	53	0.4
General business credits	(19 )	(0.2 )	(14 )	(0.2 )	(40 )	(0.2 )	(153 )	(1.1 )
Other	(12 )	(0.1 )	21	0.4	(201 )	(1.0 )	1	—
Total income tax provision	\$3,136	30.2 %	\$1,794	27.4 %	\$5,665	28.9 %	\$3,699	26.4 %

## 12. Estimated Fair Value of Financial Instruments and Fair Value Measurements

Fair value is the price that would be received in selling an asset or paid in transferring a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability is not adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (1) independent, (2) knowledgeable, (3) able to transact and (4) willing to transact.

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

- Level 1 Inputs – Unadjusted quoted prices for identical assets or liabilities in active markets that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Table of Contents

It is the Company's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements. The Company is required to use observable inputs, to the extent available, in the fair value estimation process unless that data results from forced liquidations or distressed sales. A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

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

**Securities Available for Sale** - The Company's investment securities classified as available for sale include: debt securities issued by the U.S. Treasury and other U.S. Government agencies and corporations, debt securities issued by state and political subdivisions, mortgage-backed securities, collateralized mortgage obligations, corporate debt securities, and equity securities. Quoted exchange prices are available for equity securities, which are classified as Level 1. The Company utilizes an independent pricing service to obtain the fair value of debt securities. On a quarterly basis, the Company selects a sample of 30 securities from its primary pricing service and compares them to a secondary independent pricing service to validate value. In addition, the Company periodically reviews the pricing methodology utilized by the primary independent service for reasonableness. Debt securities issued by the U.S. Treasury and other U.S. Government agencies and corporations, mortgage-backed securities, and collateralized mortgage obligations are priced utilizing industry-standard models that consider various assumptions, including time value, yield curves, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace and are classified as Level 2. Municipal securities are valued using a type of matrix, or grid, pricing in which securities are benchmarked against the treasury rate based on credit rating. These model and matrix measurements are classified as Level 2 in the fair value hierarchy. On an annual basis, a group of selected municipal securities have their credit rating evaluated by a securities dealer and that information is used to verify the primary independent service's rating and pricing.

The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016. There were no liabilities subject to fair value measurement as of these dates. The assets are segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value:

## Fair Value Measurement at June 30, 2017 Using

(in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
<b>Available for sale debt securities:</b>				
U.S. Government agencies and corporations	\$5,778	\$ —	\$ 5,778	\$ —
State and political subdivisions	151,839	—	151,839	—
Mortgage-backed securities	54,115	—	54,115	—
Collateralized mortgage obligations	164,390	—	164,390	—
Corporate debt securities	64,502	—	64,502	—
Total available for sale debt securities	440,624	—	440,624	—
Other equity securities	2,334	2,334	—	—
Total securities available for sale	\$442,958	\$ 2,334	\$ 440,624	\$ —

Table of Contents

(in thousands)	Fair Value Measurement at December 31, 2016 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale debt securities:				
U.S. Government agencies and corporations	\$5,905	\$ —	\$ 5,905	\$ —
State and political subdivisions	165,272	—	165,272	—
Mortgage-backed securities	61,354	—	61,354	—
Collateralized mortgage obligations	171,267	—	171,267	—
Corporate debt securities	72,453	—	72,453	—
Total available for sale debt securities	476,251	—	476,251	—
Other equity securities	1,267	1,267	—	—
Total securities available for sale	\$477,518	\$ 1,267	\$ 476,251	\$ —

There were no transfers of assets between levels of the fair value hierarchy during the three and six months ended June 30, 2017 or the year ended December 31, 2016.

There have been no changes in valuation techniques used for any assets measured at fair value during the three and six months ended June 30, 2017 or the year ended December 31, 2016.

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

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

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

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

The following table discloses the Company's estimated fair value amounts of its assets recorded at fair value on a nonrecurring basis. It is management's belief that the fair values presented below are reasonable based on the valuation techniques and data available to the Company as of June 30, 2017 and December 31, 2016, as more fully described above.

(in thousands)	Fair Value Measurement at June 30, 2017 Using		
	Total	Quoted Prices in Active Markets for	Significant Other Significant Unobservable Inputs

Edgar Filing: MidWestOne Financial Group, Inc. - Form 10-Q

	Identical Assets (Level 1)	Inputs (Level 2)	(Level 3)
Assets:			
Collateral dependent impaired loans	\$ 1,073	\$ —	\$ 1,073
Other real estate owned	\$ 1,486	\$ —	\$ 1,486

29

---

Table of Contents

(in thousands)	Fair Value Measurement at December 31, 2016 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

## Assets:

Collateral dependent impaired loans	\$8,774	\$	—	\$ 8,774
Other real estate owned	\$2,097	\$	—	\$ 2,097

The following presents the carrying amount and estimated fair value of the financial instruments held by the Company at June 30, 2017 and December 31, 2016. The information presented is subject to change over time based on a variety of factors. The operations of the Company are managed on a going concern basis and not a liquidation basis. As a result, the ultimate value realized from the financial instruments presented could be substantially different when actually recognized over time through the normal course of operations. Additionally, a substantial portion of the Company's inherent value is the capitalization and franchise value of the Bank. Neither of these components has been given consideration in the presentation of fair values below.

June 30, 2017

(in thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	\$49,398	\$ 49,398	\$ 49,398	\$	—
Investment securities:					
Available for sale	442,958	442,958	2,334	440,624	—
Held to maturity	182,478	183,296	—	183,296	—
Total investment securities	625,436	626,254	2,334	623,920	—
Loans held for sale	1,636	1,667	—	—	1,667
Loans, net	2,174,993	2,175,104	—	2,175,104	—
Accrued interest receivable	12,606	12,606	12,606	—	—
Federal Home Loan Bank stock	12,181	12,181	—	12,181	—
Financial liabilities:					
Deposits:					
Non-interest bearing demand	476,031	476,031	476,031	—	—
Interest-bearing checking	1,131,151	1,131,151	1,131,151	—	—
Savings	203,967	203,967	203,967	—	—
Certificates of deposit under \$100,000	325,847	323,885	—	323,885	—
Certificates of deposit \$100,000 and over	356,713	355,582	—	355,582	—
Total deposits	2,493,709	2,490,616	1,811,149	679,467	—
Federal funds purchased and securities sold under agreements to repurchase	105,501	105,501	105,501	—	—
Federal Home Loan Bank borrowings	90,000	89,791	—	89,791	—
Junior subordinated notes issued to capital trusts	23,743	19,462	—	19,462	—
Long-term debt	15,000	15,000	—	15,000	—

Accrued interest payable	1,551	1,551	1,551	—	—
--------------------------	-------	-------	-------	---	---

30

---

Table of Contents

	December 31, 2016				
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands)					
Financial assets:					
Cash and cash equivalents	\$43,228	\$ 43,228	\$ 43,228	\$ —	—
Investment securities:					
Available for sale	477,518	477,518	1,267	476,251	—
Held to maturity	168,392	164,792	—	164,792	—
Total investment securities	645,910	642,310	1,267	641,043	—
Loans held for sale	4,241	4,286	—	—	4,286
Loans, net	2,143,293	2,138,252	—	2,138,252	—
Accrued interest receivable	13,871	13,871	13,871	—	—
Federal Home Loan Bank stock	12,800	12,800	—	12,800	—
Financial liabilities:					
Deposits:					
Non-interest bearing demand	494,586	494,586	494,586	—	—
Interest-bearing checking	1,136,282	1,136,282	1,136,282	—	—
Savings	197,698	197,698	197,698	—	—
Certificates of deposit under \$100,000	326,832	324,978	—	324,978	—
Certificates of deposit \$100,000 and over	325,050	324,060	—	324,060	—
Total deposits	2,480,448	2,477,604	1,828,566	649,038	—
Federal funds purchased and securities sold under agreements to repurchase	117,871	117,871	117,871	—	—
Federal Home Loan Bank borrowings	115,000	114,590	—	114,590	—
Junior subordinated notes issued to capital trusts	23,692	19,248	—	19,248	—
Long-term debt	17,500	17,500	—	17,500	—
Accrued interest payable	1,472	1,472	1,472	—	—

• Cash and cash equivalents, federal funds purchased, securities sold under repurchase agreements, and accrued interest are instruments with carrying values that approximate fair value.

• Investment securities available for sale are measured at fair value on a recurring basis. Held to maturity securities are carried at amortized cost. Fair value is based upon quoted prices, if available. If a quoted price is not available, the fair value is obtained from benchmarking the security against similar securities by using a third-party pricing service.

• Loans held for sale are carried at the lower of cost or fair value, with fair value being based on recent observable loan sales. The portfolio has historically consisted primarily of residential real estate loans.

• For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans are determined using estimated future cash flows, discounted at the interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. The Company does record nonrecurring fair value adjustments to loans to reflect (1) partial write-downs and allowances that are based on the observable market price or appraised value of the collateral or (2) the full charge-off of the loan carrying value.

• The fair value of FHLB stock is estimated at its carrying value and redemption price of \$100 per share.

Deposit liabilities are carried at historical cost. The fair value of non-interest bearing demand deposits, savings accounts and certain interest-bearing checking deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities. If the fair value of the fixed maturity certificates of deposit is calculated at less than the carrying amount, the carrying value of these deposits is reported as the fair value.

FHLB borrowings, junior subordinated notes issued to capital trusts, and long-term debt are recorded at historical cost. The fair value of these items is estimated using discounted cash flow analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Table of Contents

The following presents the valuation technique(s), unobservable inputs, and quantitative information about the unobservable inputs used for fair value measurements of the financial instruments held by the Company at June 30, 2017, categorized within Level 3 of the fair value hierarchy:

Quantitative Information About Level 3 Fair Value Measurements					
(dollars in thousands)	Fair Value at June 30, 2017	Valuation Techniques(s)	Unobservable Input	Range of Inputs	Weighted Average
Collateral dependent impaired loans	\$1,073	Modified appraised value	Third party appraisal	NM * NM * NM *	
			Appraisal discount	NM * NM * NM *	
Other real estate owned	\$1,486	Modified appraised value	Third party appraisal	NM * NM * NM *	
			Appraisal discount	NM * NM * NM *	

\* Not Meaningful. Third party appraisals are obtained as to the value of the underlying asset, but disclosure of this information would not provide meaningful information, as the range will vary widely from loan to loan. Types of discounts considered include age of the appraisal, local market conditions, current condition of the property, and estimated sales costs. These discounts will also vary from loan to loan, thus providing a range would not be meaningful.

Changes in assumptions or estimation methodologies may have a material effect on these estimated fair values.

### 13. Operating Segments

The Company's activities are considered to be a single industry segment for financial reporting purposes. The Company is engaged in the business of commercial and retail banking, investment management and insurance services with operations throughout central and eastern Iowa, the Twin Cities area of Minnesota and Wisconsin, Florida, and Denver, Colorado. Substantially all income is derived from a diverse base of commercial, mortgage and retail lending activities, and investments.

### 14. Effect of New Financial Accounting Standards

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update No. 2014-09, Revenue from Contract with Customers (Topic 606). The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following five steps: 1) identify the contracts(s) with the customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract; and 5) recognize revenue when (or as) the entity satisfies a performance obligation. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer. For a public entity, the amendments in this update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. In July 2015, the FASB announced a delay to the effective date of Accounting Standards Update No. 2015-09, Revenue from Contract with Customers (Topic 606). Reporting entities may choose to adopt the standard as of the original date, or take advantage of a one-year delay. For a public entity, the revised effective date is for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted prior to the original effective date. The Company's revenue is comprised of interest income on financial assets, which is excluded from the scope of this new

guidance, and noninterest income. The Company expects this new guidance will potentially require it to change how certain recurring revenue streams are recognized within trust and asset management fees, sales of other real estate, credit and debit card interchange fees, and credit card revenue. In addition, the Company continues to stay apprised of certain issues related to implementation of the standard that are relevant to the banking industry which are still pending resolution. The Company is beginning to analyze the expected areas of impact, and currently does not expect the effect on the Company's consolidated financial statements to be material. The Company has determined that it will not early-adopt this standard, and plans to utilize the modified retrospective transition method.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The amendments in this update provide guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. In doing so, the amendment should reduce diversity in the timing and content of footnote disclosures. Disclosures are required if it is probable an entity will be unable to meet its obligations within the look-forward period of twelve months after the financial statements are made available. Incremental substantial doubt disclosure is required if the probability

Table of Contents

is not mitigated by management's plans. The new standard applies to all entities for the first annual period ending after December 15, 2016, and interim periods thereafter. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. The guidance in this update makes changes to the current GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The treatment of gains and losses for all equity securities, including those without a readily determinable market value, is expected to result in additional volatility in the income statement, with the loss of mark to market via equity for these investments. Additionally, changes in the allowable method for determining the fair value of financial instruments in the financial statement footnotes ("exit price" only) will likely require changes to current methodologies of determining these values, and how they are disclosed in the financial statement footnotes. The new standard applies to public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. The Company is in the process of evaluating the impact of this ASU on its consolidated financial statements, including potential changes to the Company's note disclosure of the fair value of its financial assets and liabilities, and does not expect to early adopt the standard.

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

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation - Stock Compensation (Topic 718). The guidance involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new standard applies to public business entities for annual periods beginning after December 15, 2016, including interim periods within those annual periods, with early adoption permitted. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments were effective January 1, 2017. The Company elected to account for forfeitures as they occur. The effect of this election and other amendments did not have an effect on the Company's consolidated financial statements.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, Financial Instruments-Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model

for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The amendment requires the use of a new model covering current expected credit losses (CECL), which will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. Upon initial recognition of the exposure, the CECL model requires an entity to estimate the credit losses expected over the life of an exposure (or pool of exposures). The estimate of expected credit losses (ECL) should consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments. The new guidance also amends the current available for sale (AFS) security OTTI model for debt securities. The new model will require an estimate of ECL only when the fair value is below the amortized cost of the asset. The length of time the fair value of an AFS debt security has been below the amortized cost will no

Table of Contents

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

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, Intangibles-Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment. The new guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. The update applies to public business entities that are SEC filers in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company early adopted this amendment during the second quarter of 2017, and adoption did not have a significant effect on the Company's consolidated financial statements.

In March 2017, the FASB issued Accounting Standards Update No. 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities. The new guidance requires that the premium amortization period on non-contingently callable securities, end at the earliest call date, rather than the contractual maturity date. The shorter amortization period means that interest income would generally be lower in the periods before the earliest call date and higher thereafter (if the security is not called) compared to current GAAP. The update applies to public business entities in fiscal years beginning after December 15, 2018. Early adoption is permitted. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company adopted this update during the second quarter of 2017. Since the Company was already amortizing premiums on callable investment securities between the date of purchase and the first call date, there was no effect on the Company's consolidated financial statements.

#### 15. Subsequent Events

Management evaluated subsequent events through the date the consolidated financial statements were issued. Events or transactions occurring after June 30, 2017, but prior to the date the consolidated financial statements were issued, that provided additional evidence about conditions that existed at June 30, 2017 have been recognized in the consolidated financial statements for the three and six months ended June 30, 2017. Events or transactions that provided evidence about conditions that did not exist at June 30, 2017, but arose before the consolidated financial statements were issued, have not been recognized in the consolidated financial statements for the three and six months ended June 30, 2017.

On July 14, 2017, the board of directors of the Company declared a cash dividend of \$0.17 per share payable on September 15, 2017 to shareholders of record as of the close of business on September 1, 2017.

On July 14, 2017, MidWestOne Bank (the "Bank"), entered into an agreement with the Federal Deposit Insurance Corporation (FDIC) that terminated all of the Bank's loss sharing agreements related to the former Central Bank's six

FDIC-assisted acquisitions from 2009 through 2011.

The agreement required the Bank to pay \$0.3 million to the FDIC to settle all outstanding items related to the terminated loss sharing agreements. As a result of entering into the agreement, assets that were covered by the terminated loss sharing agreements, including covered loans in the amount of \$27.2 million on June 30, 2017, have been reclassified as non-covered assets, effective July 14, 2017.

Accordingly, in the third quarter of 2017, the Company expects to realize a one-time pre-tax gain of approximately \$0.2 million, inclusive of the write-off of the remaining indemnification asset, other receivables from the FDIC and the Bank's clawback liabilities due to the FDIC. The termination of the loss sharing agreements will not impact the yields for the loans that were previously covered under this agreement and is not expected to impact the allowance for loan losses. All

## Table of Contents

future recoveries, gains, losses and expenses related to these previously covered assets will now be recognized entirely by the Bank since the FDIC will no longer be sharing in such gains or losses. Accordingly, the Company's future earnings will be positively impacted to the extent the Company recognizes gains on any sales or recoveries in excess of the carrying value of such assets. Similarly, the Company's future earnings will be negatively impacted to the extent the Company recognizes expenses, losses or charge-offs related to such assets.

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

#### OVERVIEW

The Company provides financial services to individuals, businesses, governmental units and institutional customers located primarily in the upper Midwest through its bank subsidiary, MidWestOne Bank. The Bank has office locations in central and east-central Iowa, the Twin Cities area of Minnesota, Wisconsin, Florida, and Denver, Colorado. The Bank is actively engaged in many areas of commercial banking, including: acceptance of demand, savings and time deposits; making commercial, real estate, agricultural and consumer loans; and other banking services tailored for its individual customers. The Wealth Management Division of the Bank administers estates, personal trusts, conservatorships, and pension and profit-sharing accounts along with providing brokerage and other investment management services to customers. MidWestOne Insurance Services, Inc., also a wholly-owned subsidiary of the Company, provides personal and business insurance services in Iowa.

We operate as an independent community bank that offers a broad range of customer-focused financial services as an alternative to large regional banks in our market areas. Management has invested in infrastructure and staffing to support our strategy of serving the financial needs of businesses, individuals and municipalities in our market areas. We focus our efforts on core deposit generation, especially transaction accounts, and quality loan growth with an emphasis on growing commercial loan balances. We seek to maintain a disciplined pricing strategy on deposit generation that will allow us to compete for high quality loans while maintaining an appropriate spread over funding costs.

Our results of operations depend primarily on our net interest income, which is the difference between the interest income on our earning assets, such as loans and securities, and the interest expense paid on our deposits and borrowings. Results of operations are also affected by non-interest income and expense, the provision for loan losses and income tax expense. Significant external factors that impact our results of operations include general economic and competitive conditions, as well as changes in market interest rates, government policies, and actions of regulatory authorities.

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes and the statistical information and financial data appearing in this report as well as our Annual Report on Form 10-K for the year ended December 31, 2016. Results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of results to be attained for any other period.

#### Critical Accounting Policies

Critical accounting estimates are those which are both most important to the portrayal of our financial condition and results of operations, and require our management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting estimates relate to the allowance for loan losses, application of purchase accounting, goodwill and intangible assets, and fair value of available for sale investment securities, all of which involve significant judgment by our management. Information about our critical accounting estimates is included under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2016.

#### RESULTS OF OPERATIONS

##### Comparison of Operating Results for the Three Months Ended June 30, 2017 and June 30, 2016

##### Summary

For the quarter ended June 30, 2017, we earned net income of \$7.2 million, which was an increase of \$2.5 million from \$4.8 million for the quarter ended June 30, 2016. The increase in net income was due primarily to decreased noninterest expense during the three months ended June 30, 2017 compared to the three months ended June 30, 2016. Both basic and diluted earnings per common share for the second quarter of 2017 were \$0.59, versus \$0.42 for both for the second quarter of 2016. Our annualized return on average assets for the second quarter of 2017 was 0.95% compared with 0.64% for the same period in 2016. Our annualized return on average shareholders' equity was 8.58% for the three months ended June 30, 2017 compared with 6.31% for the three months ended June 30, 2016. The annualized return on average tangible equity was 11.86% for the second quarter of 2017 compared with 9.67% for the same period in 2016.

Table of Contents

The following table presents selected financial results and measures as of and for the quarters ended June 30, 2017 and 2016.

(dollars in thousands)	As of and for the Three Months Ended June 30,	
	2017	2016
Net Income	\$7,234	\$4,755
Average Assets	3,056,740	2,984,900
Average Shareholders' Equity	338,362	303,319
Return on Average Assets*	0.95	% 0.64
Return on Average Shareholders' Equity*	8.58	6.31
Return on Average Tangible Equity*	11.86	9.67
Total Equity to Assets (end of period)	11.09	10.17
Tangible Equity to Tangible Assets (end of period)	8.86	7.77
Tangible Book Value per Share	\$21.86	\$19.88

\* Annualized

We have traditionally disclosed certain non-GAAP ratios, including our return on average tangible equity and the ratio of our tangible equity to tangible assets, as well as diluted earnings per common share exclusive of merger-related expenses, adjusted noninterest income as a percentage of total revenue, and tangible book value per share. We believe these ratios provide investors with information regarding our financial condition and results of operations and how we evaluate them internally.

Table of Contents

The following tables provide a reconciliation of the non-GAAP measures to the most comparable GAAP equivalents.

(dollars in thousands, except per share amounts)	For the Three Months Ended June 30,	
	2017	2016
Net Income:		
Net income	\$7,234	\$4,755
Plus: Intangible amortization, net of tax <sup>(1)</sup>	523	660
Adjusted net income	\$7,757	\$5,415
Average Tangible Equity:		
Average total shareholders' equity	\$338,362	\$303,319
Less: Average intangibles, net of amortization	(78,554 )	(82,268 )
Plus: Average deferred tax liability associated with intangibles	2,581	4,098
Average tangible equity	\$262,389	\$225,149
Return on Average Tangible Equity (annualized)	11.86 %	9.67 %
Net Income:		
Net income	\$7,234	\$4,755
Plus: Merger-related expenses	—	1,799
Net tax effect of merger-related expenses <sup>(2)</sup>	—	(670 )
Net income exclusive of merger-related expenses	\$7,234	\$5,884
Diluted average number of shares	12,219,238	11,453,831
Earnings Per Common Share-Diluted	\$0.59	\$0.42
Earnings Per Common Share-Diluted, exclusive of merger-related expenses	\$0.59	\$0.51
(1) Computed on a tax-equivalent basis, assuming a federal income tax rate of 35%.		
(2) Computed based on qualifying tax deductible expenses, assuming a federal income tax rate of 35%.		
Adjusted Noninterest Income:		
Noninterest income	\$5,383	\$5,595
Less: Gain on sale of available for sale securities	(20 )	(223 )
(Gain) loss on sale of premises and equipment	(8 )	40
Other gain	(37 )	(124 )
Adjusted noninterest income	\$5,318	\$5,288
Total Revenue:		
Net interest income	\$26,191	\$24,940
Plus: Noninterest income	5,383	5,595
Less: Gain on sale of available for sale securities	(20 )	(223 )
(Gain) loss on sale of premises and equipment	(8 )	40
Other gain	(37 )	(124 )
Total Revenue	\$31,509	\$30,228
Adjusted Noninterest Income as a Percentage of Total Revenue	16.9 %	17.5 %

Table of Contents

(dollars in thousands)	As of June 30,	
	2017	2016
Tangible Equity:		
Total shareholders' equity	\$ 342,872	\$ 305,195
Plus: Deferred tax liability associated with intangibles	2,432	3,860
Less: Intangible assets, net	(78,172 )	(81,719 )
Tangible equity	\$267,132	\$227,336
Tangible Assets:		
Total assets	\$ 3,091,045	\$ 3,002,194
Plus: Deferred tax liability associated with intangibles	2,432	3,860
Less: Intangible assets, net	(78,172 )	(81,719 )
Tangible assets	\$3,015,305	\$2,924,335
Common shares outstanding	12,218,528	11,435,860
Tangible Book Value Per Share	\$21.86	\$19.88
Tangible Equity/Tangible Assets	8.86	% 7.77

**Net Interest Income**

Net interest income is the difference between interest income and fees earned on earning assets and interest expense incurred on interest-bearing liabilities. Interest rate levels and volume fluctuations within earning assets and interest-bearing liabilities impact net interest income. Net interest margin is net interest income as a percentage of average earning assets.

Certain assets with tax favorable treatment are evaluated on a tax-equivalent basis. Tax-equivalent basis assumes a federal income tax rate of 35%. Tax favorable assets generally have lower contractual yields than fully taxable assets. A tax-equivalent analysis is performed by adding the tax savings to the earnings on tax-favorable assets. After factoring in the tax-favorable effects of these assets, the yields may be more appropriately evaluated against alternative earning assets. In addition to yield, various other risks are factored into the evaluation process.

Net interest income of \$26.2 million for the second quarter of 2017 increased \$1.3 million, or 5.0%, from \$24.9 million for the second quarter of 2016, primarily due to an increase of \$1.8 million, or 6.5%, in interest income. An increase in the merger-related discount accretion of \$0.6 million, to \$1.3 million for the second quarter of 2017 compared to \$0.7 million for the second quarter of 2016, partially offset by a decrease in average loan balances, resulted in loan interest income increasing \$1.0 million, or 4.1%, to \$25.7 million for the second quarter of 2017 compared to the second quarter of 2016. Income from investment securities was \$4.2 million for the second quarter of 2017, up from \$3.3 million for the second quarter of 2016, which resulted from an increase of \$134.5 million in the average balance, partially offset by a decrease of 10 basis points in the yield of investment securities between the two comparable periods.

Interest expense increased \$0.6 million, or 18.2%, to \$3.7 million for the second quarter of 2017, compared to \$3.1 million for the same period in 2016 primarily due to an increase in the cost of interest-bearing deposits of 9 basis points on increased average balances of \$91.8 million between the second quarter of 2017 and the same period in 2016. The merger-related amortization of the purchase accounting premium on certificates of deposit, which acts to reduce interest expense, declined from \$0.3 million for the second quarter of 2016, to zero for the same period of 2017. Additionally, the average balance of Federal Home Loan Bank ("FHLB") borrowings decreased, partially offset by an increase in the average rate paid, resulting in \$0.1 million of reduced expense between the comparable periods. Our net interest margin for the second quarter of 2017, calculated on a fully tax-equivalent basis, was 3.91%, or 8 basis points higher than the net interest margin of 3.83% for the second quarter of 2016. A higher yield received on loans, combined with higher discount accretion resulted in a 19 basis point increase in overall loan yield. This increase was partially offset by a 10 basis point decrease in the yield on investment securities, resulting in higher yield on interest-earning assets for the second quarter of 2017 compared to the second quarter of 2016. The cost of deposits increased 9 basis points, due primarily to the absence of purchase premium amortization in 2017, while the average cost of borrowings edged higher by 6 basis points.



Table of Contents

The following table shows consolidated average balance sheets, detailing the major categories of assets and liabilities, the interest income earned on earning assets, the interest expense paid for interest-bearing liabilities, and the related yields and interest rates for the quarters ended June 30, 2017 and 2016. Dividing annualized income or expense by the average balances of assets or liabilities results in average yields or rates. Average information is provided on a daily average basis.

	Three Months Ended June 30,					
	2017			2016		
	Average Balance	Interest Income/Expense	Average Rate/Yield	Average Balance	Interest Income/Expense	Average Rate/Yield
(dollars in thousands)						
Average Earning Assets:						
Loans <sup>(1)(2)(3)</sup>	\$2,165,776	\$26,052	4.82 %	\$2,176,693	\$25,058	4.63 %
Investment securities:						
Taxable investments	421,255	2,590	2.47	318,253	1,912	2.42
Tax exempt investments <sup>(2)</sup>	219,818	2,428	4.43	188,370	2,170	4.63
Total investment securities	641,073	5,018	3.14	506,623	4,082	3.24
Federal funds sold and interest-bearing balances	10,388	27	1.04	52,517	71	0.54
Total interest-earning assets	\$2,817,237	\$31,097	4.43 %	\$2,735,833	\$29,211	4.29 %
Cash and due from banks	34,992			38,596		
Premises and equipment	74,944			76,558		
Allowance for loan losses	(22,567 )			(20,741 )		
Other assets	152,134			154,654		
Total assets	\$3,056,740			\$2,984,900		
Average Interest-Bearing Liabilities:						
Savings and interest-bearing demand deposits	\$1,337,921	\$963	0.29 %	\$1,280,530	\$836	0.26 %
Certificates of deposit	686,238	1,881	1.01	651,824	1,438	0.89
Total deposits	2,024,159	2,844	0.56	1,932,354	2,274	0.47
Federal funds purchased and repurchase agreements	70,878	59	0.33	58,475	32	0.22
Federal Home Loan Bank borrowings	91,044	404	1.78	107,385	467	1.75
Long-term debt and other	41,318	356	3.46	46,488	325	2.81
Total borrowed funds	203,240	819	1.62	212,348	824	1.56
Total interest-bearing liabilities	\$2,227,399	\$3,663	0.66 %	\$2,144,702	\$3,098	0.58 %
Net interest spread <sup>(2)</sup>			3.77 %			3.71 %
Demand deposits	470,774			519,059		
Other liabilities	20,205			17,820		
Shareholders' equity	338,362			303,319		
Total liabilities and shareholders' equity	\$3,056,740			\$2,984,900		
Interest income/earning assets <sup>(2)</sup>	\$2,817,237	\$31,097	4.43 %	\$2,735,833	\$29,211	4.29 %
Interest expense/earning assets	\$2,817,237	\$3,663	0.52 %	\$2,735,833	\$3,098	0.46 %
Net interest margin <sup>(2)(4)</sup>		\$27,434	3.91 %		\$26,113	3.83 %

## Non-GAAP to GAAP Reconciliation:

## Tax Equivalent Adjustment:

Edgar Filing: MidWestOne Financial Group, Inc. - Form 10-Q

Loans	\$402	\$423
Securities	841	750
Total tax equivalent adjustment	1,243	1,173
Net Interest Income	\$26,191	\$24,940

(1) Loan fees included in interest income are not material.

(2) Computed on a tax-equivalent basis, assuming a federal income tax rate of 35%.

(3) Non-accrual loans have been included in average loans, net of unearned discount.

(4) Net interest margin is tax-equivalent net interest income as a percentage of average earning assets.

Table of Contents

The following table sets forth an analysis of volume and rate changes in interest income and interest expense on our average earning assets and average interest-bearing liabilities during the three months ended June 30, 2017, compared to the same period in 2016, reported on a fully tax-equivalent basis assuming a 35% tax rate. The table distinguishes between the changes related to average outstanding balances (changes in volume holding the initial interest rate constant) and the changes related to average interest rates (changes in average rate holding the initial outstanding balance constant). The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

	Three Months Ended June 30, 2017 Compared to 2016 Change due to		
	Volume	Rate/Yield	Net
(in thousands)			
Increase (decrease) in interest income:			
Loans, tax equivalent	\$ (793 )	\$ 1,787	\$ 994
Investment securities:			
Taxable investments	637	41	678
Tax exempt investments	804	(546 )	258
Total investment securities	1,441	(505 )	936
Federal funds sold and interest-bearing balances	(264 )	220	(44 )
Change in interest income	384	1,502	1,886
Increase (decrease) in interest expense:			
Savings and interest-bearing demand deposits	36	91	127
Certificates of deposit	81	362	443
Total deposits	117	453	570
Federal funds purchased and repurchase agreements	8	19	27
Federal Home Loan Bank borrowings	(115 )	52	(63 )
Other long-term debt	(186 )	217	31
Total borrowed funds	(293 )	288	(5 )
Change in interest expense	(176 )	741	565
Increase in net interest income	\$ 560	\$ 761	\$ 1,321
Percentage decrease in net interest income over prior period			5.1 %

Interest income and fees on loans on a tax-equivalent basis in the second quarter of 2017 increased \$1.0 million, or 4.0%, compared with the same period in 2016. This increase includes the effect of the merger-related discount accretion of \$1.3 million on loans for the second quarter of 2017 compared to \$0.7 million of merger-related discount accretion for the second quarter of 2016. Average loans were \$10.9 million, or 0.5%, lower in the second quarter of 2017 compared with the second quarter of 2016, primarily resulting from loan payments and payoffs exceeding new loan demand early in the second quarter. In addition to purchase accounting adjustments, the yield on our loan portfolio is affected by the amount of nonaccrual loans (which do not earn interest income), the mix of the portfolio (real estate loans generally have a lower overall yield than commercial and agricultural loans), the effects of competition and the interest rate environment on the amounts and volumes of new loan originations, and the mix of variable-rate versus fixed-rate loans in our portfolio. The increase in interest income on loans was primarily the result of a increase in the average yield on loans from 4.63% in the second quarter of 2016 to 4.82% in the second quarter of 2017, which was primarily attributable to purchase accounting adjustments and the general increase in interest rates, partially offset by the lower average balances in the loan portfolio.

Interest income on investment securities on a tax-equivalent basis totaled \$5.0 million in the second quarter of 2017 compared with \$4.1 million for the same period of 2016, including \$0.1 million of purchase accounting premium amortization expense in both the 2015 and 2016 periods. The tax-equivalent yield on our investment portfolio in the second quarter of 2017 decreased to 3.14% from 3.24% in the comparable period of 2016. The average balance of investments in the second quarter of 2017 was \$641.1 million compared with \$506.6 million in the second quarter of 2016, an increase of \$134.5 million, or 26.5%. The increase in average balance resulted primarily from redeployment

of excess cash held in the second quarter of 2016 and the investment of the proceeds from the sale of newly issued common stock at the end of the first quarter and beginning of the second quarter of 2017.

Interest expense on deposits increased \$0.6 million, or 25.1%, to \$2.8 million in the second quarter of 2017 compared with \$2.3 million in the same period of 2016. The increased interest expense on deposits was primarily due to an increase of 9 basis points in the weighted average rate paid on interest-bearing deposits to 0.56% in the second quarter of 2017, compared with 0.47% in the second quarter of 2016. This includes the effect of no merger-related premium amortization on certificates of deposit for

Table of Contents

the second quarter of 2017 compared with \$0.3 million for the same period in 2016. The premium amortization acted to decrease deposit interest expense. An increase in average balances of interest-bearing deposits for the second quarter of 2017 of \$91.8 million compared with the same period in 2016, also contributed to increased expense. We expect to see some upward movement in deposit rates in future periods, as overall interest rate increases begin to take hold in our market footprint.

Interest expense on borrowed funds of \$0.8 million in the second quarter of 2017 was unchanged from the same period in 2016. Average borrowed funds for the second quarter of 2017 were \$9.1 million lower compared with the same period in 2016. A lower level of borrowed funds, primarily due to the \$16.3 million decrease in the average level of FHLB borrowing for the second quarter of 2017 compared to the same period in 2016, was offset by an increase in the weighted average rate on borrowed funds to 1.62% for the second quarter of 2017 compared with 1.56% for the second quarter of 2016, primarily reflecting the increased cost of all borrowing instruments.

**Provision for Loan Losses**

The provision for loan losses is a current charge against income and represents an amount which management believes is sufficient to maintain an adequate allowance for known and probable losses in the loan portfolio. In assessing the adequacy of the allowance for loan losses, management considers the size and quality of the loan portfolio measured against prevailing economic conditions, regulatory guidelines, and historical loan loss experience. When a determination is made by management to charge off a loan balance, such write-off is charged against the allowance for loan losses.

We recorded a provision for loan losses of \$1.2 million in the second quarter of 2017, an increase of \$0.1 million, from \$1.1 million in the second quarter of 2016. Net loans charged off in the second quarter of 2017 totaled \$0.9 million, compared to \$0.2 million net loans charged off in the second quarter of 2016. We determine an appropriate provision based on our evaluation of the adequacy of the allowance for loan losses in relationship to a continuing review of problem loans, current economic conditions, actual loss experience and industry trends. We believed that the allowance for loan losses was adequate based on the inherent risk in the portfolio as of June 30, 2017; however, there is no assurance losses will not exceed the allowance, and any growth in the loan portfolio and the uncertainty of the general economy may require additional provisions in future periods as deemed necessary.

Sensitive assets include nonaccrual loans, loans on the Bank's watch loan reports and other loans identified as having higher potential for loss. We review sensitive assets on at least a quarterly basis for changes in the customers' ability to pay and changes in the valuation of underlying collateral in order to estimate probable losses. We also periodically review a watch loan list which is comprised of loans that have been restructured or involve customers in industries which have been adversely affected by market conditions. The majority of these loans are being repaid in conformance with their contracts.

**Noninterest Income**

	Three Months Ended June 30,			
	2017	2016	\$ Change	% Change
(dollars in thousands)				
Trust, investment, and insurance fees	\$ 1,528	\$ 1,440	\$ 88	6.1 %
Service charges and fees on deposit accounts	1,257	1,283	(26 )	(2.0 )
Loan origination and servicing fees	718	855	(137 )	(16.0 )
Other service charges and fees	1,497	1,378	119	8.6
Bank-owned life insurance income	318	332	(14 )	(4.2 )
Gain on sale or call of available for sale securities	20	223	(203 )	(91.0 )
Gain (loss) on sale of premises and equipment	8	(40 )	48	(120.0 )
Other gain	37	124	(87 )	(70.2 )
Total noninterest income	\$5,383	\$5,595	\$(212 )	(3.8 )%
Noninterest income as a % of total revenue*	16.9 %	17.5 %		

\* See the non-GAAP reconciliation at the beginning of this section for the reconciliation of this non-GAAP measure to its most directly comparable GAAP financial measures.

Total noninterest income for the the second quarter of 2017 decreased \$0.2 million, or 3.8%, to \$5.4 million from \$5.6 million in the second quarter of 2016. The greatest decrease was in gain on sale of available for sale securities, which decreased \$0.2 million to a small gain for the second quarter of 2017, compared to a \$0.2 million gain for the second quarter of 2016. Loan origination and servicing fees decreased \$0.1 million, or 16.0%, from \$0.8 million for the second quarter of 2016 to \$0.7 million for the second quarter of 2017. This decrease was due to a decreased level of loans originated and sold on the secondary market in the second quarter of 2017 compared to the second quarter of 2016, a result of the general decrease in mortgage activity in our markets. Other gain decreased \$0.1 million, or 70.2%, between the second quarter of 2017 and the second quarter of 2016 comparable periods, due primarily to lower gains on the sale of other real estate owned. Other gain (loss) represents gains and losses on the

Table of Contents

sale of branch banking offices, other real estate owned, and other assets. These decreases were partially offset by increases in other service charges and fees, which increased \$0.1 million, or 8.6%, from \$1.4 million in the second quarter of 2016 to \$1.5 million for the second quarter of 2017, and a \$0.1 million, or 6.1%, increase in trust, investment and insurance fees.

Management's strategic goal is for noninterest income to constitute 25% of total revenues (net interest income plus noninterest income excluding gain/loss on securities and premises and equipment and impairment of investment securities) over time. For the three months ended June 30, 2017, noninterest income comprised 16.9% of total revenues, compared with 17.5% for the same period in 2016. Management expects to see gradual improvement in this ratio in future periods due to the implementation of new management strategies in the origination of residential real estate loans.

## Noninterest Expense

	Three Months Ended June 30,			
	2017	2016	\$ Change	% Change
(dollars in thousands)				
Salaries and employee benefits	\$11,789	\$13,321	\$(1,532)	(11.5)%
Net occupancy and equipment expense	3,033	3,326	(293)	(8.8)
Professional fees	1,036	1,221	(185)	(15.2)
Data processing expense	548	809	(261)	(32.3)
FDIC insurance expense	352	398	(46)	(11.6)
Amortization of intangible assets	804	1,015	(211)	(20.8)
Other operating expense	2,402	2,725	(323)	(11.9)
Total noninterest expense	\$19,964	\$22,815	\$(2,851)	(12.5)%

Noninterest expense for the second quarter of 2017 was \$20.0 million, a decrease of \$2.9 million, or 12.5%, from the second quarter of 2016, with all expense line items showing a decrease from the comparative period. The total decrease was primarily due to the absence of merger related expenses for the quarter ended June 30, 2017, compared to \$1.8 million for the quarter ended June 30, 2016 relating to the merger of Central Bank into MidWestOne Bank. Salaries and employee benefits decreased \$1.5 million, or 11.5%, from \$13.3 million for the second quarter of 2016 to \$11.8 million for the second quarter of 2017 primarily due to the decrease in merger-related severance expenses of \$1.3 million. Other operating expense for the second quarter of 2017 decreased \$0.3 million, or 11.9%, compared with the second quarter of 2016, primarily due to lower advertising expenses.

## Income Tax Expense

Our effective income tax rate, or income taxes divided by income before taxes, was 30.2% for the second quarter of 2017, which was higher than the effective tax rate of 27.4% for the second quarter of 2016. Income tax expense was \$3.1 million in the second quarter of 2017 compared to \$1.8 million for the same period of 2016. The primary reason for the increase in income tax expense was the increase in the level of taxable income between the two periods.

## Comparison of Operating Results for the Six Months Ended June 30, 2017 and June 30, 2016

## Summary

For the six months ended June 30, 2017, we earned net income of \$13.9 million, compared with \$10.3 million for the six months ended June 30, 2016, an increase of 35.4%. The increase in net income was due primarily to decreased noninterest expense during the first half of 2017 compared to the first half of 2016. Basic and diluted earnings per common share for the first six months of 2017 were \$1.18 and \$1.17, respectively, compared with \$0.90 for both for the second quarter of 2016. Our annualized return on average assets for the first six months of 2017 was 0.92% compared with 0.69% for the same period in 2016. Our annualized return on average shareholders' equity was 8.70% for the six months ended June 30, 2017 versus 6.88% for the six months ended June 30, 2016. The annualized return on average tangible equity was 12.25% for the first six months of 2017 compared with 10.51% for the same period in 2016.



Table of Contents

The following table presents selected financial results and measures as of and for the six months ended June 30, 2017 and 2016.

(dollars in thousands, except per share amounts)	As of and for the Six Months Ended June 30,	
	2017	2016
Net Income	\$13,947	\$10,299
Average Assets	3,058,069	2,978,700
Average Shareholders' Equity	323,423	301,195
Return on Average Assets*	0.92 %	0.69 %
Return on Average Shareholders' Equity*	8.70	6.88
Return on Average Tangible Equity*	12.25	10.51
Total Equity to Assets (end of period)	11.09	10.17
Tangible Equity to Tangible Assets (end of period)	8.86	7.77
Tangible Book Value per Share	\$21.86	\$19.88

\* Annualized

We have traditionally disclosed certain non-GAAP ratios, including our return on average tangible equity and the ratio of our tangible equity to tangible assets, as well as diluted earnings per common share exclusive of merger-related expenses, adjusted noninterest income as a percentage of total revenue, and tangible book value per share. We believe these ratios provide investors with information regarding our financial condition and results of operations and how we evaluate them internally.

The following tables provide a reconciliation of the non-GAAP measures to the most comparable GAAP equivalents.

(dollars in thousands, except per share amounts)	For the Six Months Ended June 30,	
	2017	2016
Net Income:		
Net income	\$13,947	\$10,299
Plus: Intangible amortization, net of tax <sup>(1)</sup>	1,074	1,349
Adjusted net income	\$15,021	\$11,648
Average Tangible Equity:		
Average total shareholders' equity	\$323,423	\$301,195
Less: Average intangibles, net of amortization	(78,958 )	(82,773 )
Plus: Average deferred tax liability associated with intangibles	2,740	4,365
Average tangible equity	\$247,205	\$222,787
Return on Average Tangible Equity (annualized)	12.25 %	10.51 %
Net Income:		
Net income	\$13,947	\$10,299
Plus: Merger-related expenses	—	3,980
Net tax effect of merger-related expenses <sup>(2)</sup>	—	(1,493 )
Net income exclusive of merger-related expenses	\$13,947	\$12,786
Diluted average number of shares	11,878,315	11,448,677
Earnings Per Common Share-Diluted	\$1.17	\$0.90
Earnings Per Common Share-Diluted, exclusive of merger-related expenses	\$1.17	\$1.12

(1) Computed on a tax-equivalent basis, assuming a federal income tax rate of 35%.

(2) Computed based on qualifying tax deductible expenses, assuming a federal income tax rate of 35%.



Table of Contents

## Adjusted Noninterest Income:

Noninterest income	\$10,920	\$12,000		
Less: Gain on sale of available for sale securities	(20 )	(467 )		
Gain on sale of held to maturity securities	(43 )	—		
(Gain) loss on sale of premises and equipment	(6 )	251		
Other gain	(50 )	(1,307 )		
Adjusted noninterest income	\$10,801	\$10,477		
Total Revenue:				
Net interest income	\$51,272	\$50,495		
Plus: Noninterest income	10,920	12,000		
Less: Gain on sale of available for sale securities	(20 )	(467 )		
Gain on sale of held to maturity securities	(43 )	—		
(Gain) loss on sale of premises and equipment	(6 )	251		
Other gain loss	(50 )	(1,307 )		
Total Revenue	\$62,073	\$60,972		
Adjusted Noninterest Income as a Percentage of Total Revenue	17.4	%	17.2	%

As of June 30,

(dollars in thousands, except per share amounts)	2017	2016		
Tangible Equity:				
Total shareholders' equity	\$342,872	\$305,195		
Plus: Deferred tax liability associated with intangibles	2,432	3,860		
Less: Intangible assets, net	(78,172 )	(81,719 )		
Tangible equity	\$267,132	\$227,336		
Tangible Assets:				
Total assets	\$3,091,045	\$3,002,194		
Plus: Deferred tax liability associated with intangibles	2,432	3,860		
Less: Intangible assets, net	(78,172 )	(81,719 )		
Tangible assets	\$3,015,305	\$2,924,335		
Common shares outstanding	12,218,528	11,435,860		
Tangible Book Value Per Share	\$21.86	\$19.88		
Tangible Equity/Tangible Assets	8.86	%	7.77	%

## Net Interest Income

Our net interest income for the six months ended June 30, 2017, was \$51.3 million, up \$0.8 million, or 1.5%, from \$50.5 million for the six months ended June 30, 2016, primarily due to an increase of \$1.9 million, or 3.4%, in interest income. Interest income on investment securities rose \$1.8 million, or 26.4%, to \$8.5 million for the first six months of 2017 compared to the first six months of 2016 primarily due to an increase of \$127.3 million in the average balance between the comparative periods. Loan interest income increased \$0.2 million, or 0.4%, to \$49.9 million for the first six months of 2017 compared to the first six months of 2016, primarily due to the 6 basis point increase in average loan yield between the two periods, which included the effect of an increase in the discount accretion related to the merger of the Company with Central, to \$2.5 million for the six months ended June 30, 2017, compared to \$1.9 million for the six months ended June 30, 2016. The increased loan yield was partially offset by an \$8.7 million, or 0.4%, decrease in the average balance of loans between the comparative periods. These income increases were partially offset by an increase of \$1.1 million, or 18.6%, in interest expense, to \$7.1 million for the six months ended June 30, 2017, compared to \$6.0 million for the first six months of 2016. Interest expense on deposits increased \$1.1 million, or 25.8%, to \$5.5 million for the six months ended June 30, 2017 compared to \$4.3 million for the six months ended June 30, 2016, primarily due to the interest expense on deposits for the six months ended June 30, 2017 including no merger-related amortization of the purchase accounting premium on certificates of deposit, and the interest expense on deposits for the six months ended June 30, 2016 including \$0.7 million in merger-related

amortization. Interest expense related to borrowings was essentially unchanged between the two periods. The Company posted a net interest margin of 3.85% for the first six months of 2017, down 4 basis points from the net interest margin of 3.89% for the same period in 2016. The decrease was primarily due to a 27 basis point increase in the cost of certificates of deposit due primarily to the aforementioned decrease in deposit premium amortization, and was the primary factor in a 7 basis

Table of Contents

point increase in the cost of interest-bearing liabilities. For the first six months of 2017 compared with the same period in 2016, a 6 basis point increase in loan yields and a higher volume of average investment securities, which generally have a lower yield compared to loans, resulted in a 3 basis point increase in the yield on earning assets.

The following table shows consolidated average balance sheets, detailing the major categories of assets and liabilities, the interest income earned on interest-earning assets, the interest expense paid for interest-bearing liabilities, and the related yields and interest rates for the six months ended June 30, 2017 and 2016. Dividing annualized income or expense by the average balances of assets or liabilities results in average yields or costs. Average information is provided on a daily average basis.

	Six Months Ended June 30,			2016		
	2017			2016		
	Average Balance	Interest Income/ Expense	Average Rate/ Yield	Average Balance	Interest Income/ Expense	Average Rate/ Yield
(dollars in thousands)						
Average Earning Assets:						
Loans <sup>(1)(2)(3)</sup>	\$2,163,428	\$50,734	4.73 %	\$2,172,092	\$50,601	4.67 %
Investment securities:						
Taxable investments	430,765	5,308	2.48	332,052	3,836	2.32
Tax exempt investments <sup>(2)</sup>	217,519	4,823	4.47	188,933	4,367	4.65
Total investment securities	648,284	10,131	3.15	520,985	8,203	3.17
Federal funds sold and interest-bearing balances	6,504	32	0.99	35,097	79	0.45
Total interest-earning assets	\$2,818,216	\$60,897	4.36 %	\$2,728,174	\$58,883	4.33 %
Cash and due from banks	35,031			38,047		
Premises and equipment	74,960			76,431		
Allowance for loan losses	(22,408 )			(20,295 )		
Other assets	152,270			156,343		
Total assets	\$3,058,069			\$2,978,700		
Average Interest-Bearing Liabilities:						
Savings and interest-bearing demand deposits	\$1,337,978	\$1,812	0.27 %	\$1,258,665	\$1,702	0.27 %
Certificates of deposit	677,811	3,657	1.09	648,515	2,646	0.82
Total deposits	2,015,789	5,469	0.55	1,907,180	4,348	0.46
Federal funds purchased and repurchase agreements	80,018	143	0.36	77,248	110	0.29
Federal Home Loan Bank borrowings	101,022	847	1.69	107,247	918	1.72
Long-term debt and other	41,938	690	3.32	47,122	652	2.78
Total borrowed funds	222,978	1,680	1.52	231,617	1,680	1.46
Total interest-bearing liabilities	\$2,238,767	\$7,149	0.64 %	\$2,138,797	\$6,028	0.57 %
Net interest spread <sup>(2)</sup>			3.72 %			3.76 %
Demand deposits	475,702			521,586		
Other liabilities	20,177			17,122		
Shareholders' equity	323,423			301,195		
Total liabilities and shareholders' equity	\$3,058,069			\$2,978,700		
Interest income/earning assets <sup>(2)</sup>	\$2,818,216	\$60,897	4.36 %	\$2,728,174	\$58,883	4.33 %
Interest expense/earning assets	\$2,818,216	\$7,149	0.51 %	\$2,728,174	\$6,028	0.44 %
Net interest margin <sup>(2)(4)</sup>		\$53,748	3.85 %		\$52,855	3.89 %

Non-GAAP to GAAP Reconciliation:

Tax Equivalent Adjustment:

Loans	\$805	\$850
Securities	1,671	1,510
Total tax equivalent adjustment	2,476	2,360
Net Interest Income	\$51,272	\$50,495

(1) Loan fees included in interest income are not material.

(2) Computed on a tax-equivalent basis, assuming a federal income tax rate of 35%.

(3) Non-accrual loans have been included in average loans, net of unearned discount.

(4) Net interest margin is tax-equivalent net interest income as a percentage of average earning assets.

Table of Contents

The following table sets forth an analysis of volume and rate changes in interest income and interest expense on our average interest-earning assets and average interest-bearing liabilities during the six months ended June 30, 2017, compared to the same period in 2016, reported on a fully tax-equivalent basis assuming a 35% tax rate. The table distinguishes between the changes related to average outstanding balances (changes in volume holding the initial interest rate constant) and the changes related to average interest rates (changes in average rate holding the initial outstanding balance constant). The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

	Six Months Ended June 30, 2017 Compared to 2016 Change due to		
	Volume	Rate/Yield	Net
(in thousands)			
Increase (decrease) in interest income:			
Loans, tax equivalent	\$ (554 )	\$ 687	\$ 133
Investment securities:			
Taxable investments	1,195	277	1,472
Tax exempt investments	905	(449 )	456
Total investment securities	2,100	(172 )	1,928
Federal funds sold and interest-bearing balances	(172 )	125	(47 )
Change in interest income	1,374	640	2,014
Increase (decrease) in interest expense:			
Savings and interest-bearing demand deposits	110	—	110
Certificates of deposit	122	889	1,011
Total deposits	232	889	1,121
Federal funds purchased and repurchase agreements	4	29	33
Federal Home Loan Bank borrowings	(55 )	(16 )	(71 )
Other long-term debt	(170 )	208	38
Total borrowed funds	(221 )	221	—
Change in interest expense	11	1,110	1,121
Change in net interest income	\$ 1,363	\$ (470 )	\$ 893
Percentage change in net interest income over prior period			1.7 %

Interest income and fees on loans on a tax-equivalent basis increased \$0.1 million, or 0.3%, in the first six months of 2017 compared to the same period in 2016. This increase reflects the effect of the merger-related discount accretion for loans of \$2.5 million in the first six months of 2017, compared to \$1.9 million of discount accretion in the first six months of 2016. The increased income is mainly due to a 6 basis point increase in yield on loans, from 4.67% in the first six months of 2016 to 4.73% in the same period of 2017. The yield on our loan portfolio is affected by the amount of nonaccrual loans (which do not earn interest income), the mix of the portfolio (real estate loans generally have a lower overall yield than commercial and agricultural loans), the effects of competition and the interest rate environment on the amounts and volumes of new loan originations, and the mix of variable-rate versus fixed-rate loans in our portfolio. Average loan balances experienced a decrease of \$8.7 million, or 0.4%, in the first six months of 2017 compared to the same period in 2016, primarily resulting from loan payments and payoffs exceeding current period new loan demand. Despite the recent increase in overall interest rates, we expect the yield on new and renewing loans to remain relatively flat in the markets we serve due to competitive pressures for quality credits. Interest income on investment securities on a tax-equivalent basis totaled \$10.1 million in the first six months of 2017 compared with \$8.2 million for the same period of 2016, reflecting \$0.1 million of purchase accounting premium amortization expense in the first six months of 2017, compared to \$0.2 million of purchase accounting premium amortization in the first six months of 2016. The tax-equivalent yield on our investment portfolio for the first six months of 2017 decreased to 3.15% from 3.17% in the comparable period of 2016. The average balance of investments in the first six months of 2017 was \$648.3 million compared with \$521.0 million in the first six months of 2016, an increase of \$127.3 million, or 24.4%. The increase in average balance resulted primarily from investment of

the proceeds from the sale of newly issued common stock at the end of the first quarter and beginning of the second quarter of 2017.

Interest expense on deposits was \$5.5 million for the first six months of 2017 compared with \$4.3 million for the same period in 2016. This increase was primarily due to interest expense on deposits for the six months ended June 30, 2017 including no merger-related amortization of the purchase accounting premium on certificates of deposit and the six months ended June 30, 2016 interest on deposits including \$0.7 million in merger-related amortization.

Additionally, average interest-bearing deposits for the first six months of 2017 increased \$108.6 million, or 5.7%, compared with the same period in 2016, due primarily to an

Table of Contents

increased focus by the Company on gathering new deposits. The weighted average rate paid on interest-bearing deposits was 0.55% for the first six months of 2017 compared with 0.46% for the first six months of 2016. This increase reflects the effect of no merger-related amortization of the purchase accounting premium on certificates of deposit for the first six months of 2017 compared with \$0.7 million for the first six months of 2016. We expect to see some upward movement in deposit rates in future periods, as overall interest rate increases begin to take hold in our market footprint.

Interest expense on borrowed funds in the first six months of 2017 was \$1.7 million, unchanged from the same period in 2016. Average borrowed funds for the first six months of 2017 were \$8.6 million lower compared with the same period in 2016. The decrease in the average level of FHLB borrowings of \$6.2 million, or 5.8%, coupled with a \$5.2 million, or 11.0%, decrease in long-term debt and junior subordinated notes, was partially offset by an increase in the average balance of federal funds purchased, repurchase agreements, and other short-term borrowings of \$2.8 million, or 3.6%, all for the first six months of 2017 compared to the first six months of 2016. The weighted average rate on borrowed funds for the first six months of 2017 was 1.52%, an increase of 6 basis points from 1.46% for the first six months of 2016.

## Provision for Loan Losses

We recorded a provision for loan losses of \$2.3 million in the first six months of 2017, marginally higher compared to \$2.2 million in 2016. Net loans charged off in the first six months of 2017 totaled \$1.6 million compared with \$0.5 million in the first six months of 2016.

## Noninterest Income

	Six Months Ended		\$	% Change	
	2017	2016			
(dollars in thousands)					
Trust, investment, and insurance fees	\$3,140	\$2,938	\$202	6.9	%
Service charges and fees on deposit accounts	2,540	2,541	(1)	)	—
Loan origination and servicing fees	1,520	1,474	46	3.1	
Other service charges and fees	2,955	2,808	147	5.2	
Bank-owned life insurance income	646	716	(70)	)	(9.8)
Gain on sale or call of available for sale securities	20	467	(447)	)	(95.7)
Gain on sale of held to maturity securities	43	—	43		NM
Gain (loss) on sale of premises and equipment	6	(251)	257		(102.4)
Other gain	50	1,307	(1,257)	)	(96.2)
Total noninterest income	\$10,920	\$12,000	\$(1,080)	(9.0)	)%
Adjusted noninterest income as a % of total revenue*	17.4	% 17.2	%		

NM - Percentage change not considered meaningful.

\* See the non-GAAP reconciliation at the beginning of this section for the reconciliation of this non-GAAP measure to its most directly comparable GAAP financial measures.

Total noninterest income decreased \$1.1 million, or 9.0%, to \$10.9 million from \$12.0 million during the same period of 2016. This decline was primarily due to the \$1.3 million decrease in other gains for the six months ended June 30, 2017, compared to the same period in 2016. The first six months of 2016 included a net gain on other real estate owned of \$0.6 million and a net gain of \$0.7 million on the sale of the Barron and Rice Lake, Wisconsin branch offices. Gains on the sale of available for sale securities decreased \$0.4 million between the comparative 2016 and 2017 periods. These decreases were partially offset by a \$0.3 million decline in loss on the sale of premises and equipment, and the increase of \$0.2 million, or 6.9%, in trust, investment, and insurance fees to \$3.1 million for the first six months of 2017 compared with \$2.9 million for the same period in 2016. Other service charges and fees also increased \$0.1 million, or 5.2%, to \$2.9 million for the first six months of 2017, from \$2.8 million for the same period in 2016.

Management's strategic goal is for noninterest income to constitute 25% of total revenues (net interest income plus noninterest income excluding gain/loss on securities and premises and equipment and impairment of investment securities) over time. For the six months ended June 30, 2017, noninterest income comprised 17.4% of total revenues, compared with 17.2% for the same period in 2016. Management expects to see continued gradual improvement in this ratio in future periods due to the implementation of new management strategies in the origination of residential real estate loans.

Table of Contents

## Noninterest Expense

	Six Months Ended June 30,		\$ Change	% Change
	2017	2016		
(dollars in thousands)				
Salaries and employee benefits	\$23,673	\$25,966	\$(2,293)	(8.8 )%
Net occupancy and equipment expense	6,337	6,577	(240 )	(3.6 )
Professional fees	2,058	2,167	(109 )	(5.0 )
Data processing expense	1,259	3,382	(2,123 )	(62.8 )
FDIC insurance expense	719	819	(100 )	(12.2 )
Amortization of intangible assets	1,653	2,076	(423 )	(20.4 )
Other operating expense	4,600	5,274	(674 )	(12.8 )
Total noninterest expense	\$40,299	\$46,261	\$(5,962)	(12.9 )%

Noninterest expense decreased to \$40.3 million for the six months ended June 30, 2017, compared with \$46.3 million for the six months ended June 30, 2016, a decrease of \$6.0 million, or 12.9%, with all expense line items showing a decrease from the comparative period. The decrease was primarily due to the absence of merger related expenses for the six months ended June 30, 2017, compared to \$4.0 million for the six months ended June 30, 2016 relating to the merger of Central Bank into MidWestOne Bank. Salaries and employee benefits decreased \$2.3 million, or 8.8%, from \$26.0 million for the six months ended June 30, 2016, to \$23.7 million for the six months ended June 30, 2017. This decrease included \$1.6 million of merger-related expenses for the six months ended June 30, 2016. The rest of the decrease in salaries and employee benefits was primarily due to decreased staffing levels resulting from restructuring and the sales of branch offices during 2016. Data processing expense declined \$2.1 million, or 62.8%, for the six months ended June 30, 2017, compared to the six months ended June 30, 2016, primarily due to the inclusion of \$1.9 million in contract termination expense in connection with the bank merger in 2016. Other operating expenses decreased \$0.7 million, or 12.8%, from \$5.3 million for the six months ended June 30, 2016, to \$4.6 million for the six months ended June 30, 2017, primarily due to lower loan and collection expense.

## Income Tax Expense

Our effective tax rate, or income taxes divided by income before taxes, was 28.9% for the first six months of 2017, and 26.4% for the first six months of 2016. Income tax expense increased to \$5.7 million in the first six months of 2017 compared with \$3.7 million for the same period of 2016, primarily due to the increase in the level of pre-tax income between the two periods.

## FINANCIAL CONDITION

Our total assets were \$3.09 billion at June 30, 2017, an increase of \$11.5 million, or 0.4% from December 31, 2016. Loans increased \$32.4 million, or 1.5%, from \$2.17 billion at December 31, 2016 to \$2.20 billion at June 30, 2017, and cash and cash equivalents increased \$6.2 million, or 14.3%, between these two dates. These increases were partially offset by decreases in investment securities of \$20.5 million, or 3.2%, loans held for sale of \$2.6 million, or 61.4%, other intangible assets of \$1.7 million, or 10.9%, accrued interest receivable of \$1.3 million, or 9.1%, and other real estate owned of \$0.6 million, or 29.1% between December 31, 2016 and June 30, 2017. Total deposits at June 30, 2017, were \$2.49 billion, an increase of \$13.3 million, or 0.5%, from December 31, 2016. The mix of deposits saw increases between December 31, 2016 and June 30, 2017 of \$30.7 million, or 4.71%, in certificates of deposit, and \$6.3 million, or 3.2%, in savings deposits. These increases were partially offset by a decrease in non-interest bearing demand deposits of \$18.6 million, or 3.8%, and \$5.1 million, or 0.5%, in interest-bearing checking deposits between December 31, 2016, and June 30, 2017. Between December 31, 2016 and June 30, 2017, federal funds purchased increased \$9.6 million, or 27.0%, to \$45.3 million compared to \$35.7 million, while FHLB borrowings decreased \$25.0 million, or 21.7% to \$90.0 million. The decreased borrowings were the result of increases in deposits and cash from the sale and maturity of investment securities during the period. At June 30, 2017, long-term debt had an outstanding balance of \$15.0 million, a decrease of \$2.5 million, or 14.3%, from December 31, 2016, due

to normal scheduled repayments. Securities sold under agreements to repurchase declined \$22.0 million between December 31, 2016 and June 30, 2017, due to normal cash need fluctuations by customers.

#### Investment Securities

Investment securities totaled \$625.4 million at June 30, 2017, or 20.2% of total assets, a decrease of \$20.5 million from \$645.9 million as of December 31, 2016. A total of \$443.0 million of the investment securities were classified as available for sale at June 30, 2017, compared to \$477.5 million at December 31, 2016. This represents a decrease in investment securities available for sale of \$34.5 million, or 7.2%, from December 31, 2016 to June 30, 2017. As of June 30, 2017, the portfolio consisted mainly of obligations of states and political subdivisions (43.6%), mortgage-backed securities and collateralized mortgage obligations (39.1%), and obligations of U.S. government agencies (0.9%). Investment securities held to maturity were \$182.5 million at June 30, 2017, compared to \$168.4 million at December 31, 2016, an increase of \$14.1 million, or 8.4%.

Table of Contents

## Loans

The composition of loans (before deducting the allowance for loan losses) was as follows:

	June 30, 2017		December 31, 2016	
	Balance	% of Total	Balance	% of Total
(dollars in thousands)				
Agricultural	\$107,651	4.9 %	\$113,343	5.2 %
Commercial and industrial	485,637	22.1	459,481	21.2
Credit cards <sup>(1)</sup>	—	—	1,489	0.1
Commercial real estate:				
Construction and development	135,729	6.2	126,685	5.9
Farmland	89,850	4.1	94,979	4.4
Multifamily	137,506	6.2	136,003	6.3
Commercial real estate-other	722,478	32.9	706,576	32.6
Total commercial real estate	1,085,563	49.4	1,064,243	49.2
Residential real estate:				
One- to four-family first liens	370,329	16.8	372,233	17.2
One- to four-family junior liens	113,657	5.2	117,763	5.4
Total residential real estate	483,986	22.0	489,996	22.6
Consumer	34,666	1.6	36,591	1.7
Total loans	\$2,197,503	100.0 %	\$2,165,143	100.0 %

(1) As of the first quarter of 2017, the Company no longer considered credit cards a separate class of loans, and these balances are now included in commercial and industrial loans.

Total loans (excluding loans held for sale) increased \$32.4 million, or 1.5%, from \$2.17 billion at December 31, 2016 to \$2.20 billion at June 30, 2017, with loan growth concentrated primarily towards the end of the second quarter of 2017. The mix of loans saw increases between December 31, 2016 and June 30, 2017 primarily concentrated in commercial and industrial, commercial real estate-other, construction and development, and multifamily loans.

Decreases occurred in residential real estate, agricultural, farmland, and consumer loans. As of June 30, 2017, the largest category of loans was commercial real estate loans, comprising approximately 49% of the portfolio, of which 6% of total loans were multifamily residential mortgages, 6% of total loans were construction and development, and 4% of total loans were farmland. Commercial and industrial loans was the next largest category at 22% of total loans, followed by residential real estate loans at 22%, agricultural loans at 5%, and consumer loans at 2%. Included in these totals are \$21.9 million, net of a discount of \$2.6 million, or 1.0% of the total loan portfolio, in purchased credit impaired loans as a result of the merger between the Company and Central in 2015.

We have minimal direct exposure to subprime mortgages in our loan portfolio. Our loan policy provides a guideline that real estate mortgage borrowers have a Beacon score of 640 or greater. Exceptions to this guideline have been noted but the overall exposure is deemed minimal by management. Mortgages we originate and sell on the secondary market are typically underwritten according to the guidelines of secondary market investors. These mortgages are sold on a non-recourse basis.

## Premises and Equipment

As of June 30, 2017, premises and equipment totaled \$74.7 million, substantially unchanged from December 31, 2016. Normal depreciation expense of \$2.1 million was offset by ongoing capital improvement projects.

## Deposits

Total deposits as of June 30, 2017 were \$2.49 billion, an increase of \$13.3 million, or 0.5% from December 31, 2016. Interest-bearing checking deposits were the largest category of deposits at June 30, 2017, representing approximately 45.4% of total deposits. Total interest-bearing checking deposits were \$1.13 billion at June 30, 2017, a decrease of \$5.1 million, or 0.5%, from \$1.14 billion at December 31, 2016. Included in interest-bearing checking deposits at June 30, 2017 were \$43.2 million of brokered deposits in the Insured Cash Sweep (ICS) program, an increase of \$4.2 million, or 10.8%, from \$39.0 million at December 31, 2016, due primarily to the addition of one account holder. Non-interest bearing demand deposits were \$476.0 million at June 30, 2017, a decrease of \$18.6 million, or 3.8%,

from \$494.6 million at December 31, 2016. Savings deposits were \$204.0 million at June 30, 2017, an increase of \$6.3 million, or 3.2%, from December 31, 2016. Total certificates of deposit were \$682.6 million at June 30, 2017, up \$30.7 million, or 4.7%, from \$651.9 million at December 31, 2016. Included in total certificates of deposit at June 30, 2017 was \$2.4 million of brokered deposits in the Certificate of Deposit Account Registry Service (CDARS) program, a decrease of \$0.2 million, or 9.1%, from December 31, 2016. Based on recent experience, management anticipates that many of the maturing certificates of deposit will be renewed upon maturity, as the interest rate environment begins to trend upward. Approximately 85.7% of our total deposits were considered “core” deposits as of June 30, 2017.

Table of Contents

## Goodwill and Other Intangible Assets

Goodwill was \$64.7 million as of June 30, 2017, the same as at December 31, 2016. Other intangible assets decreased \$1.7 million, or 10.9%, to \$13.5 million at June 30, 2017 compared to \$15.2 million at December 31, 2016, due to normal amortization. See Note 6. “Goodwill and Intangible Assets” to our consolidated financial statements for additional information.

## Debt

## Federal Home Loan Bank Borrowings

FHLB borrowings totaled \$90.0 million as of June 30, 2017, compared with \$115.0 million as of December 31, 2016. We utilize FHLB borrowings as a supplement to customer deposits to fund interest-earning assets and to assist in managing interest rate risk. The combination of proceeds from the issuance of new shares of common stock with an increase in deposit balances between December 31, 2016 and June 30, 2017, led to the decline in FHLB borrowings between December 31, 2016 and June 30, 2017. See Note 10. “Long-Term Borrowings” to our consolidated financial statements for additional information related to our FHLB borrowings.

## Junior Subordinated Notes Issued to Capital Trusts

Junior subordinated notes that have been issued to capital trusts that issued trust preferred securities were \$23.7 million as of June 30, 2017, substantially unchanged from December 31, 2016. See Note 9. “Subordinated Notes Payable” to our consolidated financial statements for additional information related to our junior subordinated notes.

## Long-term Debt

Long-term debt in the form of a \$35.0 million unsecured note, of which \$25.0 million was drawn upon, payable to a correspondent bank was entered into on April 30, 2015 in connection with the payment of the merger consideration at the closing of the Central merger, of which \$15.0 million was outstanding as of June 30, 2017. See Note 10.

“Long-Term Borrowings” to our consolidated financial statements for additional information related to our long-term debt.

## Nonperforming Assets

The following tables set forth information concerning nonperforming loans by class of loans at June 30, 2017 and December 31, 2016:

	90 Days or More Past Due and Still Accruing Interest	Restructured	Nonaccrual	Total
(in thousands)				
June 30, 2017				
Agricultural	\$ —	\$ 2,637	\$ 494	\$ 3,131
Commercial and industrial <sup>(1)</sup>	147	2,247	2,161	4,555
Commercial real estate:				
Construction and development	—	—	1,110	1,110
Farmland	89	87	364	540
Multifamily	—	—	—	—
Commercial real estate-other	—	1,705	12,095	13,800
Total commercial real estate	89	1,792	13,569	15,450
Residential real estate:				
One- to four- family first liens	702	764	1,364	2,830
One- to four- family junior liens	—	—	115	115
Total residential real estate	702	764	1,479	2,945
Consumer	—	—	37	37
Total	\$ 938	\$ 7,440	\$ 17,740	\$ 26,118

(1) As of the first quarter of 2017, the Company no longer considered credit cards a separate class of loans, and these balances are now included in commercial and industrial loans.

Table of Contents

	90 Days or More Past Due and Still Accruing Interest	Restructured	Nonaccrual	Total
(in thousands)				
December 31, 2016				
Agricultural	\$ —	\$ 2,770	\$ 2,690	\$ 5,460
Commercial and industrial	—	595	8,358	8,953
Credit cards	—	—	—	—
Commercial real estate:				
Construction and development	95	—	780	875
Farmland	—	2,174	227	2,401
Multifamily	—	—	—	—
Commercial real estate-other	—	247	7,360	7,607
Total commercial real estate	95	2,421	8,367	10,883
Residential real estate:				
One- to four- family first liens	375	1,501	1,127	3,003
One- to four- family junior liens	15	13	116	144
Total residential real estate	390	1,514	1,243	3,147
Consumer	—	12	10	22
Total	\$ 485	\$ 7,312	\$ 20,668	\$ 28,465

Not included in the loans above as of June 30, 2017, were purchased credit impaired loans with an outstanding balance of \$0.4 million, net of a discount of \$0.1 million.

Our nonperforming assets (which include nonperforming loans and OREO) totaled \$27.6 million as of June 30, 2017, a decrease of \$3.0 million, or 9.7%, from December 31, 2016. The balance of OREO at June 30, 2017 was \$1.5 million, down \$0.6 million, from \$2.1 million of OREO at December 31, 2016. During the first six months of 2017, the Company had a net decrease of 14 properties in other real estate owned. All of the OREO property was acquired through foreclosures, and we are actively working to sell all properties held as of June 30, 2017. OREO is carried at appraised value less estimated cost of disposal at the date of acquisition. Additional discounts could be required to market and sell the properties, resulting in a write down through expense.

Nonperforming loans decreased from \$28.5 million, or 1.31% of total loans, at December 31, 2016, to \$26.1 million, or 1.19% of total loans, at June 30, 2017. At June 30, 2017, nonperforming loans consisted of \$17.7 million in nonaccrual loans, \$7.4 million in troubled debt restructures (“TDRs”) and \$0.9 million in loans past due 90 days or more and still accruing interest. This compares to nonaccrual loans of \$20.7 million, TDRs of \$7.3 million, and loans past due 90 days or more and still accruing interest of \$0.5 million at December 31, 2016. Nonaccrual loans decreased \$2.9 million between December 31, 2016, and June 30, 2017. The balance of TDRs increased \$0.1 million between these two dates, as the addition of nine loans (representing five lending relationships) totaling \$3.6 million was partially offset by payments collected from TDR-status borrowers totaling \$2.3 million, the charge-off of two TDRs totaling \$0.2 million, and four loans totaling \$1.0 million moving to non-disclosed status. Loans 90 days past due and still accruing interest increased \$0.5 million between December 31, 2016, and June 30, 2017, due primarily to a net decrease of four residential real estate loans, with a balance of \$0.3 million, and the addition of one commercial and industrial loan in the amount of \$0.2 million. Loans past due 30 to 89 days and still accruing interest (not included in the nonperforming loan totals) decreased to \$6.2 million at June 30, 2017, compared with \$7.8 million at December 31, 2016. As of June 30, 2017, the allowance for loan losses was \$22.5 million, or 1.02% of total loans, compared with \$21.9 million, or 1.01% of total loans at December 31, 2016. The allowance for loan losses represented 86.19% of nonperforming loans at June 30, 2017, compared with 76.76% of nonperforming loans at December 31, 2016. The Company had net loan charge-offs of \$1.6 million in the six months ended June 30, 2017, or

an annualized 0.15% of average loans outstanding, compared to net charge-offs of \$0.5 million, or an annualized 0.04% of average loans outstanding, for the same period of 2016.

Loan Review and Classification Process for Agricultural, Commercial and Industrial, and Commercial Real Estate Loans:

The Bank maintains a loan review and classification process which involves multiple officers of the Bank and is designed to assess the general quality of credit underwriting and to promote early identification of potential problem loans. All commercial and agricultural loan officers are charged with the responsibility of risk rating all loans in their portfolios and updating the ratings, positively or negatively, on an ongoing basis as conditions warrant. A monthly loan officer validation worksheet documents this process. Risk ratings are selected from an 8-point scale with ratings as follows: ratings 1- 4 Satisfactory (pass), rating 5 Watch (potential weakness), rating 6 Substandard (well-defined weakness), rating 7 Doubtful, and rating 8 Loss.

Table of Contents

When a loan officer originates a new loan, based upon proper loan authorization, he or she documents the credit file with an offering sheet summary, supplemental underwriting analysis, relevant financial information and collateral evaluations. All of this information is used in the determination of the initial loan risk rating. The Bank's loan review department undertakes independent credit reviews of relationships based on either criteria established by loan policy, risk-focused sampling, or random sampling. Loan policy requires all lending relationships with total exposure of \$5.0 million or more as well as all classified (loan grades 6 through 8) and watch (loan grade 5) rated credits over \$1.0 million be reviewed no less than annually. The individual loan reviews consider such items as: loan type; nature, type and estimated value of collateral; borrower and/or guarantor estimated financial strength; most recently available financial information; related loans and total borrower exposure; and current/anticipated performance of the loan. The results of such reviews are presented to executive management.

Through the review of delinquency reports, updated financial statements or other relevant information, the lending officer and/or loan review personnel may determine that a loan relationship has weakened to the point that a watch (loan grade 5) or classified (loan grades 6 through 8) status is warranted. When a loan relationship with total related exposure of \$1.0 million or greater is adversely graded (loan grade 5 or above), or is classified as a TDR (regardless of size), the lending officer is then charged with preparing a loan strategy summary worksheet that outlines the background of the credit problem, current repayment status of the loans, current collateral evaluation and a workout plan of action. This plan may include goals to improve the credit rating, assist the borrower in moving the loans to another institution and/or collateral liquidation. All such reports are first presented to regional management and then to the loan strategy committee. Copies of the minutes of these committee meetings are presented to the board of directors of the Bank.

Depending upon the individual facts and circumstances and the result of the classified/watch review process, loan officers and/or loan review personnel may categorize the loan relationship as impaired. Once that determination has occurred, the credit analyst will complete an evaluation of the collateral (for collateral-dependent loans) based upon the estimated collateral value, adjusting for current market conditions and other local factors that may affect collateral value. Loan review personnel may also complete an independent impairment analysis when deemed necessary. These judgmental evaluations may produce an initial specific allowance for placement in the Company's allowance for loan and lease losses calculation. Impairment analysis for the underlying collateral value is completed in the last month of the quarter. The impairment analysis worksheets are reviewed by the Credit Administration department prior to quarter-end. The board of directors of the Bank on a quarterly basis reviews the classified/watch reports including changes in credit grades of 5 or higher as well as all impaired loans, the related allowances and OREO.

In general, once the specific allowance has been finalized, regional and executive management will consider a charge-off prior to the calendar quarter-end in which that reserve calculation is finalized.

The review process also provides for the upgrade of loans that show improvement since the last review. All requests for an upgrade of a credit are approved by the loan strategy committee before the rating can be changed.

**Restructured Loans**

We restructure loans for our customers who appear to be able to meet the terms of their loan over the long term, but who may be unable to meet the terms of the loan in the near term due to individual circumstances. We consider the customer's past performance, previous and current credit history, the individual circumstances surrounding the current difficulties and their plan to meet the terms of the loan in the future prior to restructuring the terms of the loan. The following factors are indicators that a concession has been granted (one or multiple items may be present):

- The borrower receives a reduction of the stated interest rate for the remaining original life of the debt.
- The borrower receives an extension of the maturity date or dates at a stated interest rate lower than the current market interest rate for new debt with similar risk characteristics.
- The borrower receives a reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement.
- The borrower receives a deferral of required payments (principal and/or interest).
- The borrower receives a reduction of the accrued interest.

Generally, loans are restructured through short-term interest rate relief, short-term principal payment relief or short-term principal and interest payment relief. Once a restructured loan has gone 90 days or more past due or is

placed on nonaccrual status, it is included in the 90 days or more past due or nonaccrual totals. During the six months ended June 30, 2017, the Company restructured ten loans by granting concessions to borrowers experiencing financial difficulties.

Table of Contents

A loan classified as a troubled debt restructuring will no longer be included in the troubled debt restructuring disclosures in the periods after the restructuring if the loan performs in accordance with the terms specified by the restructuring agreement and the interest rate specified in the restructuring agreement represents a market rate at the time of modification. The specified interest rate is considered a market rate when the interest rate is equal to or greater than the rate the Company is willing to accept at the time of restructuring for a new loan with comparable risk. If there are concerns that the borrower will not be able to meet the modified terms of the loan, the loan will continue to be included in the troubled debt restructuring disclosures.

We consider all TDRs, regardless of whether they are performing in accordance with their modified terms, to be impaired loans when determining our allowance for loan losses. A summary of restructured loans as of June 30, 2017 and December 31, 2016 is as follows:

	June 30, 2017	December 31, 2016
(in thousands)		
Restructured Loans (TDRs):		
In compliance with modified terms	\$7,440	\$ 7,312
Not in compliance with modified terms - on nonaccrual status or 90 days or more past due and still accruing interest	11,264	1,003
Total restructured loans	\$18,704	\$ 8,315

## Allowance for Loan Losses

Our ALLL as of June 30, 2017 was \$22.5 million, which was 1.02% of total loans and 1.20% of purchased non-credit impaired loans as of that date. This compares with an ALLL of \$21.9 million as of December 31, 2016, which was 1.01% of total loans and 1.27% of purchased non-credit impaired loans as of that date. Gross charge-offs for the first six months of 2017 totaled \$1.7 million, while there was \$0.1 million in recoveries of previously charged-off loans. The ratio of annualized net loan charge offs to average loans for the first six months of 2017 was 0.15% compared to 0.26% for the year ended December 31, 2016. As of June 30, 2017, the ALLL was 86.2% of nonperforming loans compared with 76.8% as of December 31, 2016. Based on the inherent risk in the loan portfolio, management believed that as of June 30, 2017, the ALLL was adequate; however, there is no assurance losses will not exceed the allowance, and any growth in the loan portfolio or uncertainty in the general economy will require that management continue to evaluate the adequacy of the ALLL and make additional provisions in future periods as deemed necessary.

There were no changes to our ALLL calculation methodology during the first six months of 2017. Classified and impaired loans are reviewed per the requirements of FASB ASC Topic 310.

Non-acquired loans with a balance of \$1.79 billion at June 30, 2017, had \$21.5 million of the allowance for loan losses allocated to them, providing an allocated allowance for loan loss to non-acquired loan ratio of 1.20%, compared to balances of \$1.68 billion and an allocated allowance for loan loss to non-acquired loan ratio of 1.27% at December 31, 2016. Non-acquired loans are total loans minus those loans acquired in the Central merger. New loans and loans renewed after the merger are considered non-acquired loans.

At June 30, 2017

	Gross Loans (A)	Discount (B)	Loans, Net of Discount (A-B)	Allowance (C)	Allowance/Gross Loans (C/A)	Allowance + Discount/Gross Loans ((B+C)/A)
Total Non-Acquired Loans	\$ 1,790,982	\$ —	\$ 1,790,982	\$ 21,522	1.20 %	1.20 %
Total Acquired Loans	417,384	10,863	406,521	988	0.24	2.84
Total Loans	\$2,208,366	\$10,863	\$2,197,503	\$ 22,510	1.02 %	1.51 %

At December 31, 2016

	Gross Loans (A)	Discount (B)	Loans, Net of Discount	Allowance (C)	Allowance/Gross Loans (C/A)	Allowance + Discount/Gross Loans
--	-----------------------	-----------------	------------------------------	------------------	-----------------------------------	----------------------------------------

			(A-B)				((B+C)/A)	
Total Non-Acquired Loans	\$1,677,935	\$—	\$1,677,935	\$ 21,229	1.27	%	1.27	%
Total Acquired Loans	500,423	13,215	487,208	621	0.12		2.76	
Total Loans	\$2,178,358	\$ 13,215	\$2,165,143	\$ 21,850	1.01	%	1.61	%

The Bank uses a rolling 20-quarter annual average historical net charge-off component for its ALLL calculation. One qualitative factor table is used for the entire bank. Differences in regional (Iowa, Minnesota/Wisconsin, Florida and Colorado) economic and business conditions are included in the qualitative factor narrative and the risk is spread over the entire loan portfolios. All pass rated loans, regardless of size, are allocated based on delinquency status. The Bank has streamlined the ALLL process

Table of Contents

for a number of low-balance loan types that do not have a material impact on the overall calculation, which are applied a reserve amount equal to the overall reserve calculated pursuant to applicable accounting standards to total loan calculated pursuant to applicable accounting standards. The guaranteed portion of any government guaranteed loan is included in the calculation and is reserved for according to the type of loan. Special mention/watch and substandard rated credits not individually reviewed for impairment are allocated at a higher amount due to the inherent risks associated with these types of loans. Special mention/watch risk rated loans (i.e. early stages of financial deterioration, technical exceptions, etc.) are reserved at a level that will cover losses above a pass allocation for loans that had a loss in the trailing 20-quarters in which the loan was risk-rated special mention/watch at the time of the loss. Substandard loans carry a greater risk than special mention/watch loans, and as such, this subset is reserved at a level that covers losses above a pass allocation for loans that had a loss in the trailing 20-quarters in which the loans was risk-rated substandard at the time of the loss. Classified and impaired loans are reviewed per the requirements of applicable accounting standards.

We currently track the loan to value (“LTV”) ratio of loans in our portfolio, and those loans in excess of internal and supervisory guidelines are presented to the Bank’s board of directors on a quarterly basis. At June 30, 2017, there were 32 owner-occupied 1-4 family loans with a LTV ratio of 100% or greater. In addition, there were 178 home equity loans without credit enhancement that had a LTV ratio of 100% or greater. We have the first lien on 5 of these equity loans and other financial institutions have the first lien on the remaining 173. Additionally, there were 196 commercial real estate loans without credit enhancement that exceeded the supervisory LTV guidelines.

We review all impaired and nonperforming loans individually on a quarterly basis to determine their level of impairment due to collateral deficiency or insufficient cash-flow based on a discounted cash-flow analysis. At June 30, 2017, TDRs were not a material portion of the loan portfolio. We review loans 90 days or more past due that are still accruing interest no less than quarterly to determine if there is a strong reason that the credit should not be placed on non-accrual. The Bank’s board of directors has reviewed these credit relationships and determined that these loans and the risks associated with them were acceptable and did not represent any undue risk.

Capital Resources

Total shareholders’ equity was \$342.9 million as of June 30, 2017, compared to \$305.5 million as of December 31, 2016, an increase of \$37.4 million, or 12.2%. This increase was primarily attributable to the issuance of 750,000 shares of common stock in a public offering, resulting in \$24.4 million of additional capital, net of expenses. Also contributing to the increase in capital was net income of \$13.9 million for the first six months of 2017, a \$2.6 million increase in accumulated other comprehensive income due to market value adjustments on investment securities available for sale, and a \$0.6 million decrease in treasury stock due to the issuance of 32,168 shares of Company common stock in connection with stock compensation plans. These increases were partially offset by the payment of \$3.9 million in common stock dividends. No shares of Company common stock were repurchased in the second quarter of 2017. The total shareholders’ equity to total assets ratio was 11.09% at June 30, 2017, up from 9.92% at December 31, 2016. The tangible equity to tangible assets ratio was 8.86% at June 30, 2017, compared with 7.62% at December 31, 2016. Tangible book value per share was \$21.86 at June 30, 2017, an increase from \$20.00 per share at December 31, 2016.

Our Tier 1 capital to risk-weighted assets ratio was 11.70% as of June 30, 2017 and was 10.73% as of December 31, 2016. Risk-based capital guidelines require the classification of assets and some off-balance-sheet items in terms of credit-risk exposure and the measuring of capital as a percentage of the risk-adjusted asset totals. Management believed that, as of June 30, 2017, the Company and the Bank met all capital adequacy requirements to which we were subject. As of that date, the Bank was “well capitalized” under regulatory prompt corrective action provisions. The Company and the Bank are subject to the Basel III regulatory capital reforms (the “Basel III Rules”) and the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). The Basel III Rules are applicable to all banking organizations that are subject to minimum capital requirements, including federal and state banks and savings and loan associations, as well as to bank and savings and loan holding companies, other than “small bank holding companies” (generally bank holding companies with consolidated assets of less than \$1 billion which are not publicly traded companies). In order to be a “well-capitalized” depository institution, a bank must maintain a Common Equity Tier 1 capital ratio of 6.5% or more; a Tier 1 capital ratio of 8% or more; a Total capital ratio of 10%

or more; and a leverage ratio of 5% or more. A capital conservation buffer, comprised of Common Equity Tier 1 capital, is also established above the regulatory minimum capital requirements. This capital conservation buffer is being phased in, which began January 1, 2016, at 0.625% of risk-weighted assets, was 1.25% of risk-weighted assets effective January 1, 2017, and further increases each subsequent year by an additional 0.625% until reaching the final level of 2.5% on January 1, 2019.

We have traditionally disclosed certain non-GAAP ratios and amounts to evaluate and measure our financial condition, including our Tier 1 capital to risk-weighted assets ratio. We believe this ratio provides investors with information regarding our

Table of Contents

financial condition and how we evaluate our financial condition internally. The following table provides a reconciliation of this non-GAAP measure to the most comparable GAAP equivalent.

(in thousands)	At June 30, 2017	At December 31, 2016
Tier 1 capital		
Total shareholders' equity	\$342,872	\$305,456
Less: Net unrealized gains on securities available for sale	(1,473 )	1,133
Disallowed Intangibles	(73,540 )	(71,951 )
Common equity tier 1 capital	\$267,859	234,638
Plus: Junior subordinated notes issued to capital trusts (qualifying restricted core capital)	23,743	23,692
Tier 1 capital	\$291,602	\$258,330
Risk-weighted assets	\$2,491,661	\$2,407,661
Tier 1 capital to risk-weighted assets	11.70	% 10.73
Common equity tier 1 capital to risk-weighted assets	10.75	% 9.75

The following table provides the capital levels and minimum required capital levels for the Company and the Bank:

	Actual		For Capital Adequacy Purposes*		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)						
At June 30, 2017						
Consolidated:						
Total capital/risk based assets	\$314,382	12.62%	\$230,479	9.250%	N/A	N/A
Tier 1 capital/risk based assets	291,602	11.70	180,645	7.250	N/A	N/A
Common equity tier 1 capital/risk based assets	267,859	10.75	143,271	5.750	N/A	N/A
Tier 1 capital/adjusted average assets	291,602	9.79	119,155	4.000	N/A	N/A
MidWestOne Bank:						
Total capital/risk based assets	\$314,136	12.65%	\$229,790	9.250%	\$248,422	10.00%
Tier 1 capital/risk based assets	291,388	11.73	180,106	7.250	198,737	8.00
Common equity tier 1 capital/risk based assets	291,388	11.73	142,842	5.750	161,474	6.50
Tier 1 capital/adjusted average assets	291,388	9.79	119,021	4.000	148,776	5.00
At December 31, 2016						
Consolidated:						
Total capital/risk based assets	\$280,396	11.65%	\$207,661	8.625%	N/A	N/A
Tier 1 capital/risk based assets	258,304	10.73	159,508	6.625	N/A	N/A
Common equity tier 1 capital/risk based assets	234,638	9.75	123,393	5.125	N/A	N/A
Tier 1 capital/adjusted average assets	258,304	8.75	118,040	4.000	N/A	N/A
MidWestOne Bank:						
Total capital/risk based assets	\$286,959	11.96%	\$206,892	8.625%	\$239,875	10.00%
Tier 1 capital/risk based assets	264,871	11.04	158,917	6.625	191,900	8.00
Common equity tier 1 capital/risk based assets	264,871	11.04	122,936	5.125	155,919	6.50
Tier 1 capital/adjusted average assets	264,871	8.98	118,000	4.000	147,500	5.00

\* The ratios for December 31, 2016 include a capital conservation buffer of 0.625%, and the ratios for March 31, 2017 include a capital conservation buffer of 1.25%

On February 15, 2017, 25,400 restricted stock units were granted to certain officers of the Company, and on May 15, 2017, 7,600 restricted stock units were granted to members of the board of directors of the Company. Additionally,

during the first six months of 2017, 26,875 shares of common stock were issued in connection with the vesting of previously awarded grants of restricted stock units, of which 2,957 shares were surrendered by grantees to satisfy tax requirements, and no nonvested restricted stock units were forfeited. In the first six months of 2017, 8,250 shares of common stock were issued in connection with the exercise of previously issued stock options, and no options were forfeited.

55

---

## Table of Contents

### Liquidity

Liquidity management involves meeting the cash flow requirements of depositors and borrowers. We conduct liquidity management on both a daily and long-term basis, and adjust our investments in liquid assets based on expected loan demand, projected loan maturities and payments, expected deposit flows, yields available on interest-bearing deposits, and the objectives of our asset/liability management program. We had liquid assets (cash and cash equivalents) of \$49.4 million as of June 30, 2017, compared with \$43.2 million as of December 31, 2016. Interest-bearing deposits in banks at June 30, 2017, were \$3.2 million, an increase of \$1.4 million from \$1.8 million at December 31, 2016. Investment securities classified as available for sale, totaling \$443.0 million and \$477.5 million as of June 30, 2017 and December 31, 2016, respectively, could be sold to meet liquidity needs if necessary. Additionally, the Bank maintains unsecured lines of credit with several correspondent banks and secured lines with the Federal Reserve Bank Discount Window and the FHLB that would allow us to borrow funds on a short-term basis, if necessary. Management believed that the Company had sufficient liquidity as of June 30, 2017 to meet the needs of borrowers and depositors.

Our principal sources of funds between December 31, 2016 and June 30, 2017 were proceeds from the maturity and sale of investment securities and the issuance of common stock. While scheduled loan amortization and maturing interest-bearing deposits in banks are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by economic conditions, the general level of interest rates, and competition. We utilize particular sources of funds based on comparative costs and availability. This includes fixed-rate FHLB borrowings that can generally be obtained at a more favorable cost than deposits of comparable maturity. We generally manage the pricing of our deposits to maintain a steady deposit base but from time to time may decide, as we have done in the past, not to pay rates on deposits as high as our competition.

As of June 30, 2017, we had \$15.0 million of long-term debt outstanding to an unaffiliated banking organization. See Note 10. "Long-Term Borrowings" to our consolidated financial statements for additional information related to our long-term debt. We also have \$23.7 million of indebtedness payable under junior subordinated debentures issued to subsidiary trusts that issued trust preferred securities in pooled offerings. See Note 9. "Subordinated Notes Payable" to our consolidated financial statements for additional information related to our junior subordinated notes.

### Inflation

The effects of price changes and inflation can vary substantially for most financial institutions. While management believes that inflation affects the growth of total assets, it is difficult to assess its overall impact on the Company. The price of one or more of the components of the Consumer Price Index ("CPI") may fluctuate considerably and thereby influence the overall CPI without having a corresponding effect on interest rates or upon the cost of those goods and services normally purchased by us. In years of high inflation and high interest rates, intermediate and long-term interest rates tend to increase, thereby adversely impacting the market values of investment securities, mortgage loans and other long-term fixed rate loans held by financial institutions. In addition, higher short-term interest rates caused by inflation tend to increase financial institutions' cost of funds. In other years, the reverse situation may occur.

### Off-Balance-Sheet Arrangements

We are a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers, which include commitments to extend credit, standby and performance letters of credit, and commitments to originate residential mortgage loans held for sale. Commitments to extend credit are agreements to lend to customers at predetermined interest rates, as long as there is no violation of any condition established in the contracts. Our exposure to credit loss in the event of nonperformance by the other party to the commitments to extend credit is represented by the contractual amount of those instruments. We use the same credit policies in making off-balance-sheet commitments as we do for on-balance-sheet instruments.

Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. As of June 30, 2017, outstanding commitments to extend credit totaled approximately \$517.2 million. We have established a reserve of \$0.2 million, which represents our estimate of probable losses as a result of these transactions. This reserve is not part of our allowance for loan losses.

Commitments under standby and performance letters of credit outstanding totaled \$11.6 million as of June 30, 2017. We do not anticipate any losses as a result of these transactions.

Residential mortgage loans sold to others are predominantly conventional residential first lien mortgages originated under our usual underwriting procedures, and are most often sold on a nonrecourse basis. At June 30, 2017, there were approximately \$1.6 million of mandatory commitments with investors to sell not yet originated residential mortgage loans. We do not anticipate any losses as a result of these transactions.

Table of Contents

Special Cautionary Note Regarding Forward-Looking Statements

This report contains certain “forward-looking statements” within the meaning of such term in the Private Securities Litigation Reform Act of 1995. We and our representatives may, from time to time, make written or oral statements that are “forward-looking” and provide information other than historical information. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any results, levels of activity, performance or achievements expressed or implied by any forward-looking statement. These factors include, among other things, the factors listed below.

Forward-looking statements, which may be based upon beliefs, expectations and assumptions of our management and on information currently available to management, are generally identifiable by the use of words such as “believe,” “expect,” “anticipate,” “should,” “could,” “would,” “plans,” “goals,” “intend,” “project,” “estimate,” “forecast,” “may” or similar. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, these statements. Readers are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Additionally, we undertake no obligation to update any statement in light of new information or future events, except as required under federal securities law.

Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors that could have an impact on our ability to achieve operating results, growth plan goals and future prospects include, but are not limited to, the following:

- credit quality deterioration or pronounced and sustained reduction in real estate market values that cause an increase in our allowance for credit losses and a reduction in net earnings;
- our management’s ability to reduce and effectively manage interest rate risk and the impact of interest rates in general on the volatility of our net interest income;
- changes in the economic environment, competition, or other factors that may affect our ability to acquire loans or influence the anticipated growth rate of loans and deposits and the quality of the loan portfolio and loan and deposit pricing;
- fluctuations in the value of our investment securities;
- governmental monetary and fiscal policies;
- legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators (particularly with respect to the Basel III Rules and changes in the scope and cost of FDIC insurance and other coverages);
- the ability to attract and retain key executives and employees experienced in banking and financial services;
- the sufficiency of the allowance for loan losses to absorb the amount of actual losses inherent in our existing loan portfolio;
- our ability to adapt successfully to technological changes to compete effectively in the marketplace;
- credit risks and risks from concentrations (by geographic area and by industry) within our loan portfolio;
- the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds, and other financial institutions operating in our markets or elsewhere or providing similar services;
- the failure of assumptions underlying the establishment of allowances for loan losses and estimation of values of collateral and various financial assets and liabilities;
- the risks of mergers, including, without limitation, the related time and costs of implementing such transactions, integrating operations as part of these transactions and possible failures to achieve expected gains, revenue growth and/or expense savings from such transactions;
- volatility of rate-sensitive deposits;
- operational risks, including data processing system failures or fraud;
- asset/liability matching risks and liquidity risks;
- the costs, effects and outcomes of existing or future litigation;
-

changes in general economic or industry conditions, internationally, nationally or in the communities in which we conduct business;

changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies and the FASB;

war or terrorist activities which may cause further deterioration in the economy or cause instability in credit markets;

the effects of cyber-attacks; and

other factors and risks described under "Risk Factors" in our Annual Report on Form 10-K for the period ended December 31, 2016 and otherwise in our reports and filings with the Securities and Exchange Commission.

## Table of Contents

We qualify all of our forward-looking statements by the foregoing cautionary statements. Because of these risks and other uncertainties, our actual future results, performance or achievement, or industry results, may be materially different from the results indicated by these forward-looking statements. In addition, our past results of operations are not necessarily indicative of our future results.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk.

In general, market risk is the risk of change in asset values due to movements in underlying market rates and prices. Interest rate risk is the risk to earnings and capital arising from movements in interest rates. Interest rate risk is the most significant market risk affecting the Company as other types of market risk, such as foreign currency exchange rate risk and commodity price risk, play a lesser role in the normal course of our business activities.

In addition to interest rate risk, economic conditions in recent years have made liquidity risk (in particular, funding liquidity risk) a more prevalent concern among financial institutions. In general, liquidity risk is the risk of being unable to fund an entity's obligations to creditors (including, in the case of banks, obligations to depositors) as such obligations become due or fund its acquisition of assets.

#### Liquidity Risk

Liquidity refers to our ability to fund operations, to meet depositor withdrawals, to provide for our customers' credit needs, and to meet maturing obligations and existing commitments. Our liquidity principally depends on cash flows from operating activities, investment in and maturity of assets, changes in balances of deposits and borrowings, and our ability to borrow funds.

Net cash inflows from operating activities were \$23.2 million in the first six months of 2017, compared with \$20.3 million in the first six months of 2016. Net income before depreciation, amortization, and accretion is generally the primary contributor for net cash inflows from operating activities.

Net cash outflows from investing activities were \$10.9 million in the first six months of 2017, compared to net cash inflows of \$38.2 million in the comparable six-month period of 2016. In the first six months of 2017, investment securities transactions resulted in net cash inflows of \$24.2 million, compared to inflows of \$51.9 million during the same period of 2016. Net cash outflows related to the net increase in loans were \$34.2 million for the first six months of 2017, compared with \$17.6 million of net cash outflows related to the net increase in loans for the same period of 2016. Purchases of premises and equipment resulted in \$1.7 million cash outflows in the first six months of 2017, compared to outflows of \$4.0 million in the comparable period of 2016.

Net cash outflows from financing activities in the first six months of 2017 were \$6.2 million, compared with net cash inflows of \$5.4 million for the same period of 2016. The largest financing cash outflows during the six months ended June 30, 2017 were a net decrease of \$25.0 million in FHLB borrowings, a \$22.0 million decrease in securities sold under agreement to repurchase, the use of \$3.9 million to pay dividends, and \$2.5 million of payments on long-term debt. Sources of cash inflows during the first six months of 2017 were \$24.4 million of proceeds, net of expenses, from the issuance of common stock, an increase of \$13.3 million in deposits, and an increase of \$9.6 million in federal funds purchased.

To further mitigate liquidity risk, the Bank has several sources of liquidity in place to maximize funding availability and increase the diversification of funding sources. The criteria for evaluating the use of these sources include volume concentration (percentage of liabilities), cost, volatility, and the fit with the current asset/liability management plan.

These acceptable sources of liquidity include:

- Federal Funds Lines
- FHLB Borrowings
- Brokered Deposits
- Brokered Repurchase Agreements
- Federal Reserve Bank Discount Window

#### Federal Funds Lines:

Routine liquidity requirements are met by fluctuations in the federal funds position of the Bank. The principal function of these funds is to maintain short-term liquidity. Unsecured federal funds purchased lines are viewed as a volatile liability and are not used as a long-term funding solution, especially when used to fund long-term assets.

Multiple correspondent relationships are preferable and federal funds sold exposure to any one customer is continuously monitored. The current federal funds purchased limit is 10% of total assets, or the amount of established federal funds lines, whichever is smaller. Currently, the Bank has unsecured federal funds lines totaling \$110.0 million, which lines are tested annually to ensure availability.

## Table of Contents

### FHLB Borrowings:

FHLB borrowings provide both a source of liquidity and long-term funding for the Bank. Use of this type of funding is coordinated with both the strategic balance sheet growth projections and interest rate risk profile of the Bank.

Factors that are taken into account when contemplating use of FHLB borrowings are the effective interest rate, the collateral requirements, community investment program credits, and the implications and cost of having to purchase incremental FHLB stock. As of June 30, 2017, the Bank had \$90.0 million in outstanding FHLB borrowings, leaving \$193.0 million available for liquidity needs, based on collateral capacity. These borrowings are secured by various real estate loans (residential, commercial and agricultural).

### Brokered Deposits:

The Bank has brokered certificate of deposit lines and deposit relationships available to help diversify its various funding sources. Brokered deposits offer several benefits relative to other funding sources, such as: maturity structures which cannot be duplicated in the current deposit market, deposit gathering which does not cannibalize the existing deposit base, the unsecured nature of these liabilities, and the ability to quickly generate funds. However, brokered deposits are often viewed as a volatile liability by banking regulators and market participants. This viewpoint, and the desire to not develop a large funding concentration in any one area outside of the Bank's core market area, is reflected in an internal policy stating that the Bank limit the use of brokered deposits as a funding source to no more than 10% of total assets. Board approval is required to exceed this limit. The Bank will also have to maintain a "well capitalized" standing to access brokered deposits, as an "adequately capitalized" rating would require an FDIC waiver to do so, and an "undercapitalized" rating would prohibit it from using brokered deposits altogether.

### Brokered Repurchase Agreements:

Brokered repurchase agreements may be established with approved brokerage firms and banks. Repurchase agreements create rollover risk (the risk that a broker will discontinue the relationship due to market factors) and are not used as a long-term funding solution, especially when used to fund long-term assets. Collateral requirements and availability are evaluated and monitored. The current policy limit for brokered repurchase agreements is 10% of total assets. There were no outstanding brokered repurchase agreements at June 30, 2017.

### Federal Reserve Bank Discount Window:

The Federal Reserve Bank Discount Window is another source of liquidity, particularly during difficult economic times. The Bank has a borrowing capacity with the Federal Reserve Bank of Chicago limited by the amount of municipal securities pledged against the line. As of June 30, 2017, the Bank had municipal securities with an approximate market value of \$13.0 million pledged for liquidity purposes, and had a borrowing capacity of \$11.7 million.

### Interest Rate Risk

Interest rate risk is defined as the exposure of net interest income and fair value of financial instruments (interest-earning assets, deposits and borrowings) to movements in interest rates. The Company's results of operations depend to a large degree on its net interest income and its ability to manage interest rate risk. The Company considers interest rate risk to be one of its more significant market risks. The major sources of the Company's interest rate risk are timing differences in the maturity and re-pricing characteristics of assets and liabilities, changes in the shape of the yield curve, changes in customer behavior and changes in relationships between rate indices (basis risk). Management measures these risks and their impact in various ways, including through the use of income simulation and valuation analyses. The interest rate scenarios used in such analysis may include gradual or rapid changes in interest rates, spread narrowing and widening, yield curve twists and changes in assumptions about customer behavior in various interest rate scenarios. A mismatch between maturities, interest rate sensitivities and prepayment characteristics of assets and liabilities results in interest-rate risk. Like most financial institutions, we have material interest-rate risk exposure to changes in both short-term and long-term interest rates, as well as variable interest rate indices (e.g., the prime rate or LIBOR). There has been no material change in the Company's interest rate profile between June 30, 2017 and December 31, 2016. The mix of earning assets and interest-bearing liabilities has remained stable over the period. The Bank's asset and liability committee meets regularly and is responsible for reviewing its interest rate sensitivity position and establishing policies to monitor and limit exposure to interest rate risk. Our asset and liability committee seeks to manage interest rate risk under a variety of rate environments by structuring our balance

sheet and off-balance-sheet positions in such a way that changes in interest rates do not have a large negative impact. The risk is monitored and managed within approved policy limits.

We use a third-party service to model and measure our exposure to potential interest rate changes. For various assumed hypothetical changes in market interest rates, numerous other assumptions are made, such as prepayment speeds on loans and securities backed by mortgages, the slope of the Treasury yield-curve, the rates and volumes of our deposits, and the rates and volumes of our loans. There are two primary tools used to evaluate interest rate risk: net interest income simulation and

Table of Contents

economic value of equity ("EVE"). In addition, interest rate gap is reviewed to monitor asset and liability repricing over various time periods.

**Net Interest Income Simulation:**

Management utilizes net interest income simulation models to estimate the near-term effects of changing interest rates on its net interest income. Net interest income simulation involves forecasting net interest income under a variety of scenarios, which include varying the level of interest rates and the shape of the yield curve. Management exercises its best judgment in making assumptions regarding events that management can influence, such as non-contractual deposit re-pricings, and events outside management's control, such as customer behavior on loan and deposit activity and the effect that competition has on both loan and deposit pricing. These assumptions are subjective and, as a result, net interest income simulation results will differ from actual results due to the timing, magnitude and frequency of interest rate changes, changes in market conditions, customer behavior and management strategies, among other factors. We perform various sensitivity analyses on assumptions of deposit attrition and deposit re-pricing.

The following table presents the anticipated effect on net interest income over a twelve month period if short- and long-term interest rates were to sustain an immediate decrease of 100 basis points, or an immediate increase of 100 basis points or 200 basis points:

	Immediate Change in Rates		
	-100	+100	+200
(dollars in thousands)			
June 30, 2017			
Dollar change	\$(945 )	\$130	\$(68 )
Percent change	(1.0 )%	0.1 %	(0.1 )%
December 31, 2016			
Dollar change	\$(1,276)	\$157	\$453
Percent change	(1.3 )%	0.2 %	0.5 %

As of June 30, 2017, 38.1% of the Company's earning asset balances will reprice or are expected to pay down in the next twelve months, and 64.4% of the Company's deposit balances are low cost or no cost deposits.

**Economic Value of Equity:**

Management also uses EVE to measure risk in the balance sheet that might not be taken into account in the net interest income simulation analysis. Net interest income simulation highlights exposure over a relatively short time period, while EVE analysis incorporates all cash flows over the estimated remaining life of all balance sheet positions. The valuation of the balance sheet, at a point in time, is defined as the discounted present value of asset cash flows minus the discounted present value of liability cash flows. EVE analysis addresses only the current balance sheet and does not incorporate the run-off replacement assumptions that are used in the net interest income simulation model. As with the net interest income simulation model, EVE analysis is based on key assumptions about the timing and variability of balance sheet cash flows and does not take into account any potential responses by management to anticipated changes in interest rates.

**Interest Rate Gap:**

The interest rate gap is the difference between earning assets and interest-bearing liabilities re-pricing within a given period and represents the net asset or liability sensitivity at a point in time. An interest rate gap measure could be significantly affected by external factors such as loan prepayments, early withdrawals of deposits, changes in the correlation of various interest-bearing instruments, competition, or a rise or decline in interest rates.

**Item 4. Controls and Procedures.****Disclosure Controls and Procedures**

Under supervision and with the participation of certain members of our management, including our chief executive officer and chief financial officer, we completed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of June 30, 2017. Based on this evaluation, our chief executive officer and chief financial officer have concluded that the disclosure controls and procedures were effective as of the end of the period covered by this

report with respect to timely communication to them and other members of management responsible for preparing periodic reports of material information required to be disclosed in this report as it relates to the Company and our consolidated subsidiaries.

Table of Contents

The effectiveness of our or any system of disclosure controls and procedures is subject to certain limitations, including the exercise of judgment in designing, implementing, and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events, and the inability to eliminate misconduct completely. As a result, there can be no assurance that our disclosure controls and procedures will prevent all errors or fraud or ensure that all material information will be made known to appropriate management in a timely fashion. By their nature, our or any system of disclosure controls and procedures can provide only reasonable assurance regarding management's control objectives.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II – OTHER INFORMATION**

Item 1. Legal Proceedings.

The Company and its subsidiaries are from time to time parties to various legal actions arising in the normal course of business. We believe that there are no threatened or pending proceedings, other than ordinary routine litigation incidental to the Company's business, against the Company or its subsidiaries or of which any of their property is the subject, which, if determined adversely, would have a material adverse effect on the business or financial condition of the Company.

Item 1A. Risk Factors.

There have been no material changes from the risk factors set forth in Part I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the period ended December 31, 2016. Please refer to that section of our Form 10-K for disclosures regarding the risks and uncertainties related to our business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

We did not repurchase any of our equity securities during the second quarter of 2017.

On July 21, 2016, the board of directors of the Company approved a new share repurchase program, allowing for the repurchase of up to \$5.0 million of stock through December 31, 2018. The new repurchase program replaced the Company's prior repurchase program, pursuant to which the Company had repurchased \$1.2 million of common stock since the plan was announced in July 2014. Pursuant to the repurchase 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. Of the \$5.0 million of stock authorized under the repurchase plan, \$5.0 million remained available for possible future repurchases as of June 30, 2017.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.



Table of Contents

## Item 6. Exhibits.

Exhibit Number	Description	Incorporated by Reference to:
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a)	Filed herewith
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a)	Filed herewith
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MIDWESTONE FINANCIAL GROUP,  
INC.

Dated: August 3, 2017 By: /s/ CHARLES N. FUNK  
Charles N. Funk  
President and Chief  
Executive Officer  
(Principal Executive Officer)

By: /s/ KATIE A. LORENSON  
Katie A. Lorenson  
Senior Vice President and  
Chief Financial Officer  
(Principal Financial Officer)