

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

MidWestOne Financial Group, Inc.

Form 10-Q

August 02, 2018

false--12-31Q220182018-06-3010-Q000141266512221107Accelerated FilerMIDWESTONE FINANCIAL GROUP, INC.MOFG132800001.001.003000000030000000124634811246348112219611122211070.02150.03500.0159Three-month LIBORThree-month LIBORThree-month LIBOR000115360000.000.0050000005000000007500000268752852582509700243870242374033998 0001412665 2018-01-01 2018-06-30 0001412665 2018-07-31 0001412665 2017-12-31 0001412665 2018-06-30 0001412665 2017-04-01 2017-06-30 0001412665 2018-04-01 2018-06-30 0001412665 2017-01-01 2017-06-30 0001412665 us-gaap:PreferredStockMember 2017-01-01 2017-06-30 0001412665 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-12-31 0001412665 us-gaap:TreasuryStockMember 2017-06-30 0001412665 us-gaap:RetainedEarningsMember 2017-01-01 2017-06-30 0001412665 us-gaap:RetainedEarningsMember 2018-01-01 2018-06-30 0001412665 us-gaap:AdditionalPaidInCapitalMember 2018-06-30 0001412665 us-gaap:CommonStockMember 2017-01-01 2017-06-30 0001412665 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-01-01 2018-06-30 0001412665 us-gaap:AdditionalPaidInCapitalMember 2017-06-30 0001412665 us-gaap:TreasuryStockMember 2018-01-01 2018-06-30 0001412665 us-gaap:PreferredStockMember 2018-01-01 2018-06-30 0001412665 us-gaap:CommonStockMember 2018-06-30 0001412665 us-gaap:AdditionalPaidInCapitalMember 2017-01-01 2017-06-30 0001412665 us-gaap:AdditionalPaidInCapitalMember 2018-01-01 2018-06-30 0001412665 us-gaap:RetainedEarningsMember 2017-06-30 0001412665 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-01-01 2017-06-30 0001412665 us-gaap:TreasuryStockMember 2017-01-01 2017-06-30 0001412665 2016-12-31 0001412665 us-gaap:PreferredStockMember 2017-06-30 0001412665 us-gaap:TreasuryStockMember 2016-12-31 0001412665 us-gaap:RetainedEarningsMember 2018-06-30 0001412665 us-gaap:RetainedEarningsMember 2017-12-31 0001412665 us-gaap:AdditionalPaidInCapitalMember 2017-12-31 0001412665 us-gaap:PreferredStockMember 2018-06-30 0001412665 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2016-12-31 0001412665 us-gaap:RetainedEarningsMember 2016-12-31 0001412665 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-06-30 0001412665 us-gaap:CommonStockMember 2018-01-01 2018-06-30 0001412665 us-gaap:CommonStockMember 2017-06-30 0001412665 us-gaap:PreferredStockMember 2016-12-31 0001412665 us-gaap:CommonStockMember 2016-12-31 0001412665 us-gaap:CommonStockMember 2017-12-31 0001412665 2017-06-30 0001412665 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-06-30 0001412665 us-gaap:PreferredStockMember 2017-12-31 0001412665 us-gaap:AdditionalPaidInCapitalMember 2016-12-31 0001412665 us-gaap:TreasuryStockMember 2017-12-31 0001412665 us-gaap:TreasuryStockMember 2018-06-30 0001412665 us-gaap:CommonStockMember 2018-01-01 2018-06-30 0001412665 us-gaap:CommonStockMember 2017-01-01 2017-06-30 0001412665 us-gaap:AccountingStandardsUpdate201601Member 2018-01-01 2018-06-30 0001412665 us-gaap:AccountingStandardsUpdate201601Member 2017-01-01 2017-06-30 0001412665 us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2017-12-31 0001412665 us-gaap:CollateralizedMortgageObligationsMember 2017-12-31 0001412665 us-gaap:USStatesAndPoliticalSubdivisionsMember 2017-12-31 0001412665 us-gaap:USGovernmentCorporationsAndAgenciesSecuritiesMember 2017-12-31 0001412665 us-gaap:DomesticCorporateDebtSecuritiesMember 2017-12-31 0001412665 us-gaap:EquitySecuritiesMember 2017-12-31 0001412665 us-gaap:ResidentialMortgageBackedSecuritiesMember 2017-12-31 0001412665 us-gaap:USStatesAndPoliticalSubdivisionsMember 2018-06-30 0001412665 us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2018-06-30 0001412665 us-gaap:DomesticCorporateDebtSecuritiesMember 2018-06-30 0001412665 us-gaap:CollateralizedMortgageObligationsMember 2018-06-30 0001412665 us-gaap:ResidentialMortgageBackedSecuritiesMember 2018-06-30 0001412665 us-gaap:USGovernmentCorporationsAndAgenciesSecuritiesMember 2018-06-30 0001412665 us-gaap:DebtSecuritiesMember 2018-01-01 2018-06-30 0001412665 us-gaap:DebtSecuritiesMember 2018-04-01 2018-06-30 0001412665 us-gaap:DebtSecuritiesMember 2017-04-01 2017-06-30 0001412665

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

us-gaap:DebtSecuritiesMember 2017-01-01 2017-06-30 0001412665 str:MN  
mofg:TotalObligationsOfStateandPoliticalSubdivisionsMember us-gaap:GeographicConcentrationRiskMember  
us-gaap:USStatesAndPoliticalSubdivisionsMember 2018-01-01 2018-06-30 0001412665 2017-01-01 2017-03-31  
0001412665 mofg:CommunityReinvestmentActQualifiedInvestmentMember 2018-06-30 0001412665  
us-gaap:BanksTrustAndInsuranceEquitiesMember us-gaap:EquitySecuritiesMember 2018-06-30 0001412665 str:IA  
mofg:TotalObligationsOfStateandPoliticalSubdivisionsMember us-gaap:GeographicConcentrationRiskMember  
us-gaap:USStatesAndPoliticalSubdivisionsMember 2018-01-01 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember  
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember mofg:FarmlandLoanFinancingReceivableMember  
us-gaap:FinancingReceivables30To59DaysPastDueMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember  
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-06-30 0001412665  
us-gaap:ResidentialPortfolioSegmentMember us-gaap:FinancingReceivables60To89DaysPastDueMember  
2017-12-31 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember mofg:FarmlandLoanFinancingReceivableMember  
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-06-30 0001412665  
us-gaap:ResidentialPortfolioSegmentMember mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember  
2017-12-31 0001412665 us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31  
0001412665 us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember  
2018-06-30 0001412665 us-gaap:CommercialPortfolioSegmentMember  
mofg:CommercialandIndustrialLoanFinancingReceivableMember 2018-06-30 0001412665  
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember 2017-12-31  
0001412665 mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember  
2018-06-30 0001412665 mofg:PurchasedCreditImpairedLoansReceivableMember  
us-gaap:FinancingReceivables60To89DaysPastDueMember 2018-06-30 0001412665  
us-gaap:ResidentialPortfolioSegmentMember mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember  
us-gaap:FinancingReceivables60To89DaysPastDueMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:MultifamilyRealEstateLoanFinancingReceivableMember 2017-12-31 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember 2017-12-31  
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:MultifamilyRealEstateLoanFinancingReceivableMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember 2018-06-30  
0001412665 us-gaap:CommercialPortfolioSegmentMember  
mofg:CommercialandIndustrialLoanFinancingReceivableMember 2017-12-31 0001412665  
us-gaap:ResidentialPortfolioSegmentMember mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember  
2018-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember 2017-12-31 0001412665  
us-gaap:ResidentialPortfolioSegmentMember mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember  
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665  
us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember  
us-gaap:FinancingReceivables60To89DaysPastDueMember 2018-06-30 0001412665  
us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember

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

us-gaap:FinancingReceivables30To59DaysPastDueMember 2018-06-30 0001412665  
us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember 2017-12-31  
0001412665 us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember  
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember  
us-gaap:FinancingReceivables30To59DaysPastDueMember 2018-06-30 0001412665  
mofg:PurchasedCreditImpairedLoansReceivableMember us-gaap:FinancingReceivables60To89DaysPastDueMember  
2017-12-31 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:FarmlandLoanFinancingReceivableMember us-gaap:FinancingReceivables30To59DaysPastDueMember  
2017-12-31 0001412665 us-gaap:ResidentialPortfolioSegmentMember  
us-gaap:FinancingReceivables30To59DaysPastDueMember 2017-12-31 0001412665  
mofg:PurchasedCreditImpairedLoansReceivableMember 2018-06-30 0001412665  
us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember  
us-gaap:FinancingReceivables60To89DaysPastDueMember 2017-12-31 0001412665  
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember  
us-gaap:FinancingReceivables60To89DaysPastDueMember 2017-12-31 0001412665  
us-gaap:ResidentialPortfolioSegmentMember mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember  
us-gaap:FinancingReceivables30To59DaysPastDueMember 2018-06-30 0001412665  
us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember  
us-gaap:FinancingReceivables30To59DaysPastDueMember 2017-12-31 0001412665  
us-gaap:FinancingReceivables60To89DaysPastDueMember 2017-12-31 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:MultifamilyRealEstateLoanFinancingReceivableMember  
us-gaap:FinancingReceivables60To89DaysPastDueMember 2017-12-31 0001412665  
us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember 2017-12-31 0001412665  
us-gaap:FinancingReceivables60To89DaysPastDueMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember us-gaap:FinancingReceivables30To59DaysPastDueMember  
2017-12-31 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember  
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665  
us-gaap:ResidentialPortfolioSegmentMember 2017-12-31 0001412665 us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember 2018-06-30 0001412665  
mofg:PurchasedCreditImpairedLoansReceivableMember  
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665  
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember  
us-gaap:FinancingReceivables30To59DaysPastDueMember 2017-12-31 0001412665  
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember  
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665  
us-gaap:ResidentialPortfolioSegmentMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember  
us-gaap:FinancingReceivables60To89DaysPastDueMember 2018-06-30 0001412665  
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember 2018-06-30 0001412665  
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember  
us-gaap:FinancingReceivables60To89DaysPastDueMember 2017-12-31 0001412665  
us-gaap:ResidentialPortfolioSegmentMember mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember  
us-gaap:FinancingReceivables30To59DaysPastDueMember 2017-12-31 0001412665

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

us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember  
us-gaap:FinancingReceivables30To59DaysPastDueMember 2017-12-31 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember us-gaap:FinancingReceivables60To89DaysPastDueMember  
2017-12-31 0001412665 us-gaap:CommercialPortfolioSegmentMember  
mofg:CommercialandIndustrialLoanFinancingReceivableMember  
us-gaap:FinancingReceivables30To59DaysPastDueMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665  
us-gaap:ResidentialPortfolioSegmentMember us-gaap:FinancingReceivables30To59DaysPastDueMember  
2018-06-30 0001412665 us-gaap:ConsumerPortfolioSegmentMember  
mofg:ConsumerLoanFinancingReceivableMember us-gaap:FinancingReceivables30To59DaysPastDueMember  
2018-06-30 0001412665 mofg:PurchasedCreditImpairedLoansReceivableMember 2017-12-31 0001412665  
us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember  
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember  
us-gaap:FinancingReceivables60To89DaysPastDueMember 2017-12-31 0001412665  
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember  
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember mofg:FarmlandLoanFinancingReceivableMember  
2017-12-31 0001412665 us-gaap:CommercialPortfolioSegmentMember  
mofg:CommercialandIndustrialLoanFinancingReceivableMember  
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-06-30 0001412665  
us-gaap:ResidentialPortfolioSegmentMember mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember  
us-gaap:FinancingReceivables60To89DaysPastDueMember 2017-12-31 0001412665  
us-gaap:ResidentialPortfolioSegmentMember us-gaap:FinancingReceivables60To89DaysPastDueMember  
2018-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember 2017-12-31 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember us-gaap:FinancingReceivables30To59DaysPastDueMember  
2018-06-30 0001412665 us-gaap:CommercialPortfolioSegmentMember  
mofg:CommercialandIndustrialLoanFinancingReceivableMember  
us-gaap:FinancingReceivables60To89DaysPastDueMember 2018-06-30 0001412665  
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember  
us-gaap:FinancingReceivables30To59DaysPastDueMember 2017-12-31 0001412665  
us-gaap:ResidentialPortfolioSegmentMember  
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember  
us-gaap:FinancingReceivables30To59DaysPastDueMember 2018-06-30 0001412665  
us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember  
us-gaap:FinancingReceivables60To89DaysPastDueMember 2018-06-30 0001412665  
us-gaap:FinancingReceivables30To59DaysPastDueMember 2017-12-31 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember mofg:FarmlandLoanFinancingReceivableMember  
2018-06-30 0001412665 mofg:PurchasedCreditImpairedLoansReceivableMember  
us-gaap:FinancingReceivables30To59DaysPastDueMember 2018-06-30 0001412665  
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember  
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember

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

us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-06-30 0001412665  
us-gaap:FinancingReceivables30To59DaysPastDueMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember  
us-gaap:FinancingReceivables30To59DaysPastDueMember 2017-12-31 0001412665  
us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember  
us-gaap:FinancingReceivables60To89DaysPastDueMember 2017-12-31 0001412665  
us-gaap:ResidentialPortfolioSegmentMember  
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-06-30 0001412665  
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember  
us-gaap:FinancingReceivables30To59DaysPastDueMember 2018-06-30 0001412665  
us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember  
us-gaap:FinancingReceivables30To59DaysPastDueMember 2017-12-31 0001412665  
us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember  
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665  
us-gaap:ResidentialPortfolioSegmentMember mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember  
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember us-gaap:FinancingReceivables60To89DaysPastDueMember  
2018-06-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember  
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember mofg:FarmlandLoanFinancingReceivableMember  
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665  
mofg:PurchasedCreditImpairedLoansReceivableMember us-gaap:FinancingReceivables30To59DaysPastDueMember  
2017-12-31 0001412665 mofg:AgriculturalPortfolioSegmentMember 2017-01-01 2017-06-30 0001412665  
us-gaap:ConsumerPortfolioSegmentMember 2016-12-31 0001412665 us-gaap:CommercialPortfolioSegmentMember  
2017-12-31 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember 2018-01-01 2018-06-30  
0001412665 us-gaap:CommercialPortfolioSegmentMember 2018-01-01 2018-06-30 0001412665  
mofg:AgriculturalPortfolioSegmentMember 2018-06-30 0001412665 mofg:AgriculturalPortfolioSegmentMember  
2017-06-30 0001412665 us-gaap:ConsumerPortfolioSegmentMember 2017-12-31 0001412665  
us-gaap:CommercialPortfolioSegmentMember 2017-06-30 0001412665 us-gaap:ConsumerPortfolioSegmentMember  
2017-01-01 2017-06-30 0001412665 us-gaap:CommercialPortfolioSegmentMember 2017-01-01 2017-06-30  
0001412665 mofg:AgriculturalPortfolioSegmentMember 2017-12-31 0001412665  
us-gaap:ResidentialPortfolioSegmentMember 2018-01-01 2018-06-30 0001412665  
mofg:AgriculturalPortfolioSegmentMember 2016-12-31 0001412665 mofg:AgriculturalPortfolioSegmentMember  
2018-01-01 2018-06-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember 2016-12-31 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember 2017-01-01 2017-06-30 0001412665  
us-gaap:ConsumerPortfolioSegmentMember 2017-06-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember  
2017-01-01 2017-06-30 0001412665 us-gaap:ConsumerPortfolioSegmentMember 2018-01-01 2018-06-30  
0001412665 us-gaap:ResidentialPortfolioSegmentMember 2017-06-30 0001412665  
us-gaap:CommercialPortfolioSegmentMember 2018-06-30 0001412665  
us-gaap:CommercialPortfolioSegmentMember 2016-12-31 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember 2017-06-30 0001412665  
us-gaap:ConsumerPortfolioSegmentMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember 2016-12-31 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember us-gaap:ExtendedMaturityMember 2018-01-01  
2018-06-30 0001412665 us-gaap:CommercialPortfolioSegmentMember  
mofg:CommercialandIndustrialLoanFinancingReceivableMember us-gaap:ExtendedMaturityMember 2017-04-01

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

2017-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember us-gaap:ExtendedMaturityMember 2017-04-01  
2017-06-30 0001412665 us-gaap:CommercialPortfolioSegmentMember  
mofg:CommercialandIndustrialLoanFinancingReceivableMember us-gaap:ExtendedMaturityMember 2017-01-01  
2017-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember us-gaap:ExtendedMaturityMember 2017-01-01  
2017-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
us-gaap:ReceivablesAcquiredWithDeterioratedCreditQualityMember 2018-06-30 0001412665  
us-gaap:ResidentialPortfolioSegmentMember us-gaap:ReceivablesAcquiredWithDeterioratedCreditQualityMember  
2018-06-30 0001412665 us-gaap:ReceivablesAcquiredWithDeterioratedCreditQualityMember 2018-06-30  
0001412665 us-gaap:CommercialPortfolioSegmentMember  
us-gaap:ReceivablesAcquiredWithDeterioratedCreditQualityMember 2018-06-30 0001412665  
mofg:CommercialandIndustrialLoanFinancingReceivableMember us-gaap:ExtendedMaturityMember 2017-01-01  
2017-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember mofg:OtherConcessionMember 2017-01-01  
2017-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:FarmlandLoanFinancingReceivableMember us-gaap:ExtendedMaturityMember 2017-01-01 2017-06-30  
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:FarmlandLoanFinancingReceivableMember us-gaap:ExtendedMaturityMember 2018-01-01 2018-06-30  
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember 2017-03-31 0001412665  
us-gaap:CommercialPortfolioSegmentMember 2018-04-01 2018-06-30 0001412665  
mofg:AgriculturalPortfolioSegmentMember 2018-04-01 2018-06-30 0001412665  
mofg:AgriculturalPortfolioSegmentMember 2017-04-01 2017-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember 2017-04-01 2017-06-30 0001412665  
us-gaap:CommercialPortfolioSegmentMember 2018-03-31 0001412665  
us-gaap:CommercialPortfolioSegmentMember 2017-03-31 0001412665 us-gaap:ConsumerPortfolioSegmentMember  
2018-04-01 2018-06-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember 2017-03-31 0001412665  
us-gaap:ConsumerPortfolioSegmentMember 2017-04-01 2017-06-30 0001412665  
us-gaap:ResidentialPortfolioSegmentMember 2018-04-01 2018-06-30 0001412665  
us-gaap:ResidentialPortfolioSegmentMember 2017-04-01 2017-06-30 0001412665  
us-gaap:CommercialPortfolioSegmentMember 2017-04-01 2017-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember 2018-04-01 2018-06-30 0001412665  
us-gaap:ResidentialPortfolioSegmentMember 2018-03-31 0001412665 us-gaap:ConsumerPortfolioSegmentMember  
2017-03-31 0001412665 mofg:AgriculturalPortfolioSegmentMember 2017-03-31 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember 2018-03-31 0001412665 2017-03-31 0001412665  
us-gaap:ConsumerPortfolioSegmentMember 2018-03-31 0001412665 mofg:AgriculturalPortfolioSegmentMember  
2018-03-31 0001412665 2018-03-31 0001412665 us-gaap:ResidentialPortfolioSegmentMember  
us-gaap:ReceivablesAcquiredWithDeterioratedCreditQualityMember 2017-12-31 0001412665  
us-gaap:CommercialPortfolioSegmentMember us-gaap:ReceivablesAcquiredWithDeterioratedCreditQualityMember  
2017-12-31 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
us-gaap:ReceivablesAcquiredWithDeterioratedCreditQualityMember 2017-12-31 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember mofg:OtherConcessionMember 2017-04-01  
2017-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:FarmlandLoanFinancingReceivableMember us-gaap:ExtendedMaturityMember 2018-04-01 2018-06-30  
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:FarmlandLoanFinancingReceivableMember us-gaap:ExtendedMaturityMember 2017-04-01 2017-06-30  
0001412665 us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember  
us-gaap:PassMember 2017-12-31 0001412665 us-gaap:CommercialPortfolioSegmentMember  
mofg:CommercialandIndustrialLoanFinancingReceivableMember us-gaap:DoubtfulMember 2017-12-31 0001412665  
us-gaap:ResidentialPortfolioSegmentMember us-gaap:SpecialMentionMember 2017-12-31 0001412665

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

us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember  
us-gaap:PassMember 2017-12-31 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:MultifamilyRealEstateLoanFinancingReceivableMember us-gaap:PassMember 2017-12-31 0001412665  
us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember  
us-gaap:DoubtfulMember 2017-12-31 0001412665 us-gaap:SpecialMentionMember 2017-12-31 0001412665  
us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember us-gaap:SubstandardMember 2017-12-31  
0001412665 us-gaap:ResidentialPortfolioSegmentMember us-gaap:PassMember 2017-12-31 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:MultifamilyRealEstateLoanFinancingReceivableMember us-gaap:SpecialMentionMember 2017-12-31  
0001412665 us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember us-gaap:SpecialMentionMember 2017-12-31  
0001412665 us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember us-gaap:PassMember 2017-12-31  
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember us-gaap:PassMember 2017-12-31 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember mofg:FarmlandLoanFinancingReceivableMember  
us-gaap:PassMember 2017-12-31 0001412665 mofg:AgriculturalPortfolioSegmentMember  
mofg:AgriculturalLoanFinancingReceivableMember us-gaap:SpecialMentionMember 2017-12-31 0001412665  
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember  
us-gaap:SubstandardMember 2017-12-31 0001412665 us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember us-gaap:PassMember 2017-12-31  
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember  
us-gaap:SpecialMentionMember 2017-12-31 0001412665 us-gaap:ResidentialPortfolioSegmentMember  
us-gaap:SubstandardMember 2017-12-31 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
us-gaap:SubstandardMember 2017-12-31 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:FarmlandLoanFinancingReceivableMember us-gaap:SpecialMentionMember 2017-12-31 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember us-gaap:PassMember  
2017-12-31 0001412665 us-gaap:CommercialPortfolioSegmentMember  
mofg:CommercialandIndustrialLoanFinancingReceivableMember us-gaap:SubstandardMember 2017-12-31  
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:MultifamilyRealEstateLoanFinancingReceivableMember us-gaap:SubstandardMember 2017-12-31 0001412665  
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember  
us-gaap:PassMember 2017-12-31 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember us-gaap:SubstandardMember 2017-12-31  
0001412665 us-gaap:CommercialPortfolioSegmentMember  
mofg:CommercialandIndustrialLoanFinancingReceivableMember us-gaap:SpecialMentionMember 2017-12-31  
0001412665 us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember  
us-gaap:SubstandardMember 2017-12-31 0001412665 us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember us-gaap:SpecialMentionMember  
2017-12-31 0001412665 us-gaap:SubstandardMember 2017-12-31 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember us-gaap:PassMember 2017-12-31 0001412665  
us-gaap:ResidentialPortfolioSegmentMember mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember  
us-gaap:SubstandardMember 2017-12-31 0001412665 us-gaap:PassMember 2017-12-31 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember us-gaap:SpecialMentionMember 2017-12-31  
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:FarmlandLoanFinancingReceivableMember us-gaap:SubstandardMember 2017-12-31 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember

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

mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember  
us-gaap:SubstandardMember 2017-12-31 0001412665 us-gaap:DoubtfulMember 2017-12-31 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember us-gaap:SpecialMentionMember 2017-12-31 0001412665  
us-gaap:ResidentialPortfolioSegmentMember us-gaap:SpecialMentionMember 2018-06-30 0001412665  
us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember us-gaap:SubstandardMember 2018-06-30  
0001412665 us-gaap:SubstandardMember 2018-06-30 0001412665 us-gaap:ConsumerPortfolioSegmentMember  
mofg:ConsumerLoanFinancingReceivableMember us-gaap:DoubtfulMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:MultifamilyRealEstateLoanFinancingReceivableMember us-gaap:SubstandardMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember  
us-gaap:SpecialMentionMember 2018-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
us-gaap:PassMember 2018-06-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember us-gaap:PassMember 2018-06-30  
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:FarmlandLoanFinancingReceivableMember us-gaap:PassMember 2018-06-30 0001412665  
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember  
us-gaap:SpecialMentionMember 2018-06-30 0001412665 us-gaap:ConsumerPortfolioSegmentMember  
mofg:ConsumerLoanFinancingReceivableMember us-gaap:SubstandardMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember us-gaap:PassMember  
2018-06-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember us-gaap:PassMember 2018-06-30 0001412665  
us-gaap:PassMember 2018-06-30 0001412665 us-gaap:CommercialPortfolioSegmentMember  
mofg:CommercialandIndustrialLoanFinancingReceivableMember us-gaap:PassMember 2018-06-30 0001412665  
us-gaap:DoubtfulMember 2018-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:MultifamilyRealEstateLoanFinancingReceivableMember us-gaap:SpecialMentionMember 2018-06-30  
0001412665 us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember  
us-gaap:PassMember 2018-06-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember us-gaap:SpecialMentionMember  
2018-06-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember us-gaap:SubstandardMember 2018-06-30  
0001412665 us-gaap:CommercialPortfolioSegmentMember  
mofg:CommercialandIndustrialLoanFinancingReceivableMember us-gaap:SubstandardMember 2018-06-30  
0001412665 us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember us-gaap:PassMember 2018-06-30  
0001412665 mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember  
us-gaap:SubstandardMember 2018-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:FarmlandLoanFinancingReceivableMember us-gaap:SubstandardMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember us-gaap:PassMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember us-gaap:SpecialMentionMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember  
us-gaap:SubstandardMember 2018-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:MultifamilyRealEstateLoanFinancingReceivableMember us-gaap:PassMember 2018-06-30 0001412665  
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember  
us-gaap:SpecialMentionMember 2018-06-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember  
us-gaap:SubstandardMember 2018-06-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember us-gaap:SpecialMentionMember 2018-06-30  
0001412665 us-gaap:SpecialMentionMember 2018-06-30 0001412665



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

us-gaap:CommercialRealEstatePortfolioSegmentMember us-gaap:SubstandardMember 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember us-gaap:SpecialMentionMember 2018-06-30  
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember us-gaap:SubstandardMember 2018-06-30  
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:FarmlandLoanFinancingReceivableMember us-gaap:SpecialMentionMember 2018-06-30 0001412665  
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember  
us-gaap:DoubtfulMember 2018-06-30 0001412665 us-gaap:ConsumerPortfolioSegmentMember  
mofg:ConsumerLoanFinancingReceivableMember us-gaap:SpecialMentionMember 2018-06-30 0001412665  
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember  
us-gaap:PassMember 2018-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember 2017-04-01  
2017-06-30 0001412665 mofg:AgriculturalPortfolioSegmentMember  
mofg:AgriculturalLoanFinancingReceivableMember 2017-01-01 2017-06-30 0001412665  
us-gaap:ResidentialPortfolioSegmentMember mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember  
2018-04-01 2018-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:FarmlandLoanFinancingReceivableMember 2018-04-01 2018-06-30 0001412665  
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember  
2018-04-01 2018-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember 2017-01-01 2017-06-30 0001412665  
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember  
2017-01-01 2017-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember 2017-04-01 2017-06-30 0001412665  
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember 2018-04-01  
2018-06-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember 2017-04-01 2017-06-30 0001412665  
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember 2017-04-01  
2017-06-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember 2018-01-01 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember 2018-01-01  
2018-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:MultifamilyRealEstateLoanFinancingReceivableMember 2018-01-01 2018-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember mofg:FarmlandLoanFinancingReceivableMember  
2018-01-01 2018-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:MultifamilyRealEstateLoanFinancingReceivableMember 2018-04-01 2018-06-30 0001412665  
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember  
2018-01-01 2018-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember 2018-04-01 2018-06-30 0001412665  
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember 2018-01-01  
2018-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember 2017-01-01  
2017-06-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember 2017-01-01 2017-06-30 0001412665  
us-gaap:ResidentialPortfolioSegmentMember mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember  
2017-01-01 2017-06-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember 2018-01-01 2018-06-30 0001412665  
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember  
2017-04-01 2017-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:FarmlandLoanFinancingReceivableMember 2017-04-01 2017-06-30 0001412665

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

us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember 2018-01-01 2018-06-30 0001412665  
us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember 2018-04-01 2018-06-30 0001412665  
us-gaap:ResidentialPortfolioSegmentMember  
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember 2017-04-01 2017-06-30 0001412665  
us-gaap:CommercialRealEstatePortfolioSegmentMember mofg:FarmLandLoanFinancingReceivableMember  
2017-01-01 2017-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember  
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember 2018-04-01  
2018-06-30 0001412665 us-gaap:InterestRateSwapMember us-gaap:FairValueHedgingMember  
us-gaap:DesignatedAsHedgingInstrumentMember mofg:OtherGainLossMember 2018-01-01 2018-06-30 0001412665  
us-gaap:InterestRateSwapMember us-gaap:FairValueHedgingMember  
us-gaap:DesignatedAsHedgingInstrumentMember us-gaap:InterestIncomeMember 2017-01-01 2017-06-30  
0001412665 us-gaap:InterestRateSwapMember us-gaap:FairValueHedgingMember  
us-gaap:DesignatedAsHedgingInstrumentMember mofg:OtherGainLossMember 2017-04-01 2017-06-30 0001412665  
us-gaap:InterestRateSwapMember us-gaap:FairValueHedgingMember  
us-gaap:DesignatedAsHedgingInstrumentMember us-gaap:InterestExpenseMember 2018-01-01 2018-06-30  
0001412665 us-gaap:InterestRateSwapMember us-gaap:FairValueHedgingMember  
us-gaap:DesignatedAsHedgingInstrumentMember mofg:OtherGainLossMember 2018-04-01 2018-06-30 0001412665  
us-gaap:InterestRateSwapMember us-gaap:FairValueHedgingMember  
us-gaap:DesignatedAsHedgingInstrumentMember us-gaap:InterestExpenseMember 2017-01-01 2017-06-30  
0001412665 us-gaap:InterestRateSwapMember us-gaap:FairValueHedgingMember  
us-gaap:DesignatedAsHedgingInstrumentMember us-gaap:InterestExpenseMember 2018-04-01 2018-06-30  
0001412665 us-gaap:InterestRateSwapMember us-gaap:FairValueHedgingMember  
us-gaap:DesignatedAsHedgingInstrumentMember us-gaap:InterestIncomeMember 2017-04-01 2017-06-30  
0001412665 us-gaap:InterestRateSwapMember us-gaap:FairValueHedgingMember  
us-gaap:DesignatedAsHedgingInstrumentMember mofg:OtherGainLossMember 2017-01-01 2017-06-30 0001412665  
us-gaap:InterestRateSwapMember us-gaap:FairValueHedgingMember  
us-gaap:DesignatedAsHedgingInstrumentMember us-gaap:InterestExpenseMember 2017-04-01 2017-06-30  
0001412665 us-gaap:InterestRateSwapMember us-gaap:FairValueHedgingMember  
us-gaap:DesignatedAsHedgingInstrumentMember us-gaap:InterestIncomeMember 2018-04-01 2018-06-30  
0001412665 us-gaap:InterestRateSwapMember us-gaap:FairValueHedgingMember  
us-gaap:DesignatedAsHedgingInstrumentMember us-gaap:InterestIncomeMember 2018-01-01 2018-06-30  
0001412665 us-gaap:InterestRateSwapMember us-gaap:NondesignatedMember mofg:OtherGainLossMember  
2017-04-01 2017-06-30 0001412665 us-gaap:InterestRateSwapMember us-gaap:NondesignatedMember  
mofg:OtherGainLossMember 2018-01-01 2018-06-30 0001412665 us-gaap:InterestRateSwapMember  
us-gaap:NondesignatedMember mofg:OtherGainLossMember 2017-01-01 2017-06-30 0001412665  
us-gaap:InterestRateSwapMember us-gaap:NondesignatedMember mofg:OtherGainLossMember 2018-04-01  
2018-06-30 0001412665 mofg:HedgedItemLoansMember us-gaap:InterestRateSwapMember  
us-gaap:FairValueHedgingMember us-gaap:DesignatedAsHedgingInstrumentMember 2018-06-30 0001412665  
us-gaap:DerivativeFinancialInstrumentsAssetsMember us-gaap:InterestRateSwapMember  
us-gaap:NondesignatedMember 2018-06-30 0001412665 us-gaap:DerivativeFinancialInstrumentsAssetsMember  
us-gaap:InterestRateSwapMember us-gaap:DesignatedAsHedgingInstrumentMember 2017-12-31 0001412665  
us-gaap:InterestRateSwapMember us-gaap:DesignatedAsHedgingInstrumentMember 2017-12-31 0001412665  
us-gaap:DerivativeFinancialInstrumentsAssetsMember us-gaap:InterestRateSwapMember  
us-gaap:DesignatedAsHedgingInstrumentMember 2018-06-30 0001412665  
us-gaap:DerivativeFinancialInstrumentsLiabilitiesMember us-gaap:InterestRateSwapMember  
us-gaap:NondesignatedMember 2017-12-31 0001412665 us-gaap:DerivativeFinancialInstrumentsLiabilitiesMember  
us-gaap:InterestRateSwapMember us-gaap:DesignatedAsHedgingInstrumentMember 2018-06-30 0001412665  
us-gaap:InterestRateSwapMember us-gaap:NondesignatedMember 2018-06-30 0001412665  
us-gaap:InterestRateSwapMember us-gaap:DesignatedAsHedgingInstrumentMember 2018-06-30 0001412665

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

us-gaap:DerivativeFinancialInstrumentsLiabilitiesMember us-gaap:InterestRateSwapMember  
us-gaap:DesignatedAsHedgingInstrumentMember 2017-12-31 0001412665  
us-gaap:DerivativeFinancialInstrumentsAssetsMember us-gaap:InterestRateSwapMember  
us-gaap:NondesignatedMember 2017-12-31 0001412665 us-gaap:DerivativeFinancialInstrumentsLiabilitiesMember  
us-gaap:InterestRateSwapMember us-gaap:NondesignatedMember 2018-06-30 0001412665  
us-gaap:InterestRateSwapMember us-gaap:NondesignatedMember 2017-12-31 0001412665  
us-gaap:TradeNamesMember 2018-06-30 0001412665 us-gaap:TradeNamesMember 2018-01-01 2018-06-30  
0001412665 us-gaap:CoreDepositsMember 2017-12-31 0001412665 us-gaap:CustomerContractsMember 2018-06-30  
0001412665 us-gaap:TradeNamesMember 2017-01-01 2017-12-31 0001412665 us-gaap:CoreDepositsMember  
2018-06-30 0001412665 us-gaap:CustomerListsMember 2018-01-01 2018-06-30 0001412665  
us-gaap:CustomerContractsMember 2017-01-01 2017-12-31 0001412665 us-gaap:CustomerListsMember 2018-06-30  
0001412665 2017-01-01 2017-12-31 0001412665 us-gaap:CustomerListsMember 2017-01-01 2017-12-31  
0001412665 us-gaap:CustomerContractsMember 2018-01-01 2018-06-30 0001412665 us-gaap:TradeNamesMember  
2018-06-30 0001412665 us-gaap:CoreDepositsMember 2018-01-01 2018-06-30 0001412665  
us-gaap:CoreDepositsMember 2017-01-01 2017-12-31 0001412665 us-gaap:CustomerListsMember 2017-12-31  
0001412665 us-gaap:CustomerContractsMember 2017-12-31 0001412665 us-gaap:TradeNamesMember 2017-12-31  
0001412665 us-gaap:TradeNamesMember 2017-12-31 0001412665 us-gaap:TradeNamesMember 2018-01-01  
2018-06-30 0001412665 us-gaap:InvestmentInFederalHomeLoanBankStockMember 2018-01-01 2018-06-30  
0001412665 us-gaap:InvestmentInFederalHomeLoanBankStockMember 2017-01-01 2017-12-31 0001412665  
us-gaap:SecuritiesSoldUnderAgreementsToRepurchaseMember 2017-12-31 0001412665  
us-gaap:FederalFundsPurchasedMember 2018-06-30 0001412665 us-gaap:FederalFundsPurchasedMember  
2017-12-31 0001412665 us-gaap:SecuritiesSoldUnderAgreementsToRepurchaseMember 2018-06-30 0001412665  
us-gaap:FederalReserveBankAdvancesMember 2018-06-30 0001412665  
us-gaap:FederalReserveBankAdvancesMember 2017-12-31 0001412665 us-gaap:LineOfCreditMember  
us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-06-30 0001412665  
us-gaap:LineOfCreditMember 2018-01-01 2018-06-30 0001412665 us-gaap:LineOfCreditMember 2018-06-30  
0001412665 mofg:BarronInvestmentCapitalTrustIMember us-gaap:JuniorSubordinatedDebtMember 2018-06-30  
0001412665 us-gaap:JuniorSubordinatedDebtMember 2018-06-30 0001412665  
mofg:BarronInvestmentCapitalTrustIMember us-gaap:JuniorSubordinatedDebtMember 2018-01-01 2018-06-30  
0001412665 mofg:CBICapitalTrustIMember us-gaap:JuniorSubordinatedDebtMember 2018-06-30 0001412665  
mofg:MidWestOneStatutoryTrustIMember us-gaap:JuniorSubordinatedDebtMember 2018-01-01 2018-06-30  
0001412665 mofg:CBICapitalTrustIMember us-gaap:JuniorSubordinatedDebtMember 2018-01-01 2018-06-30  
0001412665 mofg:MidWestOneStatutoryTrustIMember us-gaap:JuniorSubordinatedDebtMember 2018-06-30  
0001412665 us-gaap:MaximumMember 2018-01-01 2018-06-30 0001412665  
mofg:BarronInvestmentCapitalTrustIMember us-gaap:JuniorSubordinatedDebtMember 2017-01-01 2017-12-31  
0001412665 mofg:CBICapitalTrustIMember us-gaap:JuniorSubordinatedDebtMember 2017-12-31 0001412665  
mofg:BarronInvestmentCapitalTrustIMember us-gaap:JuniorSubordinatedDebtMember 2017-12-31 0001412665  
mofg:MidWestOneStatutoryTrustIMember us-gaap:JuniorSubordinatedDebtMember 2017-01-01 2017-12-31  
0001412665 mofg:MidWestOneStatutoryTrustIMember us-gaap:JuniorSubordinatedDebtMember 2017-12-31  
0001412665 mofg:CBICapitalTrustIMember us-gaap:JuniorSubordinatedDebtMember 2017-01-01 2017-12-31  
0001412665 us-gaap:JuniorSubordinatedDebtMember 2017-12-31 0001412665  
mofg:MidWestOneStatutoryTrustIMember us-gaap:JuniorSubordinatedDebtMember  
us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-06-30 0001412665  
mofg:CBICapitalTrustIMember us-gaap:JuniorSubordinatedDebtMember  
us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-06-30 0001412665  
mofg:BarronInvestmentCapitalTrustIMember us-gaap:JuniorSubordinatedDebtMember  
us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-06-30 0001412665  
us-gaap:NotesPayableToBanksMember 2018-06-30 0001412665 us-gaap:FederalHomeLoanBankAdvancesMember  
2017-12-31 0001412665 us-gaap:NotesPayableToBanksMember 2017-12-31 0001412665  
us-gaap:FederalHomeLoanBankAdvancesMember 2018-06-30 0001412665 us-gaap:NotesPayableToBanksMember  
2015-04-30 0001412665 us-gaap:NotesPayableToBanksMember 2017-01-01 2017-12-31 0001412665

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

us-gaap:FederalHomeLoanBankAdvancesMember 2018-01-01 2018-06-30 0001412665  
us-gaap:NotesPayableToBanksMember 2015-06-30 0001412665 us-gaap:NotesPayableToBanksMember 2018-01-01  
2018-06-30 0001412665 us-gaap:FairValueMeasurementsRecurringMember  
us-gaap:USGovernmentCorporationsAndAgenciesSecuritiesMember 2017-12-31 0001412665  
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember  
us-gaap:USStatesAndPoliticalSubdivisionsMember 2017-12-31 0001412665  
us-gaap:FairValueMeasurementsRecurringMember us-gaap:USStatesAndPoliticalSubdivisionsMember 2017-12-31  
0001412665 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember  
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2017-12-31 0001412665  
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember  
us-gaap:USGovernmentCorporationsAndAgenciesSecuritiesMember 2017-12-31 0001412665  
us-gaap:FairValueMeasurementsRecurringMember  
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2017-12-31 0001412665  
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember  
us-gaap:DebtSecuritiesMember 2017-12-31 0001412665 us-gaap:FairValueMeasurementsRecurringMember  
us-gaap:DebtSecuritiesMember 2017-12-31 0001412665 us-gaap:FairValueMeasurementsRecurringMember  
us-gaap:ResidentialMortgageBackedSecuritiesMember 2017-12-31 0001412665  
us-gaap:FairValueMeasurementsRecurringMember us-gaap:DomesticCorporateDebtSecuritiesMember 2017-12-31  
0001412665 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember  
us-gaap:DomesticCorporateDebtSecuritiesMember 2017-12-31 0001412665 us-gaap:FairValueInputsLevel2Member  
us-gaap:FairValueMeasurementsRecurringMember us-gaap:ResidentialMortgageBackedSecuritiesMember  
2017-12-31 0001412665 us-gaap:DebtSecuritiesMember 2018-06-30 0001412665  
us-gaap:FairValueInputsLevel1Member 2017-12-31 0001412665  
us-gaap:CarryingReportedAmountFairValueDisclosureMember 2017-12-31 0001412665  
us-gaap:FairValueInputsLevel2Member 2017-12-31 0001412665  
us-gaap:EstimateOfFairValueFairValueDisclosureMember 2017-12-31 0001412665  
us-gaap:FairValueInputsLevel3Member 2017-12-31 0001412665  
us-gaap:FairValueMeasurementsNonrecurringMember 2017-12-31 0001412665  
us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsNonrecurringMember 2017-12-31  
0001412665 us-gaap:FairValueInputsLevel2Member 2018-06-30 0001412665  
us-gaap:EstimateOfFairValueFairValueDisclosureMember 2018-06-30 0001412665  
us-gaap:FairValueInputsLevel1Member 2018-06-30 0001412665  
us-gaap:CarryingReportedAmountFairValueDisclosureMember 2018-06-30 0001412665  
us-gaap:FairValueInputsLevel3Member 2018-06-30 0001412665 us-gaap:FairValueInputsLevel3Member  
us-gaap:FairValueMeasurementsNonrecurringMember 2018-06-30 0001412665  
us-gaap:FairValueMeasurementsNonrecurringMember 2018-06-30 0001412665  
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember  
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2018-06-30 0001412665  
us-gaap:FairValueMeasurementsRecurringMember  
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2018-06-30 0001412665  
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember 2018-06-30 0001412665  
us-gaap:FairValueMeasurementsRecurringMember us-gaap:DebtSecuritiesMember 2018-06-30 0001412665  
us-gaap:FairValueMeasurementsRecurringMember  
us-gaap:USGovernmentCorporationsAndAgenciesSecuritiesMember 2018-06-30 0001412665  
us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember 2018-06-30 0001412665  
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember  
us-gaap:DebtSecuritiesMember 2018-06-30 0001412665 us-gaap:FairValueInputsLevel2Member  
us-gaap:FairValueMeasurementsRecurringMember us-gaap:DomesticCorporateDebtSecuritiesMember 2018-06-30  
0001412665 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember  
us-gaap:USGovernmentCorporationsAndAgenciesSecuritiesMember 2018-06-30 0001412665  
us-gaap:FairValueMeasurementsRecurringMember us-gaap:DomesticCorporateDebtSecuritiesMember 2018-06-30

0001412665 us-gaap:FairValueMeasurementsRecurringMember 2018-06-30 0001412665  
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember  
us-gaap:ResidentialMortgageBackedSecuritiesMember 2018-06-30 0001412665  
us-gaap:FairValueMeasurementsRecurringMember us-gaap:USStatesAndPoliticalSubdivisionsMember 2018-06-30  
0001412665 us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsRecurringMember 2018-06-30  
0001412665 us-gaap:FairValueMeasurementsRecurringMember  
us-gaap:ResidentialMortgageBackedSecuritiesMember 2018-06-30 0001412665  
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember  
us-gaap:USStatesAndPoliticalSubdivisionsMember 2018-06-30 0001412665  
us-gaap:LandBuildingsAndImprovementsMember us-gaap:SubsequentEventMember 2018-07-26 2018-07-26  
0001412665 us-gaap:CommonStockMember us-gaap:SubsequentEventMember 2018-07-17 0001412665  
us-gaap:CommonStockMember us-gaap:SubsequentEventMember 2018-07-17 2018-07-17 iso4217:USD xbrli:shares  
mofg:count xbrli:shares iso4217:USD xbrli:pure mofg:quarters

**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, 2018**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 001-35968**

**MIDWESTONE FINANCIAL GROUP, INC.**

(Exact name of Registrant as specified in its charter)

**Iowa**

(State or other jurisdiction of incorporation or organization)

**42-1206172**

(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

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

the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

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

As of July 31, 2018, there were 12,221,107 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

	<b>Page No.</b>
<u><b>PART I</b></u>	
Item 1. <u>Financial Statements</u>	<u>1</u>
<u>Consolidated Balance Sheets</u>	<u>1</u>
<u>Consolidated Statements of <a href="#">Income</a></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>37</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>61</u>
Item 4. <u>Controls and Procedures</u>	<u>64</u>
<u><b>Part II</b></u>	
Item 1. <u>Legal Proceedings</u>	<u>65</u>
Item 1A. <u>Risk Factors</u>	<u>65</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>65</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>65</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>65</u>
Item 5. <u>Other Information</u>	<u>65</u>
Item 6. <u>Exhibits</u>	<u>66</u>
<u>Signatures</u>	<u>67</u>

Table of Contents**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements.****MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
	<b>(unaudited)</b>	
<b>(dollars in thousands)</b>		
<b>ASSETS</b>		
Cash and due from banks	\$41,547	\$ 44,818
Interest-earning deposits in banks	1,717	5,474
Federal funds sold	—	680
Cash and cash equivalents	43,264	50,972
Investment securities:		
Equity securities, at fair value	2,809	2,336
Debt securities available for sale, at fair value	438,312	445,324
Debt securities held to maturity (fair value of \$188,407 as of June 30, 2018 and \$194,343 as of December 31, 2017)	192,896	195,619
Loans held for sale	1,528	856
Loans held for investment, net of unearned income	2,364,035	2,286,695
Allowance for loan losses	(30,800 )	(28,059 )
Loans held for investment, net	2,333,235	2,258,636
Premises and equipment, net	78,106	75,969
Interest receivable	13,636	14,732
Goodwill	64,654	64,654
Other intangible assets, net	10,925	12,046
Bank-owned life insurance	60,209	59,831
Other real estate owned	676	2,010
Deferred income taxes, net	9,014	6,525
Other assets	27,013	22,761
Total assets	\$3,276,277	\$ 3,212,271
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Deposits:</b>		
Non-interest-bearing demand	\$469,862	\$ 461,969
Interest-bearing checking	1,183,384	1,228,112
Savings	216,866	213,430
Certificates of deposit under \$100,000	341,584	324,681
Certificates of deposit \$100,000 and over	392,505	377,127
Total deposits	2,604,201	2,605,319
Federal funds purchased	52,421	1,000
Securities sold under agreements to repurchase	75,046	96,229
Federal Home Loan Bank borrowings	143,000	115,000
Junior subordinated notes issued to capital trusts	23,841	23,793
Long-term debt	10,000	12,500
Deferred compensation liability	5,267	5,199
Interest payable	1,744	1,428
Other liabilities	14,556	11,499
Total liabilities	2,930,076	2,871,967
<b>Shareholders' equity:</b>		
Preferred stock, no par value; authorized 500,000 shares; no shares issued and outstanding at June 30, 2018 and December 31, 2017	\$—	\$—



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

Common stock, \$1.00 par value; authorized 30,000,000 shares at June 30, 2018 and December 31, 2017; issued 12,463,481 shares at June 30, 2018 and December 31, 2017; outstanding 12,221,107 shares at June 30, 2018 and 12,219,611 shares at December 31, 2017	12,463	12,463	
Additional paid-in capital	187,304	187,486	
Treasury stock at cost, 242,374 shares as of June 30, 2018 and 243,870 shares as of December 31, 2017	(5,474	) (5,121	)
Retained earnings	159,315	148,078	
Accumulated other comprehensive income (loss)	(7,407	) (2,602	)
Total shareholders' equity	346,201	340,304	
Total liabilities and shareholders' equity	\$3,276,277	\$ 3,212,271	

See accompanying notes to consolidated financial statements.

1

---

Table of Contents**MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>	<b>2017</b>	<b>June 30,</b>	<b>2017</b>
<b>(unaudited) (dollars in thousands, except per share amounts)</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Interest income:</b>				
Loans	\$ 27,486	\$ 25,650	\$ 54,053	\$ 49,929
Bank deposits	18	26	26	31
Federal funds sold	1	1	1	1
Taxable securities	2,940	2,590	5,828	5,308
Tax-exempt securities	1,528	1,587	3,057	3,152
Total interest income	31,973	29,854	62,965	58,421
<b>Interest expense:</b>				
Interest on deposits:				
Interest-bearing checking	1,291	912	2,376	1,710
Savings	63	51	126	102
Certificates of deposit under \$100,000	1,134	886	2,129	1,745
Certificates of deposit \$100,000 and over	1,521	995	2,914	1,912
Total interest expense on deposits	4,009	2,844	7,545	5,469
Federal funds purchased	211	25	336	71
Securities sold under agreements to repurchase	144	34	278	72
Federal Home Loan Bank borrowings	615	404	1,132	847
Other borrowings	4	3	6	6
Junior subordinated notes issued to capital trusts	307	240	565	461
Long-term debt	102	113	209	223
Total interest expense	5,392	3,663	10,071	7,149
Net interest income	26,581	26,191	52,894	51,272
Provision for loan losses	1,250	1,240	3,100	2,281
Net interest income after provision for loan losses	25,331	24,951	49,794	48,991
<b>Noninterest income:</b>				
Trust, investment, and insurance fees	1,537	1,528	3,177	3,140
Service charges and fees on deposit accounts	1,158	1,257	2,326	2,540
Loan origination and servicing fees	906	718	1,847	1,520
Other service charges and fees	1,582	1,497	2,962	2,955
Bank-owned life insurance income	397	318	830	646
Gain on sale or call of debt securities available for sale	—	20	9	20
Gain (loss) on sale or call of debt securities held to maturity	(4	) —	(4	) 43
Gain (loss) on sale of premises and equipment	(17	) 8	(18	) 6
Other gain (loss)	(72	) 37	30	50
Total noninterest income	5,487	5,383	11,159	10,920
<b>Noninterest expense:</b>				
Salaries and employee benefits	12,225	11,789	24,596	23,673
Occupancy and equipment, net	3,238	3,033	6,489	6,337
Professional fees	959	1,036	1,753	2,058
Data processing	691	548	1,379	1,259
FDIC insurance	392	352	711	719
Amortization of intangibles	589	804	1,246	1,653

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

Other	2,437	2,402	4,715	4,600
Total noninterest expense	20,531	19,964	40,889	40,299
Income before income tax expense	10,287	10,370	20,064	19,612
Income tax expense	2,131	3,136	4,115	5,665
<b>Net income</b>	<b>\$8,156</b>	<b>\$7,234</b>	<b>\$15,949</b>	<b>\$13,947</b>

**Per share information:**

Earnings per common share - basic	\$0.67	\$0.59	\$1.31	\$1.18
Earnings per common share - diluted	0.67	0.59	1.30	1.17
Dividends paid per common share	0.195	0.165	0.390	0.330

See accompanying notes to consolidated financial statements.

2

---

Table of Contents**MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
<b>(unaudited) (dollars in thousands, except per share amounts)</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Net income</b>	\$ 8,156	\$ 7,234	\$ 15,949	\$ 13,947
<b>Other comprehensive income, available for sale debt securities:</b>				
Unrealized holding gains (losses) arising during period	(1,628 )	2,745	(6,416 )	4,312
Reclassification adjustment for gains included in net income	—	(20 )	(9 )	(20 )
Income tax (expense) benefit	425	(1,070 )	1,677	(1,686 )
Other comprehensive income (loss) on available for sale debt securities	(1,203 )	1,655	(4,748 )	2,606
<b>Other comprehensive income (loss), net of tax</b>	<b>(1,203 )</b>	<b>1,655</b>	<b>(4,748 )</b>	<b>2,606</b>
<b>Comprehensive income</b>	<b>\$ 6,953</b>	<b>\$ 8,889</b>	<b>\$ 11,201</b>	<b>\$ 16,553</b>
See accompanying notes to consolidated financial statements.				

Table of Contents**MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(unaudited) (dollars in thousands, except per share amounts)	Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 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	—	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
Balance at December 31, 2017	\$	—\$12,463	\$187,486	\$(5,121)	\$148,078	\$(2,602)	\$340,304
Cumulative effect of changes in accounting principles <sup>(1)</sup>	—	—	—	—	57	(57)	—
Net income	—	—	—	—	15,949	—	15,949
Dividends paid on common stock (\$0.39 per share)	—	—	—	—	(4,769)	—	(4,769)
Stock options exercised (9,700 shares)	—	—	(69)	204	—	—	135
Release/lapse of restriction on RSUs (28,525 shares)	—	—	(609)	525	—	—	(84)
Repurchase of common stock (33,998 shares)	—	—	—	(1,082)	—	—	(1,082)
Stock compensation	—	—	496	—	—	—	496
Other comprehensive loss, net of tax	—	—	—	—	—	(4,748)	(4,748)
Balance at June 30, 2018	\$	—\$12,463	\$187,304	\$(5,474)	\$159,315	\$(7,407)	\$346,201

(1) Impact from adoption on January 1, 2018 of ASU 2016-01, 'Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.'

See accompanying notes to consolidated financial statements.

Table of Contents**MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited) (dollars in thousands)	Six Months Ended	
	June 30, 2018	2017
Cash flows from operating activities:		
Net income	\$ 15,949	\$ 13,947
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,100	2,281
Depreciation of premises and equipment	2,105	2,058
Amortization of other intangibles	1,246	1,653
Amortization of premiums and discounts on investment securities, net	492	650
(Gain) loss on sale of premises and equipment	18	(6 )
Deferred income taxes	(803 )	(554 )
Excess tax benefit from share-based award activity	—	(91 )
Stock-based compensation	496	426
Net losses on equity securities	23	—
Net gain on sale or call of debt securities available for sale	(9 )	(20 )
Net (gain) loss on sale or call of debt securities held to maturity	4	(43 )
Net gain on sale of other real estate owned	(50 )	(30 )
Net gain on sale of loans held for sale	(802 )	(799 )
Writedown of other real estate owned	5	23
Origination of loans held for sale	(30,140 )	(41,284 )
Proceeds from sales of loans held for sale	30,270	44,688
Decrease in interest receivable	1,096	1,265
Increase in cash surrender value of bank-owned life insurance	(830 )	(646 )
Decrease in other assets	(4,252 )	(935 )
Increase in deferred compensation liability	68	44
Increase in interest payable, accounts payable, accrued expenses, and other liabilities	3,373	568
<b>Net cash provided by operating activities</b>	<b>21,359</b>	<b>23,195</b>
Cash flows from investing activities:		
Purchases of equity securities	(505 )	(2 )
Proceeds from sales of debt securities available for sale	496	9,999
Proceeds from maturities and calls of debt securities available for sale	30,942	41,162
Purchases of debt securities available for sale	(31,194 )	(12,839 )
Proceeds from sales of debt securities held to maturity	—	1,153
Proceeds from maturities and calls of debt securities held to maturity	3,132	2,998
Purchase of debt securities held to maturity	(553 )	(18,292 )
Net increase in loans	(78,203 )	(34,188 )
Purchases of premises and equipment	(4,212 )	(1,697 )
Proceeds from sale of other real estate owned	1,883	825
Proceeds from sale of premises and equipment	—	28
Proceeds of principal and earnings from bank-owned life insurance	452	—
Payments to acquire intangible assets	(125 )	—
<b>Net cash used in investing activities</b>	<b>(77,887 )</b>	<b>(10,853 )</b>
Cash flows from financing activities:		
Net increase (decrease) in deposits	(1,118 )	13,261
Increase in federal funds purchased	51,421	9,635
Decrease in securities sold under agreements to repurchase	(21,183 )	(22,005 )
Proceeds from Federal Home Loan Bank borrowings	85,000	50,000
Repayment of Federal Home Loan Bank borrowings	(57,000 )	(75,000 )
Proceeds from stock options exercised	135	1

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

Excess tax benefit from share-based award activity	—	91
Taxes paid relating to net share settlement of equity awards	(84 )	(108 )
Payments on long-term debt	(2,500 )	(2,500 )
Dividends paid	(4,769 )	(3,907 )
Proceeds from issuance of common stock	—	25,688
Payment of stock issuance costs	—	(1,328 )
Repurchase of common stock	(1,082 )	—
<b>Net cash provided by (used in) financing activities</b>	<b>48,820</b>	<b>(6,172 )</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(7,708 )</b>	<b>6,170</b>
Cash and cash equivalents at beginning of period	50,972	43,228
Cash and cash equivalents at end of period	\$43,264	\$49,398

5

---

Table of Contents

<b>(unaudited) (dollars in thousands)</b>	<b>Six Months Ended June 30, 2018    2017</b>	
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$9,755	\$7,070
Cash paid during the period for income taxes	\$1,710	\$5,975
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	\$504	\$207
Transfer due to adoption of ASU 2016-01, equity securities fair value adjustment, reclassification from AOCI to Retained Earnings, net of tax	\$57	\$—
See accompanying notes to consolidated financial statements.		



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.

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, filed with the Securities and Exchange Commission (SEC) on March 1, 2018, which contains the latest audited financial statements and notes thereto, together with Management’s Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2017 and for the year then ended. Management believes that the disclosures in this Form 10-Q are adequate to make the information presented not misleading. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the Company’s financial position as of June 30, 2018 and December 31, 2017, and the results of operations and cash flows for the three and six months ended June 30, 2018 and 2017. All significant intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect: (1) the reported amounts of assets and liabilities, (2) the disclosure of contingent assets and liabilities at the date of the financial statements, and (3) the reported amounts of revenues and expenses during the reporting period. These estimates are based on information available to management at the time the estimates are made. Actual results could differ from those estimates. The results for the three and six months ended June 30, 2018 may not be indicative of results for the year ending December 31, 2018, or for any other period.

All significant accounting policies followed in the preparation of the quarterly financial statements are disclosed in the Annual Report on Form 10-K for the year ended December 31, 2017.

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

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

**2. Effect of New Financial Accounting Standards**

**Accounting Guidance Adopted in 2018**

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

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

7

---

Table of Contents

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

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The guidance in this update makes changes to the current GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The treatment of gains and losses for all equity securities, including those without a readily determinable market value, is expected to result in additional volatility in the income statement, with the loss of mark to market via equity for these investments. Additionally, changes in the allowable method for determining the fair value of financial instruments in the financial statement footnotes (“exit price” only) require changes to current methodologies of determining these 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. The Company adopted this update on January 1, 2018. With the elimination of the classification of available for sale equity securities, the net unrealized gain or loss on these securities that had been included in accumulated other comprehensive income at December 31, 2017, in the amount of \$57,000, has been transferred to retained earnings, as shown in the Consolidated Statement of Shareholders’ Equity. Changes in the fair value of equity securities with readily determinable fair values are now reflected in the noninterest income portion of the Consolidated Statements of Income, in the other gains (losses) line item. In accordance with the ASU requirements, the Company measured the fair value of its loan portfolio as of June 30, 2018 using an exit price notion. See Note 13. “Estimated Fair Value of Financial Instruments and Fair Value Measurements” to our consolidated financial statements.

**Accounting Guidance Pending Adoption at June 30, 2018**

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

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

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

Table of Contents

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

**3. Investment Securities**

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

(in thousands)	As of June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations	\$5,594	\$ —	\$ 51	\$5,543
State and political subdivisions	140,935	1,321	541	141,715
Mortgage-backed securities	55,864	128	1,622	54,370
Collateralized mortgage obligations	179,862	7	7,859	172,010
Corporate debt securities	66,080	17	1,423	64,674
Total	\$448,335	\$ 1,473	\$ 11,496	\$438,312

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

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

(in thousands)	As of June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
State and political subdivisions	\$125,948	\$ 289	\$ 3,063	\$123,174

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

Mortgage-backed securities	11,586	2	472	11,116
Collateralized mortgage obligations	20,243	—	1,020	19,223
Corporate debt securities	35,119	264	489	34,894
Total	\$ 192,896	\$ 555	\$ 5,044	\$ 188,407

Table of Contents

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

Investment securities with a carrying value of \$235.2 million and \$237.4 million at June 30, 2018 and December 31, 2017, respectively, were pledged on public deposits, securities sold under agreements to repurchase and for other purposes, as required or permitted by law.

As of June 30, 2018, the Company owned \$0.4 million of equity securities in banks and financial service-related companies, and \$2.4 million of mutual funds invested in debt securities and other debt instruments that will cause units of the fund to be deemed to be qualified under the Community Reinvestment Act. Prior to January 1, 2018, we accounted for our marketable equity securities at fair value with unrealized gains and losses recognized in accumulated other comprehensive income on the balance sheet. Realized gains and losses on marketable equity securities sold or impaired were recognized in noninterest income. Effective with the January 1, 2018 adoption of ASU 2016-01, both the realized and unrealized net gains and losses on equity securities are required to be recognized in the statement of income. A breakdown between net realized and unrealized gains and losses is provided later in this financial statement footnote. These net changes are included in the other gains line item in the noninterest income section of the Consolidated Statements of Income.

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, 2018 and December 31, 2017. This temporary impairment represents the estimated amount of loss that would be realized if the securities were sold on the valuation date.

The following tables present information pertaining to securities with gross unrealized losses as of June 30, 2018 and December 31, 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

<u>Available for Sale</u>	Number of Securities	As of June 30, 2018					
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
(in thousands, except number of securities)							
U.S. Government agencies and corporations	2	\$ 5,543	\$ 51	\$ —	\$ —	\$ 5,543	\$ 51
State and political subdivisions	73	35,538	471	2,757	70	38,295	541
Mortgage-backed securities	27	53,518	1,447	6,176	175	59,694	1,622
Collateralized mortgage obligations	43	46,904	958	120,274	6,901	167,178	7,859
Corporate debt securities	12	54,441	1,183	8,440	240	62,881	1,423
Total	157	\$ 195,944	\$ 4,110	\$ 137,647	\$ 7,386	\$ 333,591	\$ 11,496

Table of Contents

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

As of June 30, 2018							
	Number of Securities	Less than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
<b>Held to Maturity</b>							
<b>(in thousands, except number of securities)</b>							
State and political subdivisions	224	\$ 49,218	\$ 1,135	\$ 27,690	\$ 1,928	\$ 76,908	\$ 3,063
Mortgage-backed securities	6	10,203	438	841	34	11,044	472
Collateralized mortgage obligations	7	4,690	187	14,520	833	19,210	1,020
Corporate debt securities	7	12,882	318	2,724	171	15,606	489
Total	244	\$ 76,993	\$ 2,078	\$ 45,775	\$ 2,966	\$ 122,768	\$ 5,044

As of December 31, 2017							
	Number of Securities	Less than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
<b>(in thousands, except number of securities)</b>							
State and political subdivisions	167	\$ 33,237	\$ 393	\$ 25,843	\$ 1,238	\$ 59,080	\$ 1,631
Mortgage-backed securities	4	349	2	887	11	1,236	13
Collateralized mortgage obligations	7	5,221	90	16,168	617	21,389	707
Corporate debt securities	3	3,093	4	2,617	277	5,710	281
Total	181	\$ 41,900	\$ 489	\$ 45,515	\$ 2,143	\$ 87,415	\$ 2,632

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

At June 30, 2018 and December 31, 2017, the Company's mortgage-backed securities and collateralized mortgage obligations portfolios consisted of securities predominantly backed by one- to four-family mortgage loans and underwritten to the standards of and guaranteed by the following government-sponsored agencies: the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Government National Mortgage Association. The receipt of principal, at par, and interest on mortgage-backed securities is guaranteed by the respective government-sponsored agency guarantor, such that the Company believes that its mortgage-backed securities and collateralized mortgage obligations do not expose the Company to credit-related losses.

At June 30, 2018, approximately 55% of the municipal bonds held by the Company were Iowa-based, and approximately 22% were Minnesota-based. The Company does not intend to sell these municipal obligations, and it is more likely than not that the Company will not be required to sell them until the recovery of their cost. Due to the issuers' continued satisfaction of their obligations under the securities in accordance with their contractual terms and



the expectation that they will continue to do so, management's intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value, as well as the evaluation of the fundamentals of the issuers' financial conditions

Table of Contents

and other objective evidence, the Company believed that the municipal obligations identified in the tables above were temporarily impaired as of June 30, 2018 and December 31, 2017.

At June 30, 2018 and December 31, 2017, all but one of the Company's corporate bonds held an investment grade rating from Moody's, S&P or Kroll, or carried a guarantee from an agency of the US government. We have evaluated financial statements of the company issuing the non-investment grade bond and found the company's earnings and equity position to be satisfactory and in line with industry norms. Therefore, we expect to receive all contractual payments. The internal evaluation of the non-investment grade bond along with the investment grade ratings on the remainder of the corporate portfolio lead us to conclude that all of the corporate bonds in our portfolio will continue to pay according to their contractual terms. Since the Company has the ability and intent to hold securities until price recovery, we believe that there is no other-than-temporary-impairment in the corporate bond portfolio.

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

Unless certain conditions are met, investment securities classified as held to maturity may not be sold without calling into question the Company's intent to hold other debt securities so classified ("tainting"). One acceptable condition, outlined in Accounting Standards Codification 320-10-25-6(a), is the significant deterioration of an issuer's creditworthiness. During the first quarter of 2017, \$1.2 million of debt securities from a single issuer in the state and political subdivisions category were identified by the Company as having an elevated level of credit risk and were internally classified as "watch." Given the significant deterioration of the issuer's creditworthiness, the Company sold the debt securities in March 2017. The Company believes the sale was in accordance with applicable accounting guidance and did not taint the remainder of the held to maturity portfolio.

The contractual maturity distribution of investment debt securities at June 30, 2018, is summarized as follows:

(in thousands)	Available For Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$39,542	\$39,518	\$520	\$521
Due after one year through five years	107,415	106,371	23,357	23,016
Due after five years through ten years	62,298	62,685	94,804	93,529
Due after ten years	3,354	3,358	42,386	41,002
Debt securities without a single maturity date	235,726	226,380	31,829	30,339
Total	\$448,335	\$438,312	\$192,896	\$188,407

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.

Realized gains and losses on sales are determined on the basis of specific identification of investments based on the trade date. Realized gains (losses) on investments due to sale or call, including impairment losses for the three and six months ended June 30, 2018 and 2017, were as follows:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Debt securities available for sale:				
Gross realized gains	\$—	\$20	9	20
Gross realized gain	\$—	\$20	\$9	\$20
Debt securities held to maturity:				
Gross realized gains	\$—	\$—	\$—	\$43

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

Gross realized losses	(4 )	—	(4 )	—
Gross realized gain (loss)	\$(4)	\$—	\$(4)	\$43

12

---

Table of Contents

The following tables present the net gains and losses on equity investments during the three and six months ended June 30, 2018, disaggregated into realized and unrealized gains and losses:

(in thousands)	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Net losses recognized	\$ (7 )	\$ (23 )
Less: Net gains and losses recognized due to sales	—	—
Unrealized losses on securities still held at the reporting date	\$ (7 )	\$ (23 )

**4. Loans Receivable and the Allowance for Loan Losses**

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

<b>Allowance for Loan Losses and Recorded Investment in Loan Receivables</b>						
<b>As of June 30, 2018 and December 31, 2017</b>						
(in thousands)	Agricultural and Industrial	Commercial Real Estate	Commercial Real Estate	Residential Real Estate	Consumer	Total
<b>June 30, 2018</b>						
<b>Allowance for loan losses:</b>						
Individually evaluated for impairment	\$ 287	\$ 3,093	\$ 3,950	\$ 163	\$ —	\$ 7,493
Collectively evaluated for impairment	2,369	5,464	12,053	2,353	256	22,495
Purchased credit impaired loans	—	—	338	474	—	812
Total	\$ 2,656	\$ 8,557	\$ 16,341	\$ 2,990	\$ 256	\$ 30,800
<b>Loans receivable</b>						
Individually evaluated for impairment	\$ 8,056	\$ 12,865	\$ 20,477	\$ 3,756	\$ —	\$ 45,154
Collectively evaluated for impairment	95,373	499,438	1,209,911	459,045	36,936	2,300,703
Purchased credit impaired loans	—	54	13,506	4,618	—	18,178
Total	\$ 103,429	\$ 512,357	\$ 1,243,894	\$ 467,419	\$ 36,936	\$ 2,364,035
<b>December 31, 2017</b>						
<b>Allowance for loan losses:</b>						
Individually evaluated for impairment	\$ 140	\$ 1,126	\$ 2,157	\$ 226	\$ —	\$ 3,649
Collectively evaluated for impairment	2,650	7,392	11,144	2,182	244	23,612
Purchased credit impaired loans	—	—	336	462	—	798
Total	\$ 2,790	\$ 8,518	\$ 13,637	\$ 2,870	\$ 244	\$ 28,059
<b>Loans receivable</b>						
Individually evaluated for impairment	\$ 2,969	\$ 9,734	\$ 10,386	\$ 3,722	\$ —	\$ 26,811
Collectively evaluated for impairment	102,543	493,844	1,147,133	460,475	36,158	2,240,153
Purchased credit impaired loans	—	46	14,452	5,233	—	19,731
Total	\$ 105,512	\$ 503,624	\$ 1,171,971	\$ 469,430	\$ 36,158	\$ 2,286,695

As of June 30, 2018, the gross purchased credit impaired loans included above were \$19.3 million, with a discount of \$1.1 million.

Loans with unpaid principal in the amount of \$476.8 million and \$477.6 million at June 30, 2018 and December 31, 2017, respectively, were pledged to the Federal Home Loan Bank (the "FHLB") as collateral for borrowings.



Table of Contents

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

<b>Allowance for Loan Loss Activity</b>						
<b>For the Three Months Ended June 30, 2018 and 2017</b>						
<b>(in thousands)</b>	<b>Agricultural</b>	<b>Commercial Industrial</b>	<b>Commercial Real Estate</b>	<b>Residential Real Estate</b>	<b>Consumer</b>	<b>Total</b>
<b>2018</b>						
Beginning balance	\$3,153	\$ 8,362	\$ 14,997	\$ 2,877	\$ 282	\$29,671
Charge-offs	(268 )	(3 )	—	(3 )	(17 )	(291 )
Recoveries	9	103	40	15	3	170
Provision	(238 )	95	1,304	101	(12 )	1,250
Ending balance	\$2,656	\$ 8,557	\$ 16,341	\$ 2,990	\$ 256	\$30,800
<b>2017</b>						
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

<b>Allowance for Loan Loss Activity</b>						
<b>For the Six Months Ended June 30, 2018 and 2017</b>						
<b>(in thousands)</b>	<b>Agricultural</b>	<b>Commercial Industrial</b>	<b>Commercial Real Estate</b>	<b>Residential Real Estate</b>	<b>Consumer</b>	<b>Total</b>
<b>2018</b>						
Beginning balance	\$2,790	\$ 8,518	\$ 13,637	\$ 2,870	\$ 244	\$28,059
Charge-offs	(268 )	(90 )	(264 )	(107 )	(38 )	(767 )
Recoveries	15	182	116	77	18	408
Provision	119	(53 )	2,852	150	32	3,100
Ending balance	\$2,656	\$ 8,557	\$ 16,341	\$ 2,990	\$ 256	\$30,800
<b>2017</b>						
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

Loan Portfolio Segment Risk Characteristics

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

*Commercial and Industrial* - Commercial and industrial loans are primarily made based on the reported cash flow of

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

## Table of Contents

*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.

### 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.

## Table of Contents

### Allowance for Loan and Lease Losses

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

### *Loans Reviewed Individually for Impairment*

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

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

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

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

• The debtor is currently in default on any of its debt.

• The debtor has declared or is in the process of declaring bankruptcy.

• There is significant doubt as to whether the debtor will continue to be a going concern.

• Currently, the debtor has securities being held as collateral that have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange.

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

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

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

• The borrower receives a reduction of the stated interest rate for the remaining original life of the debt.

• The borrower receives an extension of the maturity date or dates at a stated interest rate lower 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,			
	2018		2017	
	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
<b>(dollars in thousands)</b>				
Troubled Debt Restructurings <sup>(1)</sup> :				
Commercial real estate:				
Farmland				
Extended maturity date	1 \$ 86	\$ 86	2 \$ 176	\$ 176
Commercial real estate-other				
Other	—	—	1 10,546	10,923
Total	1 \$ 86	\$ 86	3 \$ 10,722	\$ 11,099

	Six Months Ended June 30,			
	2018		2017	
	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
<b>(dollars in thousands)</b>				
Troubled Debt Restructurings <sup>(1)</sup> :				
Commercial and industrial				
Extended maturity date	—\$ —	\$ —	6 \$ 2,037	\$ 2,083
Commercial real estate:				
Farmland				
Extended maturity date	1 86	86	2 176	176
Commercial real estate-other				
Extended maturity date	—	—	1 968	968
Other	—	—	1 10,546	10,923
Total	1 \$ 86	\$ 86	10 \$ 13,727	\$ 14,150

(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,		Six Months Ended June 30,	
	2018	2017	2018	2017
	Number of Recorded Investment Contracts	Number of Recorded Investment Contracts	Number of Recorded Investment Contracts	Number of Recorded Investment Contracts
<b>(dollars in thousands)</b>				
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 2,657	1 968
Total	—\$ —	2 \$ 1,518	1 \$ 2,657	5 \$ 2,472

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

*Loans Reviewed Collectively for Impairment*

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

The Company's historical loss experience for each group segmented by loan type is calculated for the prior 20 quarters as a starting point for estimating losses. In addition, other prevailing qualitative or environmental factors likely to cause

Table of Contents

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 is performed to support these factor multiples.

The following tables set forth the risk category of loans by class of loans and credit quality indicator based on the most recent analysis performed, as of June 30, 2018 and December 31, 2017:

(in thousands)	Pass	Special Mention/ Watch	Substandard	Doubtful	Loss	Total
<b>June 30, 2018</b>						
Agricultural	\$76,987	\$17,723	\$8,719	\$—	\$—	\$103,429
Commercial and industrial	473,717	21,118	17,517	5	—	512,357
Commercial real estate:						
Construction and development	203,880	1,216	1,173	—	—	206,269
Farmland	70,237	8,514	10,010	—	—	88,761
Multifamily	127,072	1,406	1,181	—	—	129,659
Commercial real estate-other	754,866	45,300	19,039	—	—	819,205
Total commercial real estate	1,156,055	56,436	31,403	—	—	1,243,894
Residential real estate:						
One- to four- family first liens	340,610	3,104	6,567	—	—	350,281
One- to four- family junior liens	115,160	706	1,272	—	—	117,138
Total residential real estate	455,770	3,810	7,839	—	—	467,419
Consumer	36,772	133	3	28	—	36,936
Total	\$2,199,301	\$99,220	\$65,481	\$33	\$—	\$2,364,035



Table of Contents

(in thousands)	Pass	Special Mention/ Watch	Substandard	Doubtful	Loss	Total
<b>December 31, 2017</b>						
Agricultural	\$80,377	\$21,989	\$3,146	\$—	\$—	—\$105,512
Commercial and industrial	453,363	23,153	27,102	6	—	503,624
Commercial real estate:						
Construction and development	162,968	1,061	1,247	—	—	165,276
Farmland	76,740	10,357	771	—	—	87,868
Multifamily	131,507	2,498	501	—	—	134,506
Commercial real estate-other	731,231	34,056	19,034	—	—	784,321
Total commercial real estate	1,102,446	47,972	21,553	—	—	1,171,971
Residential real estate:						
One- to four- family first liens	340,446	2,776	9,004	—	—	352,226
One- to four- family junior liens	114,763	952	1,489	—	—	117,204
Total residential real estate	455,209	3,728	10,493	—	—	469,430
Consumer	36,059	—	68	31	—	36,158
Total	\$2,127,454	\$96,842	\$62,362	\$37	\$—	—\$2,286,695

Included within the special mention/watch, substandard, and doubtful categories at June 30, 2018 and December 31, 2017 are purchased credit impaired loans totaling \$11.4 million and \$12.6 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.

*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.

Table of Contents

The following table presents loans individually evaluated for impairment, excluding purchased credit impaired loans, by class of loan, as of June 30, 2018 and December 31, 2017:

(in thousands)	June 30, 2018			December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
<b>With no related allowance recorded:</b>						
Agricultural	\$ 6,307	\$ 6,807	\$ —	\$ 1,523	\$ 2,023	\$ —
Commercial and industrial	4,162	4,528	—	7,588	7,963	—
Commercial real estate:						
Construction and development	84	84	—	84	84	—
Farmland	6,532	6,532	—	287	287	—
Multifamily	823	823	—	—	—	—
Commercial real estate-other	6,602	7,111	—	5,746	6,251	—
Total commercial real estate	14,041	14,550	—	6,117	6,622	—
Residential real estate:						
One- to four- family first liens	2,488	2,540	—	2,449	2,482	—
One- to four- family junior liens	302	302	—	26	26	—
Total residential real estate	2,790	2,842	—	2,475	2,508	—
Consumer	—	—	—	—	—	—
Total	\$ 27,300	\$ 28,727	\$ —	\$ 17,703	\$ 19,116	\$ —
<b>With an allowance recorded:</b>						
Agricultural	\$ 1,749	\$ 1,754	\$ 287	\$ 1,446	\$ 1,446	\$ 140
Commercial and industrial	8,703	8,810	3,093	2,146	2,177	1,126
Commercial real estate:						
Construction and development	—	—	—	—	—	—
Farmland	2,123	2,123	648	—	—	—
Multifamily	—	—	—	—	—	—
Commercial real estate-other	4,313	11,980	3,302	4,269	11,536	2,157
Total commercial real estate	6,436	14,103	3,950	4,269	11,536	2,157
Residential real estate:						
One- to four- family first liens	966	966	163	979	979	185
One- to four- family junior liens	—	—	—	268	268	41
Total residential real estate	966	966	163	1,247	1,247	226
Consumer	—	—	—	—	—	—
Total	\$ 17,854	\$ 25,633	\$ 7,493	\$ 9,108	\$ 16,406	\$ 3,649
<b>Total:</b>						
Agricultural	\$ 8,056	\$ 8,561	\$ 287	\$ 2,969	\$ 3,469	\$ 140
Commercial and industrial	12,865	13,338	3,093	9,734	10,140	1,126
Commercial real estate:						
Construction and development	84	84	—	84	84	—
Farmland	8,655	8,655	648	287	287	—
Multifamily	823	823	—	—	—	—
Commercial real estate-other	10,915	19,091	3,302	10,015	17,787	2,157
Total commercial real estate	20,477	28,653	3,950	10,386	18,158	2,157
Residential real estate:						
One- to four- family first liens	3,454	3,506	163	3,428	3,461	185
One- to four- family junior liens	302	302	—	294	294	41
Total residential real estate	3,756	3,808	163	3,722	3,755	226
Consumer	—	—	—	—	—	—



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

Total	\$45,154	\$ 54,360	\$ 7,493	\$26,811	\$ 35,522	\$ 3,649
-------	----------	-----------	----------	----------	-----------	----------

20

---

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:

(in thousands)	Three Months Ended June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
<b>With no related allowance recorded:</b>								
Agricultural	\$ 6,037	\$ 296	\$ 1,192	\$ 66	\$ 4,422	\$ 363	\$ 1,216	\$ 79
Commercial and industrial	3,954	98	4,787	67	3,465	144	4,143	90
Commercial real estate:								
Construction and development	84	—	360	—	84	—	360	—
Farmland	5,242	185	1,686	36	3,494	234	2,073	69
Multifamily	825	20	—	—	550	30	—	—
Commercial real estate-other	5,693	130	3,118	71	5,394	177	3,040	103
Total commercial real estate	11,844	335	5,164	107	9,522	441	5,473	172
Residential real estate:								
One- to four- family first liens	2,438	20	2,409	46	1,757	11	2,417	70
One- to four- family junior liens	297	—	13	—	288	—	13	—
Total residential real estate	2,735	20	2,422	46	2,045	11	2,430	70
Consumer	—	—	—	—	—	—	—	—
Total	\$ 24,570	\$ 749	\$ 13,565	\$ 286	\$ 19,454	\$ 959	\$ 13,262	\$ 411
<b>With an allowance recorded:</b>								
Agricultural	\$ 1,622	\$ 57	\$ 1,855	\$ 53	\$ 1,610	\$ 71	\$ 1,875	\$ 67
Commercial and industrial	7,797	53	4,444	14	7,457	37	3,495	37
Commercial real estate:								
Construction and development	—	—	809	—	—	—	832	—
Farmland	2,107	26	—	—	1,405	54	—	—
Multifamily	—	—	—	—	—	—	—	—
Commercial real estate-other	4,360	—	6,294	16	4,586	—	4,410	—
Total commercial real estate	6,467	26	7,103	16	5,991	54	5,242	—
Residential real estate:								
One- to four- family first liens	969	18	1,372	17	972	27	1,389	26
One- to four- family junior liens	—	—	—	—	—	—	—	—
Total residential real estate	969	18	1,372	17	972	27	1,389	26
Consumer	—	—	—	—	—	—	—	—
Total	\$ 16,855	\$ 154	\$ 14,774	\$ 100	\$ 16,030	\$ 189	\$ 12,001	\$ 130
<b>Total:</b>								
Agricultural	\$ 7,659	\$ 353	\$ 3,047	\$ 119	\$ 6,032	\$ 434	\$ 3,091	\$ 146
Commercial and industrial	11,751	151	9,231	81	10,922	181	7,638	127
Commercial real estate:								
Construction and development	84	—	1,169	—	84	—	1,192	—
Farmland	7,349	211	1,686	36	4,899	288	2,073	69
Multifamily	825	20	—	—	550	30	—	—
Commercial real estate-other	10,053	130	9,412	87	9,980	177	7,450	103
Total commercial real estate	18,311	361	12,267	123	15,513	495	10,715	172
Residential real estate:								
One- to four- family first liens	3,407	38	3,781	63	2,729	38	3,806	96
One- to four- family junior liens	297	—	13	—	288	—	13	—
Total residential real estate	3,704	38	3,794	63	3,017	38	3,819	96

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

Consumer	—	—	—	—	—	—	—	—
Total	\$41,425	\$ 903	\$28,339	\$ 386	\$35,484	\$ 1,148	\$25,263	\$ 541

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, 2018 and December 31, 2017:

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable
<b>June 30, 2018</b>						
Agricultural	\$503	\$—	\$280	\$783	\$102,646	\$103,429
Commercial and industrial	1,144	185	6,006	7,335	505,022	512,357
Commercial real estate:						
Construction and development	11	—	83	94	206,175	206,269
Farmland	515	—	141	656	88,105	88,761
Multifamily	—	—	—	—	129,659	129,659
Commercial real estate-other	189	62	3,646	3,897	815,308	819,205
Total commercial real estate	715	62	3,870	4,647	1,239,247	1,243,894
Residential real estate:						
One- to four- family first liens	1,412	1,170	872	3,454	346,827	350,281
One- to four- family junior liens	120	67	440	627	116,511	117,138
Total residential real estate	1,532	1,237	1,312	4,081	463,338	467,419
Consumer	56	23	19	98	36,838	36,936
Total	\$3,950	\$1,507	\$11,487	\$16,944	\$2,347,091	\$2,364,035
Included in the totals above are the following purchased credit impaired loans	\$203	\$160	\$—	\$363	\$17,815	\$18,178
<b>December 31, 2017</b>						
Agricultural	\$95	\$118	\$168	\$381	\$105,131	\$105,512
Commercial and industrial	1,434	1,336	1,576	4,346	499,278	503,624
Commercial real estate:						
Construction and development	57	97	82	236	165,040	165,276
Farmland	217	—	373	590	87,278	87,868
Multifamily	—	25	—	25	134,481	134,506
Commercial real estate-other	74	—	1,852	1,926	782,395	784,321
Total commercial real estate	348	122	2,307	2,777	1,169,194	1,171,971
Residential real estate:						
One- to four- family first liens	3,854	756	1,019	5,629	346,597	352,226
One- to four- family junior liens	325	770	271	1,366	115,838	117,204
Total residential real estate	4,179	1,526	1,290	6,995	462,435	469,430
Consumer	79	15	29	123	36,035	36,158
Total	\$6,135	\$3,117	\$5,370	\$14,622	\$2,272,073	\$2,286,695
Included in the totals above are the following purchased credit impaired loans	\$164	\$756	\$553	\$1,473	\$18,258	\$19,731

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.

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.

Table of Contents

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, 2018 and December 31, 2017:

(in thousands)	June 30, 2018		December 31, 2017	
	Non-Accrual	Loans Past Due 90 Days or More and Still Accruing	Non-Accrual	Loans Past Due 90 Days or More and Still Accruing
Agricultural	\$ 255	\$ 52	\$ 168	\$ —
Commercial and industrial	6,790	—	7,124	—
Commercial real estate:				
Construction and development	102	—	188	—
Farmland	278	—	386	—
Multifamily	—	—	—	—
Commercial real estate-other	4,001	—	5,279	—
Total commercial real estate	4,381	—	5,853	—
Residential real estate:				
One- to four- family first liens	1,085	60	1,228	205
One- to four- family junior liens	493	39	346	2
Total residential real estate	1,578	99	1,574	207
Consumer	63	—	65	—
Total	\$ 13,067	\$ 151	\$ 14,784	\$ 207

Not included in the loans above as of June 30, 2018 and December 31, 2017 were purchased credit impaired loans with an outstanding balance of \$0.3 million and \$0.7 million, net of a discount of \$0.1 million and \$0.1 million, respectively.

As of June 30, 2018, the Company had \$0.3 million in commitments to lend additional funds to borrowers who have 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 record a provision for the acquired portfolio as the loans acquired in the Central Bancshares, Inc. ("Central") merger 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. 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.

Table of Contents

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 accretible yield for loans acquired and accounted for under ASC 310-30 were as follows for the three and six months ended June 30, 2018 and 2017:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Balance at beginning of period	\$608	\$1,633	\$840	\$1,961
Accretion	(373 )	(475 )	(650 )	(891 )
Reclassification from nonaccretible difference	76	213	121	301
Balance at end of period	\$311	\$1,371	\$311	\$1,371

## 5. Derivatives and Hedging Activities

FASB ASC 815, *Derivatives and Hedging* (“ASC 815”), provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company’s objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As required by ASC 815, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

The Company does not use derivatives for trading or speculative purposes.

In accordance with the FASB’s fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company’s derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company’s known or expected cash receipts and its known or expected cash payments principally related to the Company’s loans and borrowings.





Table of Contents

The following table presents the total notional and gross fair value of the Company's derivatives as of June 30, 2018 and December 31, 2017. The derivative asset and liability balances are presented on a gross basis, prior to the application of master netting agreements, as included in other assets and other liabilities, respectively, on the Consolidated Balance Sheets.

(in thousands)	As of June 30, 2018		As of December 31, 2017	
	Fair Value		Fair Value	
	Notional Amount	Derivative Assets/Liabilities	Notional Amount	Derivative Assets/Liabilities
<b>Derivatives designated as hedging instruments:</b>				
Fair value hedges:				
Interest rate swaps	\$5,605	\$ — 26	\$ —	\$ —
<b>Derivatives not designated as hedging instruments:</b>				
Interest rate swaps	10,720	113 132	—	—

Derivatives Designated as Hedging Instruments

The Company is exposed to changes in the fair value of certain of its fixed-rate assets due to changes in benchmark interest rates. The Company uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the designated benchmark interest rate, LIBOR. Interest rate swaps designated as fair value hedges involve the payment of fixed-rate amounts to a counterparty in exchange for the Company receiving variable-rate payments over the life of the agreements without the exchange of the underlying notional amount. For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in interest income. The table below presents the effect of the Company's derivative financial instruments designated as hedging instruments on the Consolidated Statements of Income for the three and six months ended June 30, 2018 and June 30, 2017:

(in thousands)	Location and Amount of Gain or Loss Recognized in Income on Fair Value Hedging Relationships							
	For the Three Months Ended June 30, 2018				For the Six Months Ended June 30, 2017			
	Interest Income (Expense)	Other Gain (Loss)	Interest Income (Expense)	Other Gain (Loss)	Interest Income (Expense)	Other Gain (Loss)	Interest Income (Expense)	Other Gain (Loss)
Total amounts of income and expense line items presented in the Consolidated Statements of Income in which the effects of fair value hedges are recorded	\$(1)	\$ —	\$ —	\$ —	\$(1)	\$ —	\$ —	\$ —
The effects of fair value hedging:								
Loss on fair value hedging relationships in subtopic 815-20:								
Interest contracts:								
Hedged items	135	—	—	—	135	—	—	—
Derivative designated as hedging instruments	(136)	—	—	—	(136)	—	—	—

As of June 30, 2018, the following amounts were recorded on the balance sheet related to cumulative basis adjustment for fair value hedges:

Line Item in the Balance Sheet in Which the Hedged Item is Included	Carrying Amount of the Hedged Assets	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of
---	--------------------------------------	---

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

	the Hedged Asset	
(in thousands)		
Loans	\$ 5,630	\$ 25

25

---

Table of ContentsDerivatives Not Designated as Hedging Instruments

The Company enters into interest rate derivatives, including interest rate swaps with its customers, to allow them to hedge against the risk of rising interest rates by providing fixed rate loans. To economically hedge against the interest rate risks in the products offered to its customers, the Company enters into mirrored interest rate contracts with institutional counterparties, with one designated as a central counterparty. As of June 30, 2018, the total amount of interest rate swaps, including mirrored transactions with institutional counterparties and the Company's customers, totaled \$5.4 million for derivatives that were in an asset valuation position, and \$5.4 million for derivatives that were in a liability valuation position. As of December 31, 2017, the total notional amounts of interest rate swaps, including mirrored transactions with institutional counterparties and the Company's customers, totaled zero for derivatives that were in an asset valuation position, and zero for derivatives that were in a liability valuation position. The fair value of interest rate swaps with institutional counterparties and the Company's customers amounted to a \$0.1 million asset and a \$0.1 million liability, as of June 30, 2018. The fair value of interest rate swaps with institutional counterparties and the Company's customers amounted to a zero asset and a zero liability, as of December 31, 2017.

The following table presents the net gains (losses) recognized on the Consolidated Statements of Income related to the derivatives not designated as hedging instruments for the three and six months ended June 30, 2018 and June 30, 2017:

Location in the Consolidated Statements of Income	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
(in thousands)	2018	2017	2018	2017
Interest rate swaps Other gain (loss)	\$(19)	\$	—\$(19)	\$
				—

Offsetting of Derivatives

The table below presents a gross presentation, the effects of offsetting, and a net presentation of the Company's derivatives as of June 30, 2018 and December 31, 2017. The net amounts of derivative assets or liabilities can be reconciled to the tabular disclosure of fair value. The tabular disclosure of fair value provides the location that derivative assets and liabilities are presented on the Consolidated Balance Sheets.

(in thousands)	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets (Liabilities) presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		Net Assets (Liabilities)
				Financial Instruments Received (Paid)	Cash Collateral	
<b>As of June 30, 2018</b>						
Asset Derivatives	\$ 113	\$	—\$ 113	\$	— \$	— \$ 113
Liability Derivatives	(158 )	—	(158 )	—	—	(158 )
<b>As of December 31, 2017</b>						
Derivatives	—	—	—	—	—	—
Liability Derivatives	—	—	—	—	—	—

Credit-risk-related Contingent Features

The Company has an unsecured federal funds line with its derivative counterparty. The Company has an agreement with its derivative counterparty that contains a provision under which if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. The Company also has an agreement with its derivative counterparty that contains a provision under which the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness.

As of June 30, 2018, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$163,000. As of June 30, 2018, the Company has minimum collateral posting thresholds with certain of its derivative counterparties, and has not posted any collateral related to these agreements. If the Company had breached any of these provisions at June 30, 2018, it could have been required to settle its obligations under the agreements at their termination value of \$163,000.

Table of Contents**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, 2018. The carrying amount of goodwill was \$64.7 million at June 30, 2018, the same as at December 31, 2017.

During the second quarter of 2018, the Company recognized a \$125,000 customer list intangible due to the purchase of a registered investment adviser in the Denver, Colorado, area.

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, 2018:

(in thousands)	Insurance Agency Intangible	Core Deposit Intangible	Indefinite-Lived Trade Name Intangible	Finite-Lived Trade Name Intangible	Customer List Intangible	Total
<b>June 30, 2018</b>						
Balance, beginning of period	\$ 148	\$ 4,011	\$ 7,040	\$ 744	\$ 103	\$ 12,046
Finite-lived intangible assets acquired	—	—	—	—	125	125
Amortization expense	(19 )	(1,119 )	—	(97 )	(11 )	(1,246 )
Balance at end of period	\$ 129	\$ 2,892	\$ 7,040	\$ 647	\$ 217	\$ 10,925
Gross carrying amount	\$ 1,320	\$ 18,206	\$ 7,040	\$ 1,380	\$ 455	\$ 28,401
Accumulated amortization	(1,191 )	(15,314 )	—	(733 )	(238 )	(17,476 )
Net book value	\$ 129	\$ 2,892	\$ 7,040	\$ 647	\$ 217	\$ 10,925

**7. Other Assets**

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

(in thousands)	June 30, 2018	December 31, 2017
Federal Home Loan Bank Stock	\$ 14,748	\$ 11,324
Prepaid expenses	1,954	2,992
Mortgage servicing rights	2,589	2,316
Federal & state income taxes receivable, current	—	3,120
Accounts receivable & other miscellaneous assets	7,722	3,009
	\$ 27,013	\$ 22,761

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, 2018 or in the year ended December 31, 2017.

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.

27

---

Table of Contents**8. Short-Term Borrowings**

Short-term borrowings were as follows as of June 30, 2018 and December 31, 2017:

(in thousands)	June 30, 2018		December 31, 2017	
	Weighted Average Balance Cost		Weighted Average Balance Cost	
Federal funds purchased	2.10 %	\$52,421	1.77 %	\$1,000
Securities sold under agreements to repurchase	0.91	75,046	0.71	96,229
Total	1.40 %	\$127,467	0.73 %	\$97,229

At June 30, 2018 and December 31, 2017, the Company had no borrowings through the Federal Reserve Discount Window, while the borrowing capacity was \$11.4 million as of June 30, 2018 and December 31, 2017. As of June 30, 2018 and December 31, 2017, the Bank had municipal securities pledged with a market value of \$12.7 million and \$12.8 million, respectively, to the Federal Reserve to secure potential borrowings. The Company also has various other unsecured federal funds agreements with correspondent banks as well as the FHLB. As of June 30, 2018 and December 31, 2017, there were \$52.4 million and \$1.0 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 2018, and matures on April 30, 2019. The Company had no balance outstanding under this agreement as of June 30, 2018.

**9. Junior Subordinated Notes Issued to Capital Trusts**

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.

The table below summarizes the outstanding junior subordinated notes and the related trust preferred securities issued by each trust as of June 30, 2018 and December 31, 2017:

(in thousands)	Face Value	Book Value	Interest Rate	Interest Rate at 6/30/2018	Maturity Date	Callable Date
<b>June 30, 2018</b>						
Central Bancshares Capital Trust II <sup>(1)(2)</sup>	\$7,217	\$6,702	Three-month LIBOR + 3.50%	5.84 %	03/15/2038	03/15/2013
Barron Investment Capital Trust I <sup>(1)(2)</sup>	2,062	1,675	Three-month LIBOR + 2.15%	4.49 %	09/23/2036	09/23/2011
MidWestOne Statutory Trust II <sup>(1)</sup>	15,464	15,464	Three-month LIBOR + 1.59%	3.93 %	12/15/2037	12/15/2012
Total	\$24,743	\$23,841				



Table of Contents

(in thousands)	Face Value	Book Value	Interest Rate	Interest Rate at 12/31/2017	Maturity Date	Callable Date
<b>December 31, 2017</b>						
Central Bancshares Capital Trust II <sup>(1) (2)</sup>	\$7,217	\$6,674	Three-month LIBOR + 3.50%	5.09 %	03/15/2038	03/15/2013
Barron Investment Capital Trust I <sup>(1) (2)</sup>	2,062	1,655	Three-month LIBOR + 2.15%	3.82 %	09/23/2036	09/23/2011
MidWestOne Statutory Trust II <sup>(1)</sup>	15,464	15,464	Three-month LIBOR + 1.59%	3.18 %	12/15/2037	12/15/2012
Total	\$24,743	\$23,793				

(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. Federal Home Loan Bank Borrowings and Long-Term Debt

Federal Home Loan Bank borrowings and long-term debt were as follows as of June 30, 2018 and December 31, 2017:

(in thousands)	June 30, 2018		December 31, 2017	
	Weighted	Average	Weighted	Average
	Cost	Balance	Cost	Balance
FHLB Borrowings	2.12 %	\$ 143,000	1.72 %	\$ 115,000
Note payable to unaffiliated bank	3.75	10,000	3.32	12,500
Total	2.23 %	\$ 153,000	1.88 %	\$ 127,500

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 4 "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 ability to obtain additional advances ceased. Payments of principal and interest are payable quarterly, which began on September 30, 2015. As of June 30, 2018, \$10.0 million of that note was outstanding.

Table of Contents**11. Income Taxes**

Income tax expense for the three and six months ended June 30, 2018 and 2017 was less than the amount computed by applying the maximum effective federal income tax rate of 21% and 35%, respectively, 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,			
	2018	% of Pretax Income	2017	% of Pretax Income	2018	% of Pretax Income	2017	% of Pretax Income
Income tax based on statutory rate	\$2,160	21.0 %	\$3,629	35.0 %	\$4,213	21.0 %	\$6,864	35.0 %
Tax-exempt interest	(501 )	(4.9 )	(795 )	(7.7 )	(991 )	(4.9 )	(1,581 )	(8.1 )
Bank-owned life insurance	(82 )	(0.8 )	(110 )	(1.1 )	(173 )	(0.9 )	(225 )	(1.1 )
State income taxes, net of federal income tax benefit	566	5.5	443	4.3	1,095	5.4	848	4.3
General business credits	7	(1.0 )	(19 )	(0.2 )	(40 )	(0.7 )	(40 )	(0.2 )
Other	(19 )	0.9	(12 )	(0.1 )	11	0.6	(201 )	(1.0 )
Total income tax expense	\$2,131	20.7 %	\$3,136	30.2 %	\$4,115	20.5 %	\$5,665	28.9 %

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118), which provides guidance regarding how a company is to reflect provisional amounts when necessary information is not yet available, prepared or analyzed sufficiently to complete its accounting for the effect of the changes in Public Law 115-97, commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). During the first quarter of 2018, the income tax expense recorded during the fourth quarter of 2017 was determined to be final.

**12. 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:

(dollars in thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Basic earnings per common share computation</b>				
Numerator:				
Net income	\$8,156	\$ 7,234	\$ 15,949	\$ 13,947
Denominator:				
Weighted average shares outstanding	12,218,240	12,200,689	12,220,451	11,855,108
Basic earnings per common share	\$0.67	\$ 0.59	\$ 1.31	\$ 1.18
<b>Diluted earnings per common share computation</b>				
Numerator:				
Net income	\$8,156	\$ 7,234	\$ 15,949	\$ 13,947
Denominator:				
Weighted average shares outstanding, including all dilutive potential shares	12,229,940	12,219,238	12,235,405	11,878,315
Diluted earnings per common share	\$0.67	\$ 0.59	\$ 1.30	\$ 1.17

**13. Estimated Fair Value of Financial Instruments and Fair Value Measurements**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants

on the measurement date. Market participants are defined as buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics: 1) an unrelated party; 2) knowledgeable (having a reasonable understanding about the asset or liability and the transaction based on all available information; including

30

---

Table of Contents

information that might be obtained through due diligence efforts that are usual or customary); 3) able to transact; and 4) willing to transact (motivated but not forced or otherwise compelled to do so).

The FASB states “valuation techniques that are appropriate in the circumstances and for which sufficient data are available shall be used to measure fair value.” The valuation techniques for measuring fair value are consistent with the three traditional approaches to value: the market approach, the income approach, and the cost or asset approach. In applying valuation techniques, the use of relevant inputs (both observable and unobservable) based on the facts and circumstances must be used. The FASB has defined a fair value hierarchy for these inputs which prioritizes the inputs into three broad levels:

*Level 1 Inputs* – Quoted prices (unadjusted) for identical assets or liabilities in active markets.

*Level 2 Inputs* – Inputs other than quoted prices within Level 1 that are observable for assets or liabilities, either directly or indirectly.

*Level 3 Inputs* – Unobservable inputs for the asset or liability.

Unobservable inputs should be used only to the extent that relevant observable inputs are not available; this allows for situations where there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs should reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.

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. The Company used the following methods and significant assumptions to estimate fair value:

*Investment Securities* - The fair value for investment securities are determined by quoted market prices, if available (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 (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 (Level 2). 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.

*Loans Held for Sale* - Loans held for sale are carried at the lower of cost or fair value, with fair value being based on binding contracts from third party investors (Level 2). The portfolio has historically consisted primarily of residential real estate loans.

*Loans, Net* - The estimated fair value of loans, net, was performed using the income approach, with the market approach used for certain nonperforming loans, resulting in a Level 3 fair value classification. The application of the income approach establishes value by methods that discount or capitalize earnings and/or cash flow, by a discount or capitalization rate that reflects market rate of return expectations, market conditions, and the relative risk of the investment. Generally, this can be accomplished by the discounted cash flow method. For loans that exhibited some characteristics of performance and where it appears that the borrower may have adequate cash flows to service the loan, a discounted cash flow analysis was used. The discounted cash flow analysis was based on the contractual maturity of the loan and market indications of rates, prepayment speeds, defaults and credit risk. For loans with balloon or interest only payment structures, the repayment was extended by assuming a renewal period beyond the current contractual maturity date. For loans analyzed using the asset approach, the fair value was determined based on the estimated values of the underlying collateral. For impaired loans, the estimated net sales proceeds was used to determine the fair value of the loans when deemed appropriate. The implied sales proceeds value provides a better

indication of value than the income stream as these loans are not performing or exhibit strong signs indicative of nonperformance.

*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

Table of Contents

collateral less estimated costs to sell, based on appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available for similar loans and collateral underlying such loans, and resulted in a Level 3 classification for inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and management's expertise and knowledge of the client and the client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted in accordance with the allowance policy.

*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. These assets are subsequently accounted for at the lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than every 18 months. These appraisals may utilize a single valuation approach or a combination of approaches, including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available for similar loans and the collateral underlying such loans, resulting in a Level 3 classification for inputs for determining fair value. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Appraisals for both collateral dependent impaired loans and OREO are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the Special Assets Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics.

*Interest Rate Swaps* - Interest rate swaps are valued by the Company's swap dealers using cash flow valuation techniques with observable market data inputs. The fair values estimated by the Company's swap dealers use interest rates that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy. The Company has entered into collateral agreements with its swap dealers which entitle it to receive collateral to cover market values on derivatives which are in asset position, thus a credit risk adjustment on interest rate swaps is not warranted.

The following table summarizes assets and liabilities measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017. The assets and liabilities are segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value:

(in thousands)	Fair Value Measurement at June 30, 2018 Using					
	Fair Value	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	\$5,543	\$	—	\$5,543	\$	—
State and political subdivisions	141,715	—	—	141,715	—	—
Mortgage-backed securities	54,370	—	—	54,370	—	—
Collateralized mortgage obligations	172,010	—	—	172,010	—	—
Corporate debt securities	64,674	—	—	64,674	—	—
Total available for sale debt securities	\$438,312	\$	—	\$438,312	\$	—
Derivatives	\$113	\$	—	\$113	\$	—

Liabilities:

Derivatives	\$158	\$	—	\$158	\$	—
-------------	-------	----	---	-------	----	---

Table of Contents

(in thousands)	Fair Value Measurement at December 31, 2017 Using			
	Fair Value	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	\$ 15,626	\$ —	\$ 15,626	\$ —
State and political subdivisions	141,839	—	141,839	—
Mortgage-backed securities	48,497	—	48,497	—
Collateralized mortgage obligations	168,196	—	168,196	—
Corporate debt securities	71,166	—	71,166	—
Total available for sale debt securities	\$ 445,324	\$ —	\$ 445,324	\$ —

There were no transfers of assets between Level 3 of the fair value hierarchy during the three and six months ended June 30, 2018 or the year ended December 31, 2017.

Changes in the fair value of available for sale debt securities are included in other comprehensive income, and changes in the fair value of equity securities are included in noninterest income.

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, 2018 and December 31, 2017, as more fully described above.

(in thousands)	Fair Value Measurement at June 30, 2018 Using			
	Fair Value	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	\$ 6,169	\$ —	\$ —	\$ 6,169
Other real estate owned	\$ 676	\$ —	\$ —	\$ 676

(in thousands)	Fair Value Measurement at December 31, 2017 Using			
	Fair Value	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	\$ 3,927	\$ —	\$ —	\$ 3,927
Other real estate owned	\$ 2,010	\$ —	\$ —	\$ 2,010

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, 2018, categorized within Level 3 of the fair value hierarchy:

(dollars in thousands)	Quantitative Information About Level 3 Fair Value Measurements			
	Fair Value at June 30, 2018	Valuation Techniques(s)	Unobservable Input	Range of Inputs



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

Collateral dependent impaired loans	\$ 6,169	Modified appraised value	Third party appraisal	NM * - NM *	NM *
			Appraisal discount	NM * - NM *	NM *
Other real estate owned	\$ 676	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.

Table of Contents

Due to the adoption of ASU 2016-01 as of January 1, 2018, the estimated fair value amounts shown for December 31, 2017 are not comparable to those for June 30, 2018, due to a change in the required methodology (“exit price” only) for determining current estimated fair value. The carrying amount and estimated fair value of financial instruments not carried at fair value, at June 30, 2018 and December 31, 2017 are as follows:

(in thousands)	June 30, 2018		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Carrying Amount	Estimated Fair Value			
<b>Financial assets:</b>					
Cash and cash equivalents	\$43,264	\$ 43,264	\$ 43,264	\$ —	\$ —
Investment securities:					
Equity securities	2,809	2,809	2,809	—	—
Debt securities available for sale	438,312	438,312	—	438,312	—
Debt securities held to maturity	192,896	188,407	—	188,407	—
Total investment securities	634,017	629,528	2,809	626,719	—
Loans held for sale	1,528	1,548	—	1,548	—
Loans held for investment, net	2,333,235	2,268,777	—	—	2,268,777
Interest receivable	13,636	13,636	13,636	—	—
Federal Home Loan Bank stock	14,748	14,748	—	14,748	—
Derivative assets	113	113	—	113	—
<b>Financial liabilities:</b>					
Deposits:					
Non-interest bearing demand	469,862	469,862	469,862	—	—
Interest-bearing checking	1,183,384	1,183,384	1,183,384	—	—
Savings	216,866	216,866	216,866	—	—
Certificates of deposit under \$100,000	341,584	336,859	—	336,859	—
Certificates of deposit \$100,000 and over	392,505	388,913	—	388,913	—
Total deposits	2,604,201	2,595,884	1,870,112	725,772	—
Federal funds purchased and securities sold under agreements to repurchase	127,467	127,467	127,467	—	—
Federal Home Loan Bank borrowings	143,000	141,069	—	141,069	—
Junior subordinated notes issued to capital trusts	23,841	21,032	—	21,032	—
Long-term debt	10,000	10,000	—	10,000	—
Derivative liabilities	158	158	—	158	—

Table of Contents

(in thousands)	December 31, 2017		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Carrying Amount	Estimated Fair Value			
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 50,972	\$ 50,972	\$ 50,972	\$ —	\$ —
Investment securities:					
Equity securities	2,336	2,336	2,336	—	—
Debt securities available for sale	445,324	445,324	—	445,324	—
Debt securities held to maturity	195,619	194,343	—	194,343	—
Total investment securities	643,279	642,003	2,336	639,667	—
Loans held for sale	856	871	—	—	871
Loans held for investment, net	2,258,636	2,256,726	—	2,256,726	—
Interest receivable	14,732	14,732	14,732	—	—
Federal Home Loan Bank stock	11,324	11,324	—	11,324	—
<b>Financial liabilities:</b>					
Deposits:					
Non-interest bearing demand	461,969	461,969	461,969	—	—
Interest-bearing checking	1,228,112	1,228,112	1,228,112	—	—
Savings	213,430	213,430	213,430	—	—
Certificates of deposit under \$100,000	324,681	321,197	—	321,197	—
Certificates of deposit \$100,000 and over	377,127	374,685	—	374,685	—
Total deposits	2,605,319	2,599,393	1,903,511	695,882	—
Federal funds purchased and securities sold under agreements to repurchase	97,229	97,229	97,229	—	—
Federal Home Loan Bank borrowings	115,000	114,945	—	114,945	—
Junior subordinated notes issued to capital trusts	23,793	19,702	—	19,702	—
Long-term debt	12,500	12,500	—	12,500	—

**14. Revenue Recognition**

On January 1, 2018, the Company adopted ASU No. 2014-09 “Revenue from Contracts with Customers” (Topic 606) and all subsequent ASUs that modified Topic 606. As stated in Note 2. “Effect of New Financial Accounting Standards.” the implementation of the new standard did not have a material impact on the measurement or recognition of revenue; as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as trust and asset management fees, service charges on deposit accounts, sales of other real estate, and debit card interchange fees. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company’s revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

*Trust and Asset Management*

Trust and asset management income is primarily comprised of fees earned from the management and administration of trusts and other customer assets. The Company’s performance obligation is generally satisfied over time, and the

resulting fees are recognized monthly, based upon the month-end market value of the assets under management and the applicable fee rate. Payment is generally received a few days after month end through a direct charge to customers' accounts. The Company does not earn performance-based incentives. Optional services such as real estate sales and tax return preparation services are also available to existing trust and asset management customers. The Company's performance obligation for these transactional-based services is generally satisfied, and related revenue recognized, at a point in time (i.e., as incurred). Payment is received shortly after services are rendered.

## Table of Contents

### *Service Charges on Deposit Accounts*

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

### *Fees, Exchange, and Other Service Charges*

Fees, exchange, and other service charges are primarily comprised of debit and credit card income, ATM fees, merchant services income, and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Company's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

### *Gains/Losses on Sales of OREO*

Gain or loss from the sale of OREO occurs when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present. OREO sales for the six months ended June 30, 2018 and June 30, 2017 were not financed by the Bank.

### *Other*

Other noninterest income consists of other recurring revenue streams such as safe deposit box rental fees, and other miscellaneous revenue streams. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

### *Contract Balances*

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's noninterest revenue streams are largely based on transactional activity, or standard month-end revenue accruals such as asset management fees based on month-end market values. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of June 30, 2018 and December 31, 2017, the Company did not have any significant contract balances.

### *Contract Acquisition Costs*

In connection with the adoption of Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The Company utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption

of Topic 606, the Company did not capitalize any contract acquisition cost.

**15. 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,

36

---

Table of Contents

Colorado. Substantially all income is derived from a diverse base of commercial, mortgage and retail lending activities, and investments.

**16. Subsequent Events**

Management evaluated subsequent events through the date the consolidated financial statements were issued. Events or transactions occurring after June 30, 2018, but prior to the date the consolidated financial statements were issued, that provided additional evidence about conditions that existed at June 30, 2018 have been recognized in the consolidated financial statements for the three and six months ended June 30, 2018. Events or transactions that provided evidence about conditions that did not exist at June 30, 2018, 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, 2018.

In late July 2018, the Company recorded a writedown of approximately \$0.5 million due to classifying a former branch facility as held for sale.

On July 17, 2018, the board of directors of the Company declared a cash dividend of \$0.195 per share payable on September 17, 2018 to shareholders of record as of the close of business on September 1, 2018.

**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., a wholly-owned subsidiary of the Company, provides personal and business insurance services in Iowa. During the second quarter of 2018, the Company purchased a registered investment adviser in Denver, Colorado, which operates through the Bank. 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 interest-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, 2017. Results of operations for the three and six months ended June 30, 2018 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, 2017.



Table of Contents**RESULTS OF OPERATIONS****Comparison of Operating Results for the Three Months Ended June 30, 2018 and June 30, 2017****Summary**

For the quarter ended June 30, 2018, we earned net income of \$8.2 million, which was an increase of \$1.0 million from \$7.2 million for the quarter ended June 30, 2017. The increase in net income was due primarily to a \$1.0 million, or 32.0%, decrease in income tax expense, stemming from the reduction in the maximum corporate federal income tax rate to 21% for 2018 compared to 35% for 2017, a \$0.4 million, or 1.5%, increase in net interest income, due primarily to a \$1.8 million increase in interest and fees on loans, and an increase of \$0.1 million, or 1.9%, in noninterest income. These increases were partially offset by an increase of \$0.6 million, or 2.8%, in noninterest expense, due primarily to increased salaries and employee benefits of \$0.4 million, or 3.7%. Both basic and diluted earnings per common share for the second quarter of 2018 were \$0.67, versus \$0.59 for the second quarter of 2017. Our annualized return on average assets for the second quarter of 2018 was 1.01% compared with 0.95% for the same period in 2017. Our annualized return on average shareholders' equity was 9.55% for the three months ended June 30, 2018 compared with 8.58% for the three months ended June 30, 2017. The annualized return on average tangible equity was 12.91% for the second quarter of 2018 compared with 11.86% for the same period in 2017. The following table presents selected financial results and measures as of and for the quarters ended June 30, 2018 and 2017.

(dollars in thousands, except per share amounts)	As of and for the Three Months Ended June 30,	
	2018	2017
Net Income	\$8,156	\$7,234
Average Assets	3,246,302	3,056,740
Average Shareholders' Equity	342,712	338,362
Return on Average Assets*	1.01 %	0.95 %
Return on Average Shareholders' Equity*	9.55	8.58
Return on Average Tangible Equity* <sup>(1)</sup>	12.91	11.86
Total Equity to Assets (end of period)	10.57	11.09
Tangible Equity to Tangible Assets (end of period) <sup>(1)</sup>	8.48	8.86
Tangible Book Value per Share <sup>(1)</sup>	\$22.22	\$21.86

\* Annualized

(1) A non-GAAP financial measure. See below for a reconciliation to the most comparable GAAP equivalents.

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 adjusted noninterest income as a percentage of total revenue, and tangible book value per share. We believe these financial measures provide investors with information regarding our financial condition and results of operations and how we evaluate them internally, such as presenting how management tracks adjusted noninterest income as a percentage of total revenue against its goal of 25%.

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

(dollars in thousands)	For the Three Months Ended June 30,	
	2018	2017
<b>Net Income:</b>		
Net income	\$8,156	\$7,234
Plus: Intangible amortization, net of tax <sup>(1)</sup>	465	523
<i>Adjusted net income</i>	\$8,621	\$7,757
<b>Average Tangible Equity:</b>		
Average total shareholders' equity	\$342,712	\$338,362
Plus: Average deferred tax liability associated with intangibles	996	2,581
Less: Average intangibles, net of amortization	(75,780 )	(78,554 )
<i>Average tangible equity</i>	\$267,928	\$262,389

**Return on Average Tangible Equity (annualized)**

**12.91**    %    **11.86**    %

(1) Computed on a tax-equivalent basis, assuming a federal income tax rate of 21% for 2018 and 35% for 2017.

Table of Contents

(dollars in thousands)	For the Three Months Ended June 30,		
	2018	2017	
<b>Adjusted Noninterest Income:</b>			
Noninterest income	\$ 5,487	\$ 5,383	
Less: Gain on sale of debt securities available for sale	—	(20 )	
Loss on sale of held to maturity debt securities	4	—	
Loss (gain) on sale of premises and equipment	17	(8 )	
Other (gain) loss	72	(37 )	
<i>Adjusted noninterest income</i>	\$ 5,580	\$ 5,318	
<b>Total Revenue:</b>			
Net interest income	\$ 26,581	\$ 26,191	
Plus: Noninterest income	5,487	5,383	
Less: Gain on sale of debt securities available for sale	—	(20 )	
Loss on sale of held to maturity debt securities	4	—	
Loss (gain) on sale of premises and equipment	17	(8 )	
Other (gain) loss	72	(37 )	
<i>Total Revenue</i>	\$ 32,161	\$ 31,509	
<b>Adjusted Noninterest Income as a Percentage of Total Revenue<sup>(1)</sup></b>	<b>17.4</b>	<b>% 16.9</b>	<b>%</b>

(1) This measure tracks management's strategic goal for this measure to be at 25%.

(dollars in thousands, except per share amounts)	As of June 30,		
	2018	2017	
<b>Tangible Equity:</b>			
Total shareholders' equity	\$ 346,201	\$ 342,872	
Plus: Deferred tax liability associated with intangibles	924	2,432	
Less: Intangible assets, net	(75,579 )	(78,172 )	
<i>Tangible equity</i>	\$ 271,546	\$ 267,132	
<b>Tangible Assets:</b>			
Total assets	\$ 3,276,277	\$ 3,091,045	
Plus: Deferred tax liability associated with intangibles	924	2,432	
Less: Intangible assets, net	(75,579 )	(78,172 )	
<i>Tangible assets</i>	\$ 3,201,622	\$ 3,015,305	
<i>Common shares outstanding</i>	12,221,107	12,218,528	
<b>Tangible Book Value Per Share</b>	<b>\$ 22.22</b>	<b>\$ 21.86</b>	
<b>Tangible Equity/Tangible Assets</b>	<b>8.48</b>	<b>% 8.86</b>	<b>%</b>

**Net Interest Income**

Net interest income is the difference between interest income and fees earned on interest-earning assets and interest expense incurred on interest-bearing liabilities. Interest rate levels and volume fluctuations within interest-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 21% for 2018 and 35% for 2017. 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 \$26.6 million for the second quarter of 2018 was up \$0.4 million, or 1.5%, from \$26.2 million for the second quarter of 2017, primarily due to an increase of \$2.1 million, or 7.1%, in interest income. A 6 basis point decrease in loan yield was more than offset by a \$171.4 million increase in average loan balances between the

two periods. Merger-related discount accretion saw a decrease of \$0.5 million to \$0.8 million for the second quarter of 2018, with loan interest income increasing \$1.8 million, or 7.2%, to \$27.5 million for the second quarter of 2018 compared to the second quarter of 2017. Income from investment securities was \$4.5 million for the second quarter of 2018, up from \$4.2 million for the second quarter of 2017, which resulted from an increase of \$13.0 million in the average balance, partially offset by a decrease of 15 basis points in the tax equivalent yield between the two comparable periods.

Table of Contents

Interest expense increased \$1.7 million, or 47.2%, to \$5.4 million for the second quarter of 2018, compared to \$3.7 million for the same period in 2017, primarily due to an increase in the cost of interest-bearing deposits of 19 basis points and an increase in the average balance of interest-bearing deposits of \$128.8 million between the two periods. Interest expense on borrowed funds was \$1.4 million for the second quarter of 2018, up from \$0.8 million for the second quarter of 2017, an increase of \$0.6 million, or 68.9%. This increase resulted from an increase of 38 basis points in cost, combined with a higher average balance of borrowed funds of \$277.0 million for the second quarter of 2018 compared to \$203.2 million for the same period last year, an increase of \$73.8 million, or 36.3%, between the comparative periods.

Our net interest margin for the second quarter of 2018, calculated on a fully tax-equivalent basis, was 3.65%, or 26 basis points lower than the net interest margin of 3.91% for the second quarter of 2017. The yield on loans decreased 6 basis points and the yield on investment securities decreased by 15 basis points, primarily due to the reduction in the federal corporate income tax rate, resulting in the yield on interest-earning assets for the second quarter of 2018 being 6 basis points lower compared to the second quarter of 2017. The cost of deposits increased 19 basis points, primarily due to increased market interest rates, while the average cost of borrowings was higher by 38 basis points for the second quarter of 2018, compared to the second quarter of 2017, reflecting the increasing interest rate environment. We expect further net interest margin compression pressure in the future.

Table of Contents

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 quarters ended June 30, 2018 and 2017, reported on a fully tax-equivalent basis assuming a 21% tax rate for 2018 and a 35% tax rate for 2017. 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.

	Three Months Ended June 30, 2018			2017		
	Average Balance	Interest Income/ Expense	Average Rate/ Yield	Average Balance	Interest Income/ Expense	Average Rate/ Yield
<b>(dollars in thousands)</b>						
<b>Average Earning Assets:</b>						
Loans <sup>(1)(2)(3)</sup>	\$2,337,216	\$27,744	4.76 %	\$2,165,776	\$26,052	4.82 %
Investment securities:						
Taxable investments	438,569	2,940	2.69	421,255	2,590	2.47
Tax exempt investments <sup>(2)</sup>	215,461	1,929	3.59	219,818	2,428	4.43
Total investment securities	654,030	4,869	2.99	641,073	5,018	3.14
Federal funds sold and interest-bearing balances	4,271	19	1.78	10,388	27	1.04
Total interest-earning assets	\$2,995,517	\$32,632	4.37 %	\$2,817,237	\$31,097	4.43 %
Cash and due from banks	35,761			34,992		
Premises and equipment	78,013			74,944		
Allowance for loan losses	(30,193 )			(22,567 )		
Other assets	167,204			152,134		
Total assets	\$3,246,302			\$3,056,740		
<b>Average Interest-Bearing Liabilities:</b>						
Savings and interest-bearing demand deposits	\$1,431,642	\$1,354	0.38 %	\$1,337,921	\$963	0.29 %
Certificates of deposit	721,293	2,655	1.48	686,238	1,881	1.01
Total deposits	2,152,935	4,009	0.75	2,024,159	2,844	0.56
Federal funds purchased and repurchase agreements	109,752	355	1.30	70,878	59	0.33
Federal Home Loan Bank borrowings	130,967	615	1.88	91,044	404	1.78
Long-term debt and other	36,321	413	4.56	41,318	356	3.46
Total borrowed funds	277,040	1,383	2.00	203,240	819	1.62
Total interest-bearing liabilities	\$2,429,975	\$5,392	0.89 %	\$2,227,399	\$3,663	0.66 %
Net interest spread <sup>(2)</sup>			3.48 %			3.77 %
Demand deposits	454,659			470,774		
Other liabilities	18,956			20,205		
Shareholders' equity	342,712			338,362		
Total liabilities and shareholders' equity	\$3,246,302			\$3,056,740		
Interest income/earning assets <sup>(2)</sup>	\$2,995,517	\$32,632	4.37 %	\$2,817,237	\$31,097	4.43 %
Interest expense/earning assets	\$2,995,517	\$5,392	0.72 %	\$2,817,237	\$3,663	0.52 %
Net interest margin <sup>(2)(4)</sup>		\$27,240	3.65 %		\$27,434	3.91 %

**Non-GAAP to GAAP Reconciliation:****Tax Equivalent Adjustment:**

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

Loans	\$ 258	\$ 402
Securities	401	841
Total tax equivalent adjustment	659	1,243
<b>Net Interest Income</b>	<b>\$ 26,581</b>	<b>\$ 26,191</b>

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

(2) Computed on a tax-equivalent basis, assuming a federal income tax rate of 21% for 2018 and 35% for 2017.

(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, 2018, compared to the same period in 2017, reported on a fully tax-equivalent basis assuming a 21% federal tax rate for 2018 and a 35% federal tax rate for 2017. 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.

	<b>Three Months Ended June 30, 2018 Compared to 2017 Change due to</b>		
	<b>Volume</b>	<b>Rate/Yield</b>	<b>Net</b>
<b>(in thousands)</b>			
<b>Increase (decrease) in interest income:</b>			
Loans, tax equivalent	\$ 3,708	\$ (2,016 )	\$ 1,692
Investment securities:			
Taxable investments	111	239	350
Tax exempt investments	(47 )	(452 )	(499 )
Total investment securities	64	(213 )	(149 )
Federal funds sold and interest-bearing balances	(73 )	65	(8 )
Change in interest income	3,699	(2,164 )	1,535
<b>Increase (decrease) in interest expense:</b>			
Savings and interest-bearing demand deposits	72	319	391
Certificates of deposit	100	674	774
Total deposits	172	993	1,165
Federal funds purchased and repurchase agreements	47	249	296
Federal Home Loan Bank borrowings	187	24	211
Other long-term debt	(235 )	292	57
Total borrowed funds	(1 )	565	564
Change in interest expense	171	1,558	1,729
Increase in net interest income	\$ 3,528	\$ (3,722 )	\$ (194 )
Percentage change in net interest income over prior period			(0.7 )%

Interest income and fees on loans on a tax-equivalent basis in the second quarter of 2018 increased \$1.7 million, or 6.5%, compared with the same period in 2017. This increase includes the effect of the merger-related discount accretion of \$0.8 million on loans for the second quarter of 2018 compared to \$1.3 million of merger-related discount accretion for the second quarter of 2017. Average loans were \$171.4 million, or 7.9%, higher in the second quarter of 2018 compared with the second quarter of 2017, primarily resulting from new loan originations exceeding loan payments and payoffs. 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 the increase in average balance of loans between the second quarter of 2018 and the comparative period in 2017. The effects of this increase were partially offset by a decrease in the average yield on loans from 4.82% in the second quarter of 2017 to 4.76% in the second quarter of 2018, which was primarily attributable to a decrease in purchase accounting adjustments and the reduction in the federal income tax rate. Despite the 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 \$4.9 million in the second quarter of 2018 compared with \$5.0 million for the same period of 2017. The tax-equivalent yield on our investment portfolio in the second quarter of 2018 decreased to 2.99% from 3.14% in the comparable period of 2017, primarily due to the impact



of the reduction in the federal corporate income tax rate from 35% in 2017 to 21% in 2018. The average balance of investments in the second quarter of 2018 was \$654.0 million compared with \$641.1 million in the second quarter of 2017, an increase of \$13.0 million, or 2.0%.

Interest expense on deposits increased \$1.2 million, or 41.0%, to \$4.0 million in the second quarter of 2018 compared with \$2.8 million in the same period of 2017. The increased interest expense on deposits was primarily due to an increase of 19 basis points in the weighted average rate paid on interest-bearing deposits to 0.75% in the second quarter of 2018, compared with 0.56% in the second quarter of 2017. An increase in average balances of interest-bearing deposits for the second quarter of 2018 of \$128.8

Table of Contents

million compared with the same period in 2017, also contributed to increased expense on deposits. 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 \$1.4 million in the second quarter of 2018 was an increase of \$0.6 million, or 68.9%, from \$0.8 million in same period of 2017. Average borrowed funds for the second quarter of 2018 were \$73.8 million higher compared with the same period in 2017. A higher level of borrowed funds, primarily due to the \$39.9 million increase in the average level of FHLB borrowings combined with a \$38.9 million increase in the average level of federal funds purchased, and repurchase agreements for the second quarter of 2018, compared to the same period in 2017, was enhanced by an increase in the weighted average rate on borrowed funds to 2.00% for the second quarter of 2018 compared with 1.62% for the second quarter of 2017.

**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 2018, approximately the same as for the second quarter of 2017. Net loans charged off in the second quarter of 2018 totaled \$0.1 million, compared to \$0.9 million net loans charged off in the second quarter of 2017. The Company's provision in the second quarter of 2018 increased the allowance for loan losses to total non-acquired loans ratio to 1.43% as of June 30, 2018 (See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Allowance for Loan Losses). We determined 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, 2018; 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.

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,			
	2018	2017	\$ Change	% Change
<b>(dollars in thousands)</b>				
Trust, investment, and insurance fees	\$1,537	\$1,528	\$ 9	0.6 %
Service charges and fees on deposit accounts	1,158	1,257	(99 )	(7.9 )
Loan origination and servicing fees	906	718	188	26.2
Other service charges and fees	1,582	1,497	85	5.7
Bank-owned life insurance income	397	318	79	24.8
Gain on sale or call of debt securities available for sale	—	20	(20 )	NM
Loss on sale or call of debt securities held to maturity	(4 )	—	(4 )	NM
Gain (loss) on sale of premises and equipment	(17 )	8	(25 )	(312.5 )
Other gain (loss)	(72 )	37	(109 )	(294.6 )
Total noninterest income	\$5,487	\$5,383	\$ 104	1.9 %
Noninterest income as a % of total revenue*	17.4 %	16.9 %		

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 for the the second quarter of 2018 increased \$0.1 million, or 1.9%, to \$5.5 million from \$5.4 million in the second quarter of 2017. The greatest increase was in loan origination and servicing fees, which increased \$0.2 million, or 26.2%, from \$0.7 million for the second quarter of 2017 to \$0.9 million for the second quarter of 2018. This increase was primarily due to an increase in SBA loan sale premiums earned in the second quarter of 2018 compared to the same period in 2017, partially offset by a lower level of loans originated and sold on the secondary market in the second quarter of 2018 compared to the second

Table of Contents

quarter of 2017, a result of the general decrease in mortgage activity in the Company's markets. Other service charges and fees increased \$0.1 million, or 5.7%, to \$1.6 million in the second quarter of 2018 from \$1.5 million in the second quarter of 2017, primarily due to \$0.1 million in origination fees on derivatives in the second quarter of 2018, compared to none in the same period last year. Bank-owned life insurance income increased \$0.1 million, or 24.8%, due to the purchase of an additional \$11.2 million of insurance in the fourth quarter of 2017. These increases were partially offset by a decrease in other gain (loss) of \$0.1 million between the second quarter of 2018 and the second quarter of 2017, due primarily to increased losses on the sale of other real estate owned. Other gain (loss) represents gains and losses on the sale other real estate owned, derivatives, and other assets, and the mark-to-market of equity securities. Service charges and fees on deposit accounts decreased \$0.1 million, or 7.9%, to \$1.2 million for the second quarter of 2018, compared to \$1.3 million for the second quarter of 2017, primarily due to decreased service charges on deposit accounts.

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, 2018, noninterest income comprised 17.4% of total revenues, compared with 16.9% for the same period in 2017. Despite recent downward trends in this ratio, management expects to see gradual improvement 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,			
	2018	2017	\$ Change	% Change
<b>(dollars in thousands)</b>				
Salaries and employee benefits	\$ 12,225	\$ 11,789	\$ 436	3.7 %
Net occupancy and equipment expense	3,238	3,033	205	6.8
Professional fees	959	1,036	(77 )	(7.4 )
Data processing expense	691	548	143	26.1
FDIC insurance expense	392	352	40	11.4
Amortization of intangible assets	589	804	(215 )	(26.7 )
Other operating expense	2,437	2,402	35	1.5
Total noninterest expense	\$ 20,531	\$ 19,964	\$ 567	2.8 %

Noninterest expense for the second quarter of 2018 was \$20.5 million, an increase of \$0.6 million, or 2.8%, from \$20.0 million for the second quarter of 2017. Salaries and employee benefits increased \$0.4 million, or 3.7%, from \$11.8 million for the second quarter of 2017 to \$12.2 million for the second quarter of 2018, primarily due to normal annual salary and personnel adjustments. Occupancy and equipment expense, net, increased \$0.2 million, or 6.8%, to \$3.2 million for the second quarter of 2018 compared to \$3.0 million for the second quarter of 2017, due primarily to increased software licensing expenses. In addition, data processing expense rose \$0.1 million, or 26.1%, to \$0.7 million for the second quarter of 2018, compared to \$0.5 million for the second quarter of 2017, due mainly to higher financial services technology costs. Partially offsetting these increases, amortization of intangible asset expense decreased \$0.2 million, or 26.7%, and professional fees decreased \$0.1 million, or 7.4%, for the quarter ended June 30, 2018 compared to the quarter ended June 30, 2017.

**Income Tax Expense**

Our effective income tax rate, or income taxes divided by income before taxes, was 20.7% for the second quarter of 2018, which was lower than the effective tax rate of 30.2% for the second quarter of 2017. Income tax expense was \$2.1 million in the second quarter of 2018 compared to \$3.1 million for the same period of 2017. The primary reason for the decrease in income tax expense was the reduction in the maximum corporate federal income tax rate to 21% for 2018 compared to 35% for 2017 as a result of the Tax Act enacted by the U.S. government on December 22, 2017. We expect the reduction in the federal corporate income tax rate to contribute to higher net income levels in future periods.

**Comparison of Operating Results for the Six Months Ended June 30, 2018 and June 30, 2017**

**Summary**

For the six months ended June 30, 2018, we earned net income of \_\_\_\_\_ compared with \_\_\_\_\_ for the six months ended June 30, 2017, an increase of 14.4%. The increase in net income was due primarily to increased net interest income of \$1.6 million, or 3.2%, for the first six months of 2018 compared with the same period of 2017. The Company also realized a \$1.6 million decrease in income tax expense between the six months ended June 30, 2018 and the same period in 2017, primarily due to the reduction in the corporate federal income tax rate to 21% for 2018 compared to 35% for 2017. In addition, noninterest income increased \$0.3 million, or 2.2% between the first six months of 2017 and the same period in 2018. These changes were partially offset by a \$0.6 million, or 1.5%, increase in noninterest expense between the comparative six month periods. Basic and

Table of Contents

diluted earnings per common share for the first six months of 2018 were \$1.31 and \$1.30, respectively, compared with \$1.18 and \$1.17, respectively, for the first six months of 2017. Our annualized return on average assets for the first six months of 2018 was 1.00% compared with 0.92% for the same period in 2017. Our annualized return on average shareholders' equity was 9.41% for the six months ended June 30, 2018 versus 8.70% for the six months ended June 30, 2017. The annualized return on average tangible equity was 12.81% for the first six months of 2018 compared with 12.25% for the same period in 2017.

The following table presents selected financial results and measures as of and for the six months ended June 30, 2018 and 2017.

(dollars in thousands, except per share amounts)	As of and for the Six Months Ended June 30,	
	2018	2017
Net Income	\$ 15,949	\$ 13,947
Average Assets	3,231,320	3,058,069
Average Shareholders' Equity	341,636	323,423
Return on Average Assets*	1.00	% 0.92
Return on Average Shareholders' Equity*	9.41	8.70
Return on Average Tangible Equity*(1)	12.81	12.25
Total Equity to Assets (end of period)	10.57	11.09
Tangible Equity to Tangible Assets (end of period)(1)	8.48	8.86
Tangible Book Value per Share(1)	\$22.22	\$21.86

\* Annualized

(1) A non-GAAP financial measure. See below for a reconciliation to the most comparable GAAP equivalents.

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 adjusted noninterest income as a percentage of total revenue, and tangible book value per share. We believe these financial measures provide investors with information regarding our financial condition and results of operations and how we evaluate them internally, such as presenting how management tracks adjusted noninterest income as a percentage of total revenue against its goal of 25%.

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

(dollars in thousands)	For the Six Months Ended June 30,	
	2018	2017
<b>Net Income:</b>		
Net income	\$ 15,949	\$ 13,947
Plus: Intangible amortization, net of tax <sup>(1)</sup>	984	1,074
<i>Adjusted net income</i>	\$ 16,933	\$ 15,021
<b>Average Tangible Equity:</b>		
Average total shareholders' equity	\$ 341,636	\$ 323,423
Less: Average intangibles, net of amortization	(76,065 )	(78,958 )
Plus: Average deferred tax liability associated with intangibles	1,074	2,740
<i>Average tangible equity</i>	\$ 266,645	\$ 247,205
<b>Return on Average Tangible Equity (annualized)</b>	<b>12.81</b>	<b>% 12.25</b>

(1) Computed on a tax-equivalent basis, assuming a federal income tax rate of 21% for 2018 and 35% for 2017.

Table of Contents

(dollars in thousands)	For the Six Months Ended June 30,		
	2018	2017	
<b>Adjusted Noninterest Income:</b>			
Noninterest income	\$ 11,159	\$ 10,920	
Less: Gain on sale of debt securities available for sale	(9 )	(20 )	
(Gain) loss on sale of held to maturity debt securities	4	(43 )	
(Gain) loss on sale of premises and equipment	18	(6 )	
Other gain	(30 )	(50 )	
<i>Adjusted noninterest income</i>	\$ 11,142	\$ 10,801	
<b>Total Revenue:</b>			
Net interest income	\$ 52,894	\$ 51,272	
Plus: Noninterest income	11,159	10,920	
Less: Gain on sale of debt securities available for sale	(9 )	(20 )	
(Gain) loss on sale of held to maturity debt securities	4	(43 )	
(Gain) loss on sale of premises and equipment	18	(6 )	
Other gain	(30 )	(50 )	
<i>Total Revenue</i>	\$ 64,036	\$ 62,073	
<b>Adjusted Noninterest Income as a Percentage of Total Revenue<sup>(1)</sup></b>	<b>17.4</b>	<b>% 17.4</b>	<b>%</b>

(1) This measure tracks management's strategic goal for this measure to be at 25%.

(dollars in thousands, except per share amounts)	As of June 30,		
	2018	2017	
<b>Tangible Equity:</b>			
Total shareholders' equity	\$ 346,201	\$ 342,872	
Plus: Deferred tax liability associated with intangibles	924	2,432	
Less: Intangible assets, net	(75,579 )	(78,172 )	
<i>Tangible equity</i>	\$ 271,546	\$ 267,132	
<b>Tangible Assets:</b>			
Total assets	\$ 3,276,277	\$ 3,091,045	
Plus: Deferred tax liability associated with intangibles	924	2,432	
Less: Intangible assets, net	(75,579 )	(78,172 )	
<i>Tangible assets</i>	\$ 3,201,622	\$ 3,015,305	
<i>Common shares outstanding</i>	12,221,107	12,218,528	
<b>Tangible Book Value Per Share</b>	<b>\$ 22.22</b>	<b>\$ 21.86</b>	
<b>Tangible Equity/Tangible Assets</b>	<b>8.48</b>	<b>% 8.86</b>	<b>%</b>

**Net Interest Income**

Our net interest income for the six months ended June 30, 2018, was \$52.9 million, up \$1.6 million, or 3.2%, from \$51.3 million for the six months ended June 30, 2017, primarily due to an increase of \$4.5 million, or 7.8%, in interest income. Loan interest income increased \$4.1 million, or 8.3%, to \$54.1 million for the first six months of 2018 compared to the first six months of 2017, primarily due to a \$157.8 million, or 7.3%, increase in the average balance of loans between the two periods. Loan interest income in 2018 also benefited from a 1 basis point increase in average loan yield, which included the effect of a decrease in the discount accretion, to \$1.7 million for the six months ended June 30, 2018, compared to \$2.5 million for the six months ended June 30, 2017. Interest income on investment securities rose \$0.4 million, or 5.0%, to \$8.9 million for the first six months of 2018 compared to the first six months of 2017 primarily due to an increase of \$6.9 million in the average balance between the comparative periods. These income increases were partially offset by an increase of \$2.9 million, or 40.9%, in interest expense, to \$10.1 million for the six months ended June 30, 2018, compared to \$7.2 million for the first six months of 2017. Interest expense on deposits increased \$2.1 million, or 38.0%, to \$7.6 million for the six months ended June 30, 2018 compared to \$5.5

million for the six months ended June 30, 2017, as the average balance of interest-bearing deposits increased \$126.6 million, or 6.3%, between the two periods, and the average rate paid on deposits increased from 0.55% to 0.71%. Interest expense related to borrowings rose \$0.8 million, or 50.4%, between the two periods, primarily due to a 35 basis point increase in average rate for the first six months of 2018 compared to the same period of 2017.



Table of Contents

The Company posted a net interest margin, calculated on a fully tax-equivalent basis, of 3.67% for the first six months of 2018, down 18 basis points from the net interest margin of 3.85% for the same period in 2017. For the first six months of 2018 compared with the same period of 2017, a 1 basis point increase in tax equivalent loan yields and a higher volume of average loans, coupled with a 17 basis point tax equivalent yield decrease on a higher average balance of investment securities, resulted in an overall 1 basis point decrease in the yield on earning assets. On the liability side of the balance sheet, a 32 basis point increase in the cost of certificates of deposit was due primarily to the increasing interest rate environment. This, combined with an increase in the cost of borrowed funds of 35 basis points, were the primary factors in a 20 basis point increase in the cost of interest-bearing liabilities.

Table of Contents

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, 2018 and 2017, reported on a fully tax-equivalent basis assuming a 21% tax rate for 2018 and a 35% tax rate for 2017. 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.

(dollars in thousands)	Six Months Ended June 30, 2018			2017		
	Average Balance	Interest Income/ Expense	Average Rate/ Yield	Average Balance	Interest Income/ Expense	Average Rate/ Yield
<b>Average Earning Assets:</b>						
Loans <sup>(1)(2)(3)</sup>	\$ 2,321,189	\$ 54,552	4.74 %	\$ 2,163,428	\$ 50,734	4.73 %
Investment securities:						
Taxable investments	439,143	5,828	2.68	430,765	5,308	2.48
Tax exempt investments <sup>(2)</sup>	216,022	3,859	3.60	217,519	4,823	4.47
Total investment securities	655,165	9,687	2.98	648,284	10,131	3.15
Federal funds sold and interest-bearing balances	3,351	27	1.62	6,504	32	0.99
Total interest-earning assets	\$ 2,979,705	\$ 64,266	4.35 %	\$ 2,818,216	\$ 60,897	4.36 %
Cash and due from banks	35,576			35,031		
Premises and equipment	77,487			74,960		
Allowance for loan losses	(29,472 )			(22,408 )		
Other assets	168,024			152,270		
Total assets	\$ 3,231,320			\$ 3,058,069		
<b>Average Interest-Bearing Liabilities:</b>						
Savings and interest-bearing demand deposits	\$ 1,422,543	\$ 2,502	0.35 %	\$ 1,337,978	\$ 1,812	0.27 %
Certificates of deposit	719,811	5,043	1.41	677,811	3,657	1.09
Total deposits	2,142,354	7,545	0.71	2,015,789	5,469	0.55
Federal funds purchased and repurchase agreements	108,257	614	1.14	80,018	143	0.36
Federal Home Loan Bank borrowings	127,326	1,132	1.79	101,022	847	1.69
Long-term debt and other	36,936	780	4.26	41,938	690	3.32
Total borrowed funds	272,519	2,526	1.87	222,978	1,680	1.52
Total interest-bearing liabilities	\$ 2,414,873	\$ 10,071	0.84 %	\$ 2,238,767	\$ 7,149	0.64 %
Net interest spread <sup>(2)</sup>			3.51 %			3.72 %
Demand deposits	455,825			475,702		
Other liabilities	18,986			20,177		
Shareholders' equity	341,636			323,423		
Total liabilities and shareholders' equity	\$ 3,231,320			\$ 3,058,069		
Interest income/earning assets <sup>(2)</sup>	\$ 2,979,705	\$ 64,266	4.35 %	\$ 2,818,216	\$ 60,897	4.36 %
Interest expense/earning assets	\$ 2,979,705	\$ 10,071	0.68 %	\$ 2,818,216	\$ 7,149	0.51 %
Net interest margin <sup>(2)(4)</sup>		\$ 54,195	3.67 %		\$ 53,748	3.85 %
<b>Non-GAAP to GAAP Reconciliation:</b>						
<b>Tax Equivalent Adjustment:</b>						
Loans		\$ 499			\$ 805	

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

Securities	802	1,671
Total tax equivalent adjustment	1,301	2,476
<b>Net Interest Income</b>	<b>\$ 52,894</b>	<b>\$ 51,272</b>

- (1) Loan fees included in interest income are not material.
- (2) Computed on a tax-equivalent basis, assuming a federal income tax rate of 21% for 2018 and 35% for 2017.
- (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, 2018, compared to the same period in 2017, reported on a fully tax-equivalent basis assuming a 21% tax rate for 2018 and a 35% tax rate for 2017. 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.

(in thousands)	Six Months Ended June 30, 2018 Compared to 2017 Change due to		
	Volume	Rate/Yield	Net
<b>Increase (decrease) in interest income:</b>			
Loans, tax equivalent	\$ 3,710	\$ 108	\$ 3,818
Investment securities:			
Taxable investments	101	419	520
Tax exempt investments	(33 )	(931 )	(964 )
Total investment securities	68	(512 )	(444 )
Federal funds sold and interest-bearing balances	(38 )	33	(5 )
Change in interest income	3,740	(371 )	3,369
<b>Increase (decrease) in interest expense:</b>			
Savings and interest-bearing demand deposits	121	569	690
Certificates of deposit	242	1,144	1,386
Total deposits	363	1,713	2,076
Federal funds purchased and repurchase agreements	66	405	471
Federal Home Loan Bank borrowings	232	53	285
Other long-term debt	(207 )	297	90
Total borrowed funds	91	755	846
Change in interest expense	454	2,468	2,922
Change in net interest income	\$ 3,286	\$ (2,839 )	\$ 447
Percentage change in net interest income over prior period			0.8 %

Interest income and fees on loans on a tax-equivalent basis increased \$3.8 million, or 7.5%, in the first six months of 2018 compared to the same period in 2017. This increase reflects the effect of the merger-related discount accretion for loans of \$1.7 million in the first six months of 2018, compared to \$2.5 million of discount accretion in the first six months of 2017. The increased income is mainly due to average loan balances increasing \$157.8 million, or 7.3%, for the first six months of 2018 compared to the same period in 2017, primarily resulting from loan originations exceeding loan payments and payoffs. In addition to the effects of this increase in volume, a 1 basis point increase in yield on loans, from 4.73% in the first six months of 2017 to 4.74% in the same period of 2018, also contributed to the increased loan income. 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. Despite the 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 \$9.7 million in the first six months of 2018 compared with \$10.1 million for the same period of 2017. The tax-equivalent yield on our investment portfolio for the first six months of 2018 decreased to 2.98% from 3.15% in the comparable period of 2017, primarily due to the impact of the reduction in the federal corporate income tax rate from 35% in 2017 to 21% in 2018. The average balance of investments in the first six months of 2018 was \$655.2 million compared with \$648.3 million in the first six months of 2017, an increase of \$6.9 million, or 1.1%.

Interest expense on deposits was \$7.6 million for the first six months of 2018 compared with \$5.5 million for the same period in 2017. This increase was primarily due to the increase in general interest rates. Additionally, average interest-bearing deposits for the first six months of 2018 increased \$126.6 million, or 6.3%, compared with the same period in 2017, due primarily to an increased focus by the Company on gathering new deposits. The weighted average rate paid on interest-bearing deposits was 0.71% for the first six months of 2018 compared with 0.55% for the first six months of 2017. 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.

Table of Contents

Interest expense on borrowed funds in the first six months of 2018 was \$2.5 million, compared with \$1.7 million for the same period in 2017, an increase of \$0.8 million, or 50.4%. Average borrowed funds for the first six months of 2018 were \$49.5 million higher compared with the same period in 2017. The increase in the average level of FHLB borrowings of \$26.3 million, or 26.0%, coupled with an increase in the average balance of federal funds purchased and repurchase agreements of \$28.2 million, or 35.3%, was partially offset by a \$5.0 million, or 11.9%, decrease in long-term debt and junior subordinated notes, all for the first six months of 2018 compared to the first six months of 2017. The weighted average rate on borrowed funds for the first six months of 2018 was 1.87%, an increase of 35 basis points from 1.52% for the first six months of 2017.

**Provision for Loan Losses**

We recorded a provision for loan losses of \$3.1 million in the first six months of 2018, compared to \$2.3 million for the same period of 2017, an increase of \$0.8 million, or 35.9%. This increase was primarily due to loan growth (excluding loans held for sale) of \$77.3 million for the six months ended June 30, 2018, compared to a \$32.4 million increase in loans for the same period in 2017, combined with some continued indicated weakness in the agricultural sector. The Company's provision in the second quarter of 2018 increased the allowance for loan losses to total non-acquired loans ratio to 1.43% (See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Allowance for Loan Losses). Net loans charged off in the first six months of 2018 totaled \$0.4 million compared with \$1.6 million in the first six months of 2017.

**Noninterest Income**

(dollars in thousands)	Six Months Ended June 30,			
	2018	2017	\$ Change	% Change
Trust, investment, and insurance fees	\$3,177	\$3,140	\$ 37	1.2 %
Service charges and fees on deposit accounts	2,326	2,540	(214 )	(8.4 )
Loan origination and servicing fees	1,847	1,520	327	21.5
Other service charges and fees	2,962	2,955	7	0.2
Bank-owned life insurance income	830	646	184	28.5
Gain on sale or call of debt securities available for sale	9	20	(11 )	(55.0)
Gain (loss) on sale or call of debt securities held to maturity	(4 )	43	(47 )	(109.3)
Gain (loss) on sale of premises and equipment	(18 )	6	(24 )	NM
Other gain (loss)	30	50	(20 )	(40.0)
Total noninterest income	\$11,159	\$10,920	\$ 239	2.2 %
Adjusted noninterest income as a % of total revenue*	17.4	% 17.4	%	

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.

In the first six months of 2018 total noninterest income increased \$0.3 million, or 2.2%, to \$11.2 million from \$10.9 million during the same period of 2017. This increase was primarily due to loan origination and servicing fees, which increased \$0.3 million, or 21.5%, between the comparative periods. This increase was primarily due to the recovery of interest and collection expenses on a charged-off loan in the amount of \$0.2 million in the first quarter of 2018, partially offset by a lower level of loans originated and sold on the secondary market for the first six months of 2018 compared to the first six months of 2017, a result of the general decrease in mortgage activity in the Company's markets. Bank-owned life insurance income increased \$0.2 million between the comparative 2017 and 2018 periods due to the purchase of an additional \$11.2 million of insurance in the fourth quarter of 2017. These increases were partially offset by a decrease of \$0.2 million, or 8.4%, in service charges and fees on deposit accounts to \$2.3 million for the first six months of 2018 compared with \$2.5 million for the same period in 2017 primarily due to decreased service charges on demand deposit and money market accounts.

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, 2018, noninterest income comprised 17.4% of total revenues, compared with 17.4% for the same period in 2017. Despite recent downward trends in this ratio, management expects

to see continued gradual improvement in future periods due to the implementation of new management strategies in the origination of residential real estate loans.

50

---

Table of Contents**Noninterest Expense**

(dollars in thousands)	Six Months Ended June 30,			
	2018	2017	\$ Change	% Change
Salaries and employee benefits	\$24,596	\$23,673	\$ 923	3.9 %
Net occupancy and equipment expense	6,489	6,337	152	2.4
Professional fees	1,753	2,058	(305 )	(14.8 )
Data processing expense	1,379	1,259	120	9.5
FDIC insurance expense	711	719	(8 )	(1.1 )
Amortization of intangible assets	1,246	1,653	(407 )	(24.6 )
Other operating expense	4,715	4,600	115	2.5
Total noninterest expense	\$40,889	\$40,299	\$ 590	1.5 %

Noninterest expense increased to \$40.9 million for the six months ended June 30, 2018, compared with \$40.3 million for the six months ended June 30, 2017, an increase of \$0.6 million, or 1.5%, with salaries and employee benefits showing the greatest increase of \$0.9 million, or 3.9%, from \$23.7 million for the six months ended June 30, 2017, to \$24.6 million for the six months ended June 30, 2018, primarily due to normal annual salary and personnel adjustments. Occupancy and equipment expense, net, increased \$0.2 million, or 2.4%, to \$6.5 million for the six months ended June 30, 2018 compared to \$6.3 million for the same period last year, due primarily to increased software licensing expenses. Data processing expense rose \$0.1 million, or 9.5%, for the six months ended June 30, 2018, compared to the six months ended June 30, 2017, primarily due to higher financial services technology costs. Partially offsetting these increases, amortization of intangible asset expense decreased \$0.4 million, or 24.6%, and professional fees decreased \$0.3 million, or 14.8%, primarily due to lower legal fees, for the six months ended June 30, 2018 compared to the six months ended June 30, 2017.

**Income Tax Expense**

Our effective tax rate, or income taxes divided by income before taxes, was 20.5% for the first six months of 2018, and 28.9% for the first six months of 2017. Income tax expense decreased to \$4.1 million in the first six months of 2018 compared with \$5.7 million for the same period of 2017, primarily due to the reduction in the corporate federal income tax rate to 21% for 2018 compared to 35% for 2017 as a result of the Tax Act enacted by the U.S. government on December 22, 2017. We expect the reduction in the federal corporate income tax rate to contribute to higher net income levels in future periods.

**FINANCIAL CONDITION**

Our total assets were \$3.28 billion at June 30, 2018, an increase of \$64.0 million, or 2.0% from December 31, 2017. Loans held for investment, net of unearned income, increased \$77.3 million, or 3.4%, from \$2.29 billion at December 31, 2017 to \$2.36 billion at June 30, 2018. This increase was partially offset by a decrease in investment securities of \$9.3 million, or 1.4%, combined with a decrease in cash and cash equivalents of \$7.7 million, or 15.1%. Total deposits at June 30, 2018, were \$2.60 billion, a decrease of \$1.1 million from December 31, 2017. The mix of deposits saw increases between December 31, 2017 and June 30, 2018 of \$32.3 million, or 4.6%, in certificates of deposit, \$7.9 million, or 1.7%, in non-interest-bearing demand deposits, and \$3.4 million, or 1.6%, in savings deposits. These increases were offset by a decrease of \$44.7 million, or 3.6%, in interest-bearing checking deposits between December 31, 2017 and June 30, 2018. Between December 31, 2017 and June 30, 2018, federal funds purchased rose \$51.4 million, to \$52.4 million compared to \$1.0 million, while securities sold under agreements to repurchase declined \$21.2 million, due to normal cash need fluctuations by customers. FHLB borrowings rose \$28.0 million, or 24.3%, between the two dates. The overall increase in borrowings was the result of growth in the loan portfolio coupled with a decrease in deposits. At June 30, 2018, long-term debt had an outstanding balance of \$10.0 million, a decrease of \$2.5 million, or 20.0%, from December 31, 2017, due to normal scheduled repayments.

**Investment Securities**

Investment securities totaled \$634.0 million at June 30, 2018, or 19.4% of total assets, a decrease of \$9.3 million, from \$643.3 million, or 20.0% of total assets, as of December 31, 2017. A total of \$438.3 million of the investment securities were classified as available for sale at June 30, 2018, compared to \$445.3 million at December 31, 2017. As



of June 30, 2018, the portfolio consisted mainly of obligations of states and political subdivisions (42.2%), mortgage-backed securities and collateralized mortgage obligations (40.7%), corporate debt securities (15.7%), and obligations of U.S. government agencies (0.9%). Investment securities held to maturity were \$192.9 million at June 30, 2018, compared to \$195.6 million at December 31, 2017, and equity securities were \$2.8 million at June 30, 2018, compared to \$2.3 million at December 31, 2017.

Table of Contents**Loans**

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

(dollars in thousands)	June 30, 2018		December 31, 2017	
	Balance	% of Total	Balance	% of Total
Agricultural	\$ 103,429	4.4 %	\$ 105,512	4.6 %
Commercial and industrial	512,357	21.7	503,624	22.0
Commercial real estate:				
Construction and development	206,269	8.7	165,276	7.3
Farmland	88,761	3.8	87,868	3.8
Multifamily	129,659	5.5	134,506	5.9
Commercial real estate-other	819,205	34.6	784,321	34.3
Total commercial real estate	1,243,894	52.6	1,171,971	51.3
Residential real estate:				
One- to four-family first liens	350,281	14.8	352,226	15.4
One- to four-family junior liens	117,138	5.0	117,204	5.1
Total residential real estate	467,419	19.8	469,430	20.5
Consumer	36,936	1.5	36,158	1.6
Total loans	\$ 2,364,035	100.0 %	\$ 2,286,695	100.0 %

Loans held for investment, net of unearned income (excluding loans held for sale), increased \$77.3 million, or 3.4%, from \$2.29 billion at December 31, 2017, to \$2.36 billion at June 30, 2018. The mix of loans saw increases between December 31, 2017 and June 30, 2018, primarily concentrated in construction and development, commercial real estate-other, and commercial and industrial. Decreases occurred in multifamily, agricultural, and residential real estate. As of June 30, 2018, the largest category of loans was commercial real estate loans, comprising approximately 53% of the portfolio, of which 9% of total loans were construction and development, 6% of total loans were multifamily residential mortgages, 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 20%, agricultural loans at 4%, and consumer loans at 2%. Included in these totals are \$18.2 million, net of a discount of \$1.1 million, or 0.8% 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, 2018, premises and equipment totaled \$78.1 million, an increase of \$2.1 million, or 2.8%, from December 31, 2017. Additions from capital improvement projects, notably replacement branch locations in South St. Paul, Minnesota and Naples, Florida, offset the \$2.1 million balance change from depreciation.

**Deposits**

Total deposits as of June 30, 2018 were \$2.60 billion, a decrease of \$1.1 million, from December 31, 2017.

Interest-bearing checking deposits were the largest category of deposits at June 30, 2018, representing approximately 45.4% of total deposits. Total interest-bearing checking deposits were \$1.18 billion at June 30, 2018, a decrease of \$44.7 million, or 3.6%, from December 31, 2017. Non-interest bearing demand deposits were \$469.9 million at June 30, 2018, an increase of \$7.9 million, or 1.7%, from \$462.0 million at December 31, 2017. Savings deposits were \$216.9 million at June 30, 2018, an increase of \$3.4 million, or 1.6%, from \$213.4 million at December 31, 2017. Total certificates of deposit were \$734.1 million at June 30, 2018, up \$32.3 million, or 4.6%, from \$701.8 million at December 31, 2017. 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 84.9% of our total deposits were considered "core" deposits as of June 30, 2018. Effective with the Economic Growth, Regulatory Relief, and Consumer Protection Act, signed into law by President Trump on May 24, 2018, we no longer

consider deposits obtained from either the Certificate of Deposit Registry Service (CDARS) or Insured Cash Sweep (ICS) programs to be brokered deposits.

52

---

Table of Contents**Goodwill and Other Intangible Assets**

Goodwill was \$64.7 million at June 30, 2018 and December 31, 2017. Other intangible assets decreased \$1.1 million, or 9.3%, to \$10.9 million at June 30, 2018 compared to \$12.0 million at December 31, 2017, due primarily to amortization. See Note 6. “Goodwill and Intangible Assets” to our consolidated financial statements for additional information.

**Debt*****Federal Funds Purchased***

Federal funds purchased were \$52.4 million June 30, 2018 as of December 31, 2017, an increase of \$51.4 million. The principal function of these funds is to maintain short-term liquidity. See Note 8. “Short-Term Borrowings” to our consolidated financial statements for additional information related to our federal funds purchased.

***Securities Sold Under Agreements to Repurchase***

Securities sold under agreements to repurchase declined \$21.2 million, or 22.0%, to \$75.0 million June 30, 2018 as of December 31, 2017. Securities sold under agreements to repurchase are agreements in which the Company acquires funds by selling investment securities to another party under a simultaneous agreement to repurchase the same investment securities 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. As such, the balance of these borrowings vary according to the liquidity needs of the customers participating in these sweep accounts. See Note 8. “Short-Term Borrowings” to our consolidated financial statements for additional information related to our securities sold under agreements to repurchase.

***Federal Home Loan Bank Borrowings***

FHLB borrowings totaled \$143.0 million June 30, 2018 as of December 31, 2017, an increase of \$28.0 million, or 24.3%. We utilize FHLB borrowings as a supplement to customer deposits to fund interest-earning assets and to assist in managing interest rate risk. See Note 10. “Federal Home Loan Bank Borrowings and 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 \$23.8 million as of June 30, 2018, substantially unchanged from December 31, 2017. See Note 9. “Junior Subordinated Notes Issued to Capital Trusts” 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 \$10.0 million was outstanding as of June 30, 2018. See Note 10. “Federal Home Loan Bank Borrowings and Long-Term Borrowings” to our consolidated financial statements for additional information related to our long-term debt.

Table of Contents**Nonperforming Assets**

The following tables set forth information concerning nonperforming loans by class of loans at June 30, 2018 and December 31, 2017:

(in thousands)	<b>90 Days or More Past Due and Still Accruing Interest</b>	<b>Restructured</b>	<b>Nonaccrual</b>	<b>Total</b>
<b>June 30, 2018</b>				
Agricultural	\$ 52	\$ 2,502	\$ 255	\$ 2,809
Commercial and industrial	—	1,430	6,790	8,220
Commercial real estate:				
Construction and development	—	—	102	102
Farmland	—	—	278	278
Multifamily	—	—	—	—
Commercial real estate-other	—	3,747	4,001	7,748
Total commercial real estate	—	3,747	4,381	8,128
Residential real estate:				
One- to four- family first liens	60	683	1,085	1,828
One- to four- family junior liens	39	—	493	532
Total residential real estate	99	683	1,578	2,360
Consumer	—	—	63	63
Total	\$ 151	\$ 8,362	\$ 13,067	\$ 21,580

(in thousands)	<b>90 Days or More Past Due and Still Accruing Interest</b>	<b>Restructured</b>	<b>Nonaccrual</b>	<b>Total</b>
<b>December 31, 2017</b>				
Agricultural	\$ —	\$ 2,637	\$ 168	\$ 2,805
Commercial and industrial	—	1,450	7,124	8,574
Commercial real estate:				
Construction and development	—	—	188	188
Farmland	—	—	386	386
Multifamily	—	—	—	—
Commercial real estate-other	—	4,028	5,279	9,307
Total commercial real estate	—	4,028	5,853	9,881
Residential real estate:				
One- to four- family first liens	205	755	1,228	2,188
One- to four- family junior liens	2	—	346	348
Total residential real estate	207	755	1,574	2,536
Consumer	—	—	65	65
Total	\$ 207	\$ 8,870	\$ 14,784	\$ 23,861

Not included in the loans above as of June 30, 2018, were purchased credit impaired loans with an outstanding balance of \$0.3 million.

Our nonperforming assets (which include nonperforming loans and OREO) totaled \$22.3 million as of June 30, 2018, a decrease of \$3.6 million, or 14.0%, from December 31, 2017. The balance of OREO at June 30, 2018 was \$0.7 million, down \$1.3 million, from \$2.0 million of OREO at December 31, 2017. During the first six months of 2018, the Company had a net decrease of 12 properties in other real estate owned. All of the OREO property was acquired either through foreclosures or through settlement agreements, and we are actively working to sell all properties held as

of June 30, 2018. 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 \$23.9 million, or 1.04% of loans held for investment, net of unearned income, at December 31, 2017, to \$21.6 million, or 0.91% of loans held for investment, at June 30, 2018. At June 30, 2018, nonperforming loans consisted of \$13.1 million in nonaccrual loans, \$8.4 million in troubled debt restructures (“TDRs”) and \$0.2 million in loans

Table of Contents

past due 90 days or more and still accruing interest. This compares to nonaccrual loans of \$14.8 million, TDRs of \$8.9 million, and loans past due 90 days or more and still accruing interest of \$0.2 million at December 31, 2017.

Nonaccrual loans decreased \$1.7 million between December 31, 2017, and June 30, 2018, which was primarily driven by net charge-offs of \$0.4 million in the first six months of 2018 and \$2.7 million of principal payments on these loans, partially offset by 22 loans (17 of them having a balance less than \$100,000) being added to nonaccrual status in the first six months of 2018 for \$1.4 million. The balance of TDRs decreased \$0.5 million between these two dates, primarily due to payments collected from TDR-status borrowers totaling \$0.2 million, and two loans totaling \$0.3 million moving to non-disclosed status. Loans 90 days or more past due and still accruing interest decreased \$0.1 million between December 31, 2017, and June 30, 2018. Loans past due 30 to 89 days and still accruing interest (not included in the nonperforming loan totals) decreased to \$4.4 million at June 30, 2018, compared with \$8.4 million at December 31, 2017. As of June 30, 2018, the allowance for loan losses was \$30.8 million, or 1.30% of total loans, compared with \$28.1 million, or 1.23% of total loans, at December 31, 2017. The allowance for loan losses represented 142.72% of nonperforming loans at June 30, 2018, compared with 117.59% of nonperforming loans at December 31, 2017. The Company had net loan charge-offs of \$0.4 million in the six months ended June 30, 2018, or an annualized 0.03% of average loans outstanding, compared to net charge-offs of \$1.6 million, or an annualized 0.15% of average loans outstanding, for the same period of 2017.

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. 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.

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 and 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.



Table of ContentsRestructured 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, 2018, the Company restructured one loan by granting concessions to a borrower experiencing financial difficulties.

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, 2018 and December 31, 2017 is as follows:

(in thousands)	June 30, 2018	December 31, 2017
Restructured Loans (TDRs):		
In compliance with modified terms	\$8,362	\$ 8,870
Not in compliance with modified terms - on nonaccrual status or 90 days or more past due and still accruing interest	3,540	4,778
Total restructured loans	\$11,902	\$ 13,648

**Allowance for Loan Losses**

Our ALLL as of June 30, 2018 was \$30.8 million, which was 1.30% of total loans and 1.43% of non-acquired loans as of that date. This compares with an ALLL of \$28.1 million as of December 31, 2017, which was 1.23% of total loans and 1.39% of non-acquired loans as of that date. Gross charge-offs for the first six months of 2018 totaled \$0.8 million, while there were \$0.4 million in recoveries of previously charged-off loans. The increase in the allowance for loan losses was primarily due to loan growth (excluding loans held for sale) of \$77.3 million for the six months ended June 30, 2018, combined with some indicated weakness in the agricultural sector. The ratio of annualized net loan charge offs to average loans for the first six months of 2018 was 0.03% compared to 0.51% for the year ended December 31, 2017. As of June 30, 2018, the ALLL was 142.7% of nonperforming loans compared with 117.6% as of December 31, 2017. Based on the inherent risk in the loan portfolio, management believed that as of June 30, 2018, 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 2018. Classified and impaired loans are reviewed per the requirements of FASB ASC Topic 310.

Non-acquired loans with a balance of \$2.10 billion at June 30, 2018, had \$30.0 million of the allowance for loan losses allocated to them, providing an allocated allowance for loan loss to non-acquired loan ratio of 1.43%, compared to balances of

56

---

Table of Contents

\$1.96 billion and an allocated allowance for loan loss to non-acquired loan ratio of 1.39% at December 31, 2017. 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, 2018**

(dollars in thousands)	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	\$ 2,097,594	\$ —	\$ 2,097,594	\$ 29,984	1.43 %	1.43 %
Total Acquired Loans	273,255	6,814	266,441	816	0.30	2.79
Total Loans	\$ 2,370,849	\$ 6,814	\$ 2,364,035	\$ 30,800	1.30 %	1.59 %

**At December 31, 2017**

(dollars in thousands)	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	\$ 1,964,047	\$ —	\$ 1,964,047	\$ 27,209	1.39 %	1.39 %
Total Acquired Loans	331,122	8,474	322,648	850	0.26	2.82
Total Loans	\$ 2,295,169	\$ 8,474	\$ 2,286,695	\$ 28,059	1.23 %	1.59 %

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 portfolio. All pass rated loans, regardless of size, are allocated based on delinquency status. The Bank has streamlined the ALLL process 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 monitor the loan to value (“LTV”) ratio of all 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, 2018, there were 20 owner-occupied 1-4 family loans with a LTV ratio of 100% or greater. In addition, there were 125 home equity loans without credit enhancement that had a LTV ratio of 100% or greater. We have the first lien on 4 of these equity loans and other financial institutions have the first lien on the remaining 121. Additionally, there were 169 commercial real estate loans without credit enhancement that exceeded the supervisory LTV guidelines. No additional allocation of the ALLL is made for loans that exceed internal and supervisory 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, 2018, 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 \$346.2 million as of June 30, 2018, compared to \$340.3 million as of December 31, 2017, an increase of \$5.9 million, or 1.7%. This increase was primarily attributable to net income of \$15.9 million for

the first six months of 2018, partially offset by a \$4.8 million decrease in accumulated other comprehensive income due to market value adjustments on investment securities available for sale and the payment of \$4.8 million in common stock dividends. In addition, there was a \$0.4 million increase in treasury stock due to the repurchase of 33,998 shares of Company common stock at a cost of \$1.1 million, partially offset by the issuance of 35,494 shares of Company common stock in connection with stock compensation plans during the first six months of 2018. The total shareholders' equity to total assets ratio was 10.57% at June 30, 2018, down from 10.59% at December 31, 2017. The tangible equity to tangible assets ratio (a non-GAAP financial measure) was 8.48% at June 30, 2018,

Table of Contents

compared with 8.44% at December 31, 2017. Book value was \$28.33 per share at June 30, 2018, an increase from \$27.85 per share at December 31, 2017. Tangible book value per share (a non-GAAP financial measure) was \$22.22 at June 30, 2018, an increase from \$21.67 per share at December 31, 2017.

Our Tier 1 capital to risk-weighted assets ratio was 10.90% as of June 30, 2018 and was 10.96% as of December 31, 2017. 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, 2018, 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 in 2017, is 1.875% of risk-weighted assets in 2018, and further increases to the final level of 2.5% on January 1, 2019. At June 30, 2018, the Company’s institution-specific capital conservation buffer necessary to avoid limitations on distributions and discretionary bonus payments was 4.01%, while the Bank’s was 3.89%.

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 and our Common Equity Tier 1 capital ratio to risk-weighted assets ratio. We believe these ratios provide investors with information regarding our financial condition and how we evaluate our financial condition internally. The following table provides a reconciliation of these non-GAAP measures to the most comparable GAAP equivalents.

	At June 30, 2018	At December 31, 2017	
<i>(in thousands)</i>			
<b>Tier 1 capital</b>			
Total shareholders’ equity	\$ 346,201	\$ 340,304	
Less: Net unrealized gains on securities available for sale	7,407	2,602	
Disallowed Intangibles	(74,607 )	(73,340 )	
<i>Common equity tier 1 capital</i>	\$ 279,001	269,566	
Plus: Junior subordinated notes issued to capital trusts (qualifying restricted core capital)	23,841	23,793	
<i>Tier 1 capital</i>	\$ 302,842	\$ 293,359	
<i>Risk-weighted assets</i>	\$ 2,777,551	\$ 2,677,721	
<b>Tier 1 capital to risk-weighted assets</b>	<b>10.90</b>	<b>% 10.96</b>	<b>%</b>
<b>Common Equity Tier 1 capital to risk-weighted assets</b>	<b>10.04</b>	<b>% 10.07</b>	<b>%</b>

Table of Contents

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
<b>(dollars in thousands)</b>						
<b>At June 30, 2018</b>						
Consolidated:						
Total capital/risk based assets	\$ 333,642	12.01 %	\$ 274,283	9.875 %	N/A	N/A
Tier 1 capital/risk based assets	302,842	10.90	218,732	7.875	N/A	N/A
Common equity tier 1 capital/risk based assets	279,001	10.04	177,069	6.375	N/A	N/A
Tier 1 capital/adjusted average assets	302,842	9.53	127,059	4.000	N/A	N/A
MidWestOne Bank:						
Total capital/risk based assets	\$ 329,301	11.89 %	\$ 273,491	9.875 %	\$ 276,953	10.00 %
Tier 1 capital/risk based assets	298,501	10.78	218,101	7.875	221,563	8.00
Common equity tier 1 capital/risk based assets	298,501	10.78	176,558	6.375	180,020	6.50
Tier 1 capital/adjusted average assets	298,501	9.41	126,907	4.000	158,634	5.00
<b>At December 31, 2017</b>						
Consolidated:						
Total capital/risk based assets	\$ 321,459	12.00 %	\$ 247,689	9.250 %	N/A	N/A
Tier 1 capital/risk based assets	293,359	10.96	194,135	7.250	N/A	N/A
Common equity tier 1 capital/risk based assets	269,566	10.07	153,969	5.750	N/A	N/A
Tier 1 capital/adjusted average assets	293,359	9.48	123,831	4.000	N/A	N/A
MidWestOne Bank:						
Total capital/risk based assets	\$ 322,679	12.08 %	\$ 247,010	9.250 %	\$ 267,038	10.00 %
Tier 1 capital/risk based assets	294,620	11.03	193,603	7.250	213,631	8.00
Common equity tier 1 capital/risk based assets	294,620	11.03	153,547	5.750	173,575	6.50
Tier 1 capital/adjusted average assets	294,620	9.53	123,678	4.000	154,598	5.00

\* The ratios for December 31, 2017 include a capital conservation buffer of 1.25%, and the ratios for June 30, 2018 include a capital conservation buffer of 1.875%

On February 15, 2018, 32,460 restricted stock units were granted to certain officers of the Company, and on May 15, 2018, 5,720 restricted stock units were granted to members of the board of directors of the Company. On June 15, 2018, 6,780 restricted stock units were granted to certain officers of the Company. Additionally, during the first six months of 2018, 28,525 shares of common stock were issued in connection with the vesting of previously awarded grants of restricted stock units, of which 2,731 shares were surrendered by grantees to satisfy tax requirements, and no nonvested restricted stock units were forfeited. In the first six months of 2018, 9,700 shares of common stock were issued in connection with the exercise of previously issued stock options, and no options were forfeited.

**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 \$43.3 million as of June 30, 2018, compared with \$51.0 million as of December 31, 2017. Interest-bearing deposits in banks at June 30, 2018, were \$1.7 million, a decrease of \$3.8 million from \$5.5 million at December 31, 2017. Debt securities classified as available for sale, totaling \$438.3 million and \$445.3 million as of June 30, 2018 and December 31, 2017, 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, 2018 to meet the needs of borrowers and depositors.

Our principal sources of funds between December 31, 2017 and June 30, 2018 were deposits, FHLB borrowings, securities sold under agreement to repurchase, and federal funds purchased. 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 at times 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.

## Table of Contents

As of June 30, 2018, we had \$10.0 million of long-term debt outstanding to an unaffiliated banking organization. See Note 10. “Federal Home Loan Bank Borrowings and Long-Term Borrowings” to our consolidated financial statements for additional information related to our long-term debt. We also have \$23.8 million of indebtedness payable under junior subordinated debentures issued to subsidiary trusts that issued trust preferred securities in pooled offerings. See Note 9. “Junior Subordinated Notes Issued to Capital Trusts” 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, 2018, outstanding commitments to extend credit totaled approximately \$519.6 million.

Commitments under standby and performance letters of credit outstanding totaled \$17.4 million as of June 30, 2018. We do not anticipate any losses as a result of these transactions, and expect to have sufficient liquidity to fulfill outstanding credit commitments and letters of credit.

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, 2018, there were approximately \$1.5 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.

### **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 expressions. 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:*

60

---

Table of Contents

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, trade and tax laws and regulations and their application by our regulators;

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;

the imposition of tariffs or other domestic or international governmental policies impacting the value of the agricultural or other products of our borrowers; and

other factors and risks described under "Risk Factors" in our Annual Report on Form 10-K for the period ended December 31, 2017 and otherwise in our reports and filings with the Securities and Exchange Commission.

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 to fund its acquisition of assets.

## Table of Contents

### **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 \$21.4 million in the first six months of 2018, compared with \$23.2 million in the first six months of 2017. 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 \$77.9 million in the first six months of 2018, compared to net cash outflows of \$10.9 million in the comparable six-month period of 2017. In the first six months of 2018, net cash outflows related to the net increase in loans were \$78.2 million for the first six months of 2018, compared with \$34.2 million of net cash outflows for the same period of 2017. Investment securities transactions resulted in net cash inflows of \$2.3 million, compared to inflows of \$24.2 million during the same period of 2017.

Net cash inflows from financing activities in the first six months of 2018 were \$48.8 million, compared with net cash outflows of \$6.2 million for the same period of 2017. The largest financing cash inflows during the six months ended June 30, 2018 were an increase of \$51.4 million in federal funds purchased, and a net increase of \$28.0 million in FHLB borrowings. Uses of cash were a decrease of \$21.2 million in securities sold under agreements to repurchase, \$4.8 million to pay dividends, and \$2.5 million of payments on long-term debt.

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 \$150.0 million, which lines are tested annually to ensure availability.

#### 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, 2018, the Bank had \$143.0 million in outstanding FHLB borrowings, leaving \$117.4 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 an internal policy that limits 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. Under the Economic Growth, Regulatory Relief, and Consumer Protection Act, signed into law by President Trump on May 24, 2018, a well-capitalized bank that has received an outstanding or good rating on its most recent examination will be able to hold reciprocal deposits up to the lesser of 20 percent of its total liabilities or \$5 billion without those deposits being treated as brokered (reciprocal

deposits over these amounts will be treated as brokered). Further, a bank that drops below well-capitalized no longer requires a waiver from the FDIC to continue accepting reciprocal deposits so long as it does not receive an amount of reciprocal deposits that causes its reciprocal deposits to exceed a previous four-quarter average. Under these new regulations, there were no outstanding brokered deposits at June 30, 2018.

## Table of Contents

### 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, 2018.

### 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, 2018, the Bank had municipal securities with an approximate market value of \$12.7 million pledged for liquidity purposes, and had a borrowing capacity of \$11.4 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, 2018 and December 31, 2017. 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 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.



Table of Contents

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 200 basis points, or an immediate increase of 100 basis points or 200 basis points:

(dollars in thousands)	Immediate Change in Rates			
	-200	-100	+100	+200
<b>June 30, 2018</b>				
Dollar change	\$(244 )	\$(545)	\$(982)	\$(2,432)
Percent change	(0.2 )%	(0.5 )%	(1.0 )%	(2.4 )%
<b>December 31, 2017</b>				
Dollar change	\$(2,873)	\$(729)	\$55	\$(361 )
Percent change	(2.8 )%	(0.7 )%	0.1 %	(0.4 )%

As of June 30, 2018, 37.9% of the Company's earning asset balances will reprice or are expected to pay down in the next twelve months, and 63.5% 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 interest-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 the 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, 2018. 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.

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.





Table of Contents

**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.**

The Company has made the following addition to 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, 2017:

*Changes in U.S. trade policies, such as the implementation of tariffs, and other factors beyond the Company's control may adversely impact our business, financial condition and results of operations.*

In recent months, the U.S. government implemented tariffs on certain products, and certain countries or entities, such as Mexico, Canada, China and the European Union, have issued or continue to threaten retaliatory tariffs against products from the United States, including agricultural products. Additional tariffs and retaliatory tariffs may be imposed in the future by the United States and these and other countries. Tariffs, retaliatory tariffs or other trade restrictions on products and materials that our customers import or export, including among others, agricultural products, could cause the prices of our customers' products to increase which could reduce demand for such products, or reduce our customer margins, and adversely impact their revenues, financial results and ability to service debt, which, in turn, could adversely affect our financial condition and results of operations. In addition, to the extent changes in the political environment have a negative impact on us or on the markets in which we operate, our business, results of operations and financial condition could be materially and adversely impacted in the future.

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

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 \$1.1 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, \$3.9 million remained available for possible future repurchases as of June 30, 2018.

**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.**

<b>Exhibit Number</b>	<b>Description</b>	<b>Incorporated by Reference to:</b>
<u>10.1</u>	Employment Agreement between MidWestOne Financial Group, Inc. and Barry S. Ray, effective June 4, 2018	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 4, 2018
<u>10.2</u>	Employment Agreement between MidWestOne Financial Group, Inc. and Gary L. Sims, effective June 25, 2018	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 11, 2018
<u>31.1</u>	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a)	Filed herewith
<u>31.2</u>	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a)	Filed herewith
<u>32.1</u>	Certification of Principal 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
<u>32.2</u>	Certification of Principal 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.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 2, 2018 By: /s/ CHARLES N. FUNK

**Charles N. Funk**  
**President and Chief**  
**Executive Officer**  
(Principal Executive  
Officer)

By: /s/ BARRY S. RAY

**Barry S. Ray**  
**Senior Vice**  
**President and Chief**  
**Financial Officer**  
(Principal Financial  
and Accounting  
Officer)