

MidWestOne Financial Group, Inc.  
Form 10-Q  
November 03, 2016

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 September 30, 2016

OR

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

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

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

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

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

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

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

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

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

As of November 1, 2016, there were 11,435,860 shares of common stock, \$1.00 par value per share, outstanding.

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements.

MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

|   | September 30,<br>2016 | December 31,<br>2015 |
|---|-----------------------|----------------------|
| (dollars in thousands, except per share amounts)  |                       |                      |
| ASSETS  |                       |                      |
| Cash and due from banks   | \$ 45,612             | \$ 44,199            |
| Interest-bearing deposits in banks  | 6,341                 | 2,731                |
| Federal funds sold  | 5                     | 167                  |
| Cash and cash equivalents   | 51,958                | 47,097               |
| Investment securities:  |                       |                      |
| Available for sale  | 436,239               | 427,241              |
| Held to maturity (fair value of \$153,474 as of September 30, 2016 and \$118,234 as of December 31, 2015) | 151,110               | 118,423              |
| Loans held for sale   | 2,742                 | 3,187                |
| Loans   | 2,141,832             | 2,151,942            |
| Allowance for loan losses   | (21,395)              | (19,427)             |
| Net loans   | 2,120,437             | 2,132,515            |
| Premises and equipment, net   | 75,127                | 76,202               |
| Accrued interest receivable   | 13,139                | 13,736               |
| Goodwill  | 64,654                | 64,548               |
| Other intangible assets, net  | 16,095                | 19,141               |
| Bank-owned life insurance   | 46,905                | 46,295               |
| Other real estate owned   | 3,452                 | 8,834                |
| Deferred income taxes   | 1,231                 | 947                  |
| Other assets  | 18,885                | 21,809               |
| Total assets  | \$ 3,001,974          | \$ 2,979,975         |
| LIABILITIES AND SHAREHOLDERS' EQUITY  |                       |                      |
| Deposits:   |                       |                      |
| Non-interest-bearing demand   | \$ 493,820            | \$ 559,586           |
| Interest-bearing checking   | 1,114,536             | 1,064,350            |
| Savings   | 196,426               | 189,489              |
| Certificates of deposit under \$100,000   | 332,194               | 348,268              |
| Certificates of deposit \$100,000 and over  | 308,956               | 301,828              |
| Total deposits  | 2,445,932             | 2,463,521            |
| Federal funds purchased   | 19,309                | 1,500                |
| Securities sold under agreements to repurchase  | 63,469                | 67,463               |
| Federal Home Loan Bank borrowings   | 100,000               | 87,000               |
| Junior subordinated notes issued to capital trusts  | 23,667                | 23,587               |
| Long-term debt  | 18,750                | 22,500               |
| Deferred compensation liability   | 5,209                 | 5,132                |
| Accrued interest payable  | 1,552                 | 1,507                |
| Other liabilities   | 14,502                | 11,587               |
| Total liabilities   | 2,692,390             | 2,683,797            |
| Shareholders' equity:   | \$ —                  | \$ —                 |

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|   |              |              |
|---|--------------|--------------|
| Preferred stock, no par value; authorized 500,000 shares; no shares issued and outstanding at September 30, 2016 and December 31, 2015  |              |              |
| Common stock, \$1.00 par value; authorized 15,000,000 shares at September 30, 2016 and December 31, 2015; issued 11,713,481 shares at September 30, 2016 and at December 31, 2015; outstanding 11,435,860 shares at September 30, 2016 and 11,408,773 shares at December 31, 2015 | 11,713       | 11,713       |
| Additional paid-in capital  | 163,492      | 163,487      |
| Treasury stock at cost, 277,621 shares as of September 30, 2016 and 304,708 shares at December 31, 2015   | (5,776       | ) (6,331 )   |
| Retained earnings   | 134,935      | 123,901      |
| Accumulated other comprehensive income  | 5,220        | 3,408        |
| Total shareholders' equity  | 309,584      | 296,178      |
| Total liabilities and shareholders' equity  | \$ 3,001,974 | \$ 2,979,975 |
| See accompanying notes to consolidated financial statements.  |              |              |

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CONSOLIDATED STATEMENTS OF OPERATIONS

| (unaudited) (dollars in thousands, except per share amounts)   | Three Months Ended    |           | Nine Months Ended     |           |
|--|-----------------------|-----------|-----------------------|-----------|
|  | September 30,<br>2016 | 2015      | September 30,<br>2016 | 2015      |
| Interest income:   |                       |           |                       |           |
| Interest and fees on loans                                     | \$24,343              | \$ 26,697 | \$74,094              | \$ 60,959 |
| Interest and discount on loan pool participations              | —                     | —         | —                     | 798       |
| Interest on bank deposits                                      | 63                    | 13        | 141                   | 29        |
| Interest on federal funds sold                                 | 3                     | —         | 4                     | —         |
| Interest on investment securities:                             |                       |           |                       |           |
| Taxable securities   | 2,088                 | 1,914     | 5,924                 | 5,721     |
| Tax-exempt securities  | 1,394                 | 1,365     | 4,251                 | 4,149     |
| Total interest income  | 27,891                | 29,989    | 84,414                | 71,656    |
| Interest expense:  |                       |           |                       |           |
| Interest on deposits:  |                       |           |                       |           |
| Interest-bearing checking                                      | 810                   | 706       | 2,346                 | 1,903     |
| Savings  | 50                    | 48        | 216                   | 128       |
| Certificates of deposit under \$100,000                        | 801                   | 641       | 2,089                 | 1,758     |
| Certificates of deposit \$100,000 and over                     | 813                   | 1,090     | 2,171                 | 2,083     |
| Total interest expense on deposits                             | 2,474                 | 2,485     | 6,822                 | 5,872     |
| Interest on federal funds purchased                            | 5                     | 19        | 30                    | 33        |
| Interest on securities sold under agreements to repurchase     | 36                    | 51        | 121                   | 124       |
| Interest on Federal Home Loan Bank borrowings                  | 469                   | 334       | 1,387                 | 1,086     |
| Interest on other borrowings                                   | 4                     | 6         | 16                    | 16        |
| Interest on junior subordinated notes issued to capital trusts | 215                   | 191       | 608                   | 399       |
| Interest on subordinated notes                                 | —                     | —         | —                     | 162       |
| Interest on long-term debt                                     | 107                   | 144       | 354                   | 240       |
| Total interest expense   | 3,310                 | 3,230     | 9,338                 | 7,932     |
| Net interest income  | 24,581                | 26,759    | 75,076                | 63,724    |
| Provision for loan losses                                      | 1,005                 | 2,141     | 3,241                 | 3,642     |
| Net interest income after provision for loan losses            | 23,576                | 24,618    | 71,835                | 60,082    |
| Noninterest income:  |                       |           |                       |           |
| Trust, investment, and insurance fees                          | 1,306                 | 1,428     | 4,244                 | 4,642     |
| Service charges and fees on deposit accounts                   | 1,346                 | 1,297     | 3,887                 | 3,098     |
| Loan origination and servicing fees                            | 1,162                 | 1,025     | 2,636                 | 2,096     |
| Other service charges and fees                                 | 1,307                 | 1,342     | 4,115                 | 3,155     |
| Bank-owned life insurance income                               | 324                   | 344       | 1,040                 | 964       |
| Gain on sale or call of available for sale securities          | —                     | —         | 467                   | 1,011     |
| Loss on sale of premises and equipment                         | (37)                  | (5)       | (53)                  | (15)      |
| Other gain (loss)  | 306                   | 29        | 1,378                 | (396)     |
| Total noninterest income                                       | 5,714                 | 5,460     | 17,714                | 14,555    |
| Noninterest expense:   |                       |           |                       |           |
| Salaries and employee benefits                                 | 11,641                | 12,191    | 37,607                | 29,054    |
| Net occupancy and equipment expense                            | 3,293                 | 2,719     | 9,870                 | 6,585     |
| Professional fees  | 1,014                 | 959       | 3,181                 | 3,868     |
| Data processing expense  | 599                   | 928       | 3,981                 | 2,028     |
| FDIC insurance expense   | 412                   | 431       | 1,231                 | 1,058     |

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|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Amortization of intangible assets                            | 970        | 800        | 3,046      | 2,136      |
| Other operating expense                                      | 2,510      | 2,314      | 7,784      | 6,638      |
| Total noninterest expense                                    | 20,439     | 20,342     | 66,700     | 51,367     |
| Income before income tax expense                             | 8,851      | 9,736      | 22,849     | 23,270     |
| Income tax expense   | 2,629      | 2,121      | 6,328      | 6,390      |
| Net income   | \$6,222    | \$ 7,615   | \$ 16,521  | \$ 16,880  |
| Share and per share information:                             |            |            |            |            |
| Ending number of shares outstanding                          | 11,435,860 | 11,406,431 | 11,435,860 | 11,406,431 |
| Average number of shares outstanding                         | 11,435,860 | 11,406,132 | 11,428,063 | 11,010,926 |
| Diluted average number of shares                             | 11,461,108 | 11,434,186 | 11,451,958 | 11,038,093 |
| Earnings per common share - basic                            | \$0.54     | \$ 0.67    | \$ 1.45    | \$ 1.69    |
| Earnings per common share - diluted                          | 0.54       | 0.67       | 1.44       | 1.68       |
| Dividends paid per common share                              | 0.16       | 0.15       | 0.48       | 0.45       |
| See accompanying notes to consolidated financial statements. |            |            |            |            |

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (unaudited) (dollars in thousands)                                 | Three Months<br>Ended<br>September 30, |         | Nine Months<br>Ended September<br>30, |          |
|--|--|---------|---------------------------------------|----------|
|  | 2016                                   | 2015    | 2016                                  | 2015     |
| Net income   | \$6,222                                | \$7,615 | \$16,521                              | \$16,880 |
| Other comprehensive income, available for sale securities:         |  |         |                                       |          |
| Unrealized holding gains (losses) arising during period            | (304 )                                 | 2,196   | 3,565                                 | (78 )    |
| Reclassification adjustment for gains included in net income       | —                                      | —       | (467 )                                | (1,011 ) |
| Income tax (expense) benefit                                       | 119                                    | (833 )  | (1,286 )                              | 403      |
| Other comprehensive income (loss) on available for sale securities | (185 )                                 | 1,363   | 1,812                                 | (686 )   |
| Other comprehensive income (loss), net of tax                      | (185 )                                 | 1,363   | 1,812                                 | (686 )   |
| Comprehensive income   | \$6,037                                | \$8,978 | \$18,333                              | \$16,194 |

See accompanying notes to consolidated financial statements.



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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| (unaudited)<br>(dollars in thousands, except per share<br>amounts)                   | Preferred<br>Stock | Common<br>Stock | Additional<br>Paid-in<br>Capital | Treasury<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total      |
|--|--------------------|-----------------|----------------------------------|-------------------|----------------------|---|------------|
| Balance at December 31, 2014   | \$ —               | \$ 8,690        | \$ 80,537                        | \$ (6,945)        | \$ 105,127           | \$ 5,322  | \$ 192,731 |
| Net income   | —                  | —               | —                                | —                 | 16,880               | —   | 16,880     |
| Issuance of common stock due to<br>business combination (2,723,083 shares)           | —                  | 2,723           | 75,172                           | —                 | —                    | —   | 77,895     |
| Issuance of common stock - private<br>placement (300,000 shares), net of<br>expenses | —                  | 300             | 7,600                            | —                 | —                    | —   | 7,900      |
| Dividends paid on common stock (\$0.45<br>per share)                                 | —                  | —               | —                                | —                 | (4,633)              | —   | (4,633)    |
| Stock options exercised (5,769 shares)   | —                  | —               | (32)                             | 120               | —                    | —   | 88         |
| Release/lapse of restriction on RSUs<br>(23,123 shares)                              | —                  | —               | (416)                            | 445               | —                    | —   | 29         |
| Stock compensation   | —                  | —               | 462                              | —                 | —                    | —   | 462        |
| Other comprehensive income, net of tax   | —                  | —               | —                                | —                 | —                    | (686)   | (686)      |
| Balance at September 30, 2015  | \$ —               | \$ 11,713       | \$ 163,323                       | \$ (6,380)        | \$ 117,374           | \$ 4,636  | \$ 290,666 |
| Balance at December 31, 2015   | \$ —               | \$ 11,713       | \$ 163,487                       | \$ (6,331)        | \$ 123,901           | \$ 3,408  | \$ 296,178 |
| Net income   | —                  | —               | —                                | —                 | 16,521               | —   | 16,521     |
| Dividends paid on common stock (\$0.48<br>per share)                                 | —                  | —               | —                                | —                 | (5,487)              | —   | (5,487)    |
| Stock options exercised (2,900 shares)   | —                  | —               | (22)                             | 60                | —                    | —   | 38         |
| Release/lapse of restriction on RSUs<br>(25,633 shares)                              | —                  | —               | (520)                            | 495               | —                    | —   | (25)       |
| Stock compensation   | —                  | —               | 547                              | —                 | —                    | —   | 547        |
| Other comprehensive income, net of tax   | —                  | —               | —                                | —                 | —                    | 1,812   | 1,812      |
| Balance at September 30, 2016  | \$ —               | \$ 11,713       | \$ 163,492                       | \$ (5,776)        | \$ 134,935           | \$ 5,220  | \$ 309,584 |

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

| (unaudited) (dollars in thousands)   | Nine Months<br>Ended September<br>30, |           |
|--|---------------------------------------|-----------|
|  | 2016                                  | 2015      |
| Cash flows from operating activities:  |                                       |           |
| Net income   | \$16,521                              | \$16,880  |
| Adjustments to reconcile net income to net cash provided by operating activities:                          |                                       |           |
| Provision for loan losses  | 3,241                                 | 3,642     |
| Depreciation, amortization and accretion   | 7,726                                 | 5,952     |
| Loss on sale of premises and equipment   | 53                                    | 15        |
| Deferred income taxes  | (1,676 )                              | (169 )    |
| Stock-based compensation   | 547                                   | 462       |
| Net gain on sale or call of available for sale securities  | (467 )                                | (1,011 )  |
| Net gain on sale of other real estate owned  | (750 )                                | (108 )    |
| Net gain on sale of loans held for sale  | (2,160 )                              | (1,240 )  |
| Writedown of other real estate owned   | 546                                   | —         |
| Origination of loans held for sale   | (89,005 )                             | (99,302 ) |
| Proceeds from sales of loans held for sale   | 91,610                                | 97,232    |
| Decrease in accrued interest receivable  | 597                                   | 339       |
| Increase in cash surrender value of bank-owned life insurance  | (1,040 )                              | (964 )    |
| Decrease in other assets   | 2,924                                 | 4,734     |
| Increase in deferred compensation liability  | 77                                    | 94        |
| Increase (decrease) in accrued interest payable, accounts payable, accrued expenses, and other liabilities | 2,960                                 | (4,489 )  |
| Net cash provided by operating activities  | 31,704                                | 22,067    |
| Cash flows from investing activities:  |                                       |           |
| Proceeds from sales of available for sale securities   | 23,384                                | 112,054   |
| Proceeds from maturities and calls of available for sale securities  | 68,180                                | 64,921    |
| Purchases of available for sale securities   | (98,108 )                             | (11 )     |
| Proceeds from maturities and calls of held to maturity securities  | 10,662                                | 3,077     |
| Purchase of held to maturity securities  | (43,482 )                             | (12,394 ) |
| Net (increase) decrease in loans   | 7,054                                 | (89,521 ) |
| Decrease in loan pool participations, net  | —                                     | 19,332    |
| Purchases of premises and equipment  | (4,594 )                              | (11,558 ) |
| Proceeds from sale of other real estate owned  | 7,369                                 | 2,812     |
| Proceeds from sale of premises and equipment   | 2,260                                 | 33        |
| Proceeds of principal and earnings from bank-owned life insurance  | 430                                   | —         |
| Net cash paid in business acquisition (Note 2)   | —                                     | (35,596 ) |
| Net cash provided by (used in) investing activities  | (26,845 )                             | 53,149    |
| Cash flows from financing activities:  |                                       |           |
| Net increase (decrease) in deposits  | (17,589 )                             | 10,369    |
| Increase (decrease) in federal funds purchased   | 17,809                                | (17,408 ) |
| Decrease in securities sold under agreements to repurchase   | (3,994 )                              | (7,717 )  |
| Proceeds from Federal Home Loan Bank borrowings  | 30,000                                | 24,000    |
| Repayment of Federal Home Loan Bank borrowings   | (17,000 )                             | (30,000 ) |
| Proceeds and effect of tax from share-based compensation   | 13                                    | 117       |

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|   |          |           |
|---|----------|-----------|
| Redemption of subordinated note                     | —        | (12,669 ) |
| Proceeds from long-term debt                        | —        | 25,000    |
| Payments on long-term debt                          | (3,750 ) | (1,250 )  |
| Dividends paid                                      | (5,487 ) | (4,633 )  |
| Issuance of common stock, net of expenses           | —        | 7,900     |
| Net cash provided by (used in) financing activities | 2        | (6,291 )  |
| Net increase in cash and cash equivalents           | 4,861    | 68,925    |
| Cash and cash equivalents at beginning of period    | 47,097   | 23,409    |
| Cash and cash equivalents at end of period          | \$51,958 | \$92,334  |

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| (unaudited) (dollars in thousands)                                       | Nine Months<br>Ended September<br>30, |           |
|--|---------------------------------------|-----------|
|  | 2016                                  | 2015      |
| Supplemental disclosures of cash flow information:                       |                                       |           |
| Cash paid during the period for interest                                 | \$9,293                               | \$ 7,646  |
| Cash paid during the period for income taxes                             | \$5,965                               | \$ 4,650  |
| Supplemental schedule of non-cash investing activities:                  |                                       |           |
| Transfer of loans to other real estate owned                             | \$ 1,783                              | \$ 667    |
| Supplemental Schedule of non-cash Investing Activities from Acquisition: |                                       |           |
| Noncash assets acquired:   |                                       |           |
| Investment securities  | \$—                                   | 160,775   |
| Loans  | —                                     | 916,973   |
| Premises and equipment   | —                                     | 27,908    |
| Goodwill   | —                                     | 64,654    |
| Core deposit intangible  | —                                     | 12,773    |
| Trade name intangible  | —                                     | 1,380     |
| FDIC indemnification asset   | —                                     | 3,753     |
| Other real estate owned  | —                                     | 8,420     |
| Other assets   | —                                     | 14,482    |
| Total noncash assets acquired  | —                                     | 1,211,118 |
| Liabilities assumed:   |                                       |           |
| Deposits   | —                                     | 1,049,167 |
| Short-term borrowings  | —                                     | 16,124    |
| Junior subordinated notes issued to capital trusts                       | —                                     | 8,050     |
| Subordinated note payable  | —                                     | 12,669    |
| Other liabilities  | —                                     | 11,617    |
| Total liabilities assumed  | —                                     | 1,097,627 |
| See accompanying notes to consolidated financial statements.             |                                       |           |

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

1. Principles of Consolidation and Presentation

MidWestOne Financial Group, Inc. (the “Company,” which is also referred to herein as “we,” “our” or “us”) is an Iowa corporation incorporated in 1983, a bank holding company under the Bank Holding Company Act of 1956 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 our bank subsidiary, MidWestOne Bank, and MidWestOne Insurance Services, Inc., our wholly-owned subsidiary that operates an insurance agency business through six offices located in central and east-central Iowa.

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

The Company issued 2,723,083 shares of common stock and paid \$64.0 million in cash, for total consideration of \$141.9 million, in connection with the holding company merger. The results of operations acquired from Central have been included in the Company’s results of operations for the time period since the date of acquisition.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all the information and notes necessary for complete financial statements in conformity with U.S. Generally Accepted Accounting Principles (“GAAP”). The information in this Quarterly Report on Form 10-Q is written with the presumption that the users of the interim financial statements have read or have access to the most recent Annual Report on Form 10-K of the Company, which contains the latest audited financial statements and notes thereto, together with Management’s Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2015 and for the year then ended. Management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the Company’s financial position as of September 30, 2016, and the results of operations and cash flows for the three and nine months ended September 30, 2016 and 2015. 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 nine months ended September 30, 2016 may not be indicative of results for the year ending December 31, 2016, 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, 2015. 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. Business Combination

On May 1, 2015, the Company acquired all of the voting equity interests of Central, a bank holding company and the parent company of Central Bank, a commercial bank headquartered in Golden Valley, Minnesota, through the merger of Central with and into the Company. Among other things, this transaction provided the Company with the

opportunity to expand its business into new markets and grow the size of the business. At the effective time of the merger, each share of common stock of Central converted into a pro rata portion of (1) 2,723,083 shares of common stock of the Company, and (2) \$64.0 million in cash.

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This business combination was accounted for under the acquisition method of accounting. Accordingly, the results of operations of Central have been included in the Company's results of operations since the date of acquisition. Under this method of accounting, assets and liabilities acquired are recorded at their estimated fair values. The excess cost over fair value of net assets acquired is recorded as goodwill. As the consideration paid for Central exceeded the net assets acquired, goodwill of \$64.7 million has been recorded on the acquisition. Goodwill recorded in this transaction reflects the entry into the geographically new markets served by Central. Goodwill recorded in the transaction is not tax deductible. The amounts recognized for the business combination in the financial statements have been determined to be final as of March 31, 2016.

Estimated fair values of assets acquired and liabilities assumed in the Central transaction, as of the closing date of the transaction, were as follows:

| (in thousands)                                     | May 1,<br>2015 |
|--|----------------|
| <b>ASSETS</b>                                      |                |
| Cash and due from banks                            | \$28,404       |
| Investment securities                              | 160,775        |
| Loans  | 916,973        |
| Premises and equipment                             | 27,908         |
| Goodwill   | 64,654         |
| Core deposit intangible                            | 12,773         |
| Trade name intangible                              | 1,380          |
| FDIC indemnification asset                         | 3,753          |
| Other real estate owned                            | 8,420          |
| Other assets                                       | 14,482         |
| Total assets                                       | 1,239,522      |
| <b>LIABILITIES</b>                                 |                |
| Deposits   | 1,049,167      |
| Short-term borrowings                              | 16,124         |
| Junior subordinated notes issued to capital trusts | 8,050          |
| Subordinated notes payable                         | 12,669         |
| Accrued expenses and other liabilities             | 11,617         |
| Total liabilities                                  | 1,097,627      |
| Total identifiable net assets                      | 141,895        |

**Consideration:**

|   |           |
|---|-----------|
| Market value of common stock at \$29.31 per share at May 1, 2015 (2,723,083 shares of common stock issued), net of stock illiquidity discount due to restrictions | 77,895    |
| Cash paid   | 64,000    |
| Total fair value of consideration   | \$141,895 |

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 without evidence of significant credit deterioration.

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.

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.

For purchased non-credit impaired loans, the difference between the estimated fair value of the loans (computed on a loan-by-loan basis) and the principal outstanding is accreted over the remaining life of the loans.

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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. 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.

The following table presents the purchased loans as of the acquisition date:

| (in thousands)                                | Purchased             |                           |
|---|-----------------------|---------------------------|
|   | Credit Impaired Loans | Non-Credit Impaired Loans |
| Contractually required principal payments     | \$ 36,886             | \$ 905,314                |
| Nonaccretable difference                      | (6,675 )              | —                         |
| Principal cash flows expected to be collected | 30,211                | 905,314                   |
| Accretable discount <sup>(1)</sup>            | (1,882 )              | (16,670 )                 |
| Fair value of acquired loans                  | \$ 28,329             | \$ 888,644                |

(1) Included in the accretable discount for purchased non-credit impaired loans is approximately \$10.4 million of estimated undiscounted principal losses.

Disclosures required by ASC 805-20-50-1(a) concerning the Federal Deposit Insurance Corporation (the "FDIC") indemnification assets have not been included due to the immateriality of the amount involved. See Note 6. "Loans Receivable and the Allowance for Loan Losses" to our consolidated financial statements for additional information related to the FDIC indemnification asset.

ASC 805-30-30-7 requires that the consideration transferred in a business combination should be measured at fair value. Since the common shares issued as part of the consideration of the merger included a restriction on their sale, pledge or other disposition, an illiquidity discount has been assigned to the shares based upon the volatility of the underlying shares' daily returns and the period of restriction.

The Company recorded \$0.2 million and \$0.2 million in pretax merger-related expenses for the three months ended September 30, 2016 and 2015, respectively, and \$4.2 million and \$3.4 million for the nine months ended September 30, 2016 and 2015, respectively. For the three months ended September 30, 2016 these expenses included data processing fees of \$0.1 million. This amount is included in data processing fees in the Company's consolidated statements of operations. For the three months ended September 30, 2015, the expenses included professional and legal fees of \$0.2 million. This amount is included in professional fees in the Company's consolidated statements of operations. For the nine months ended September 30, 2016 and 2015, respectively, merger-related expenses included \$0.3 million and \$1.9 million of professional and legal fees, \$1.7 million and \$0.5 million of retention and severance compensation costs, and \$1.9 million of data processing service contract termination costs for the nine months ended September 30, 2016, which are included in data processing expense.

The following table provides the unaudited pro forma information for the results of operations for the three and nine months ended September 30, 2015, as if the acquisition had occurred January 1, 2015. The pro forma results combine the historical results of Central into the Company's consolidated statement of income including the impact of certain purchase accounting adjustments, including loan discount accretion, investment securities discount accretion, intangible assets amortization, deposit premium accretion and borrowing discount amortization. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2015. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions. Net income in the table below includes merger expenses.

|  |                  |
|--|------------------|
|  | Pro Forma        |
|  | Three    Nine    |
|  | Months    Months |

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|  | Ended<br>September<br>30,<br>2015 | Ended<br>September<br>30,<br>2015 |
|--|-----------------------------------|-----------------------------------|
| (in thousands)   |                                   |                                   |
| Total revenues (net interest income plus noninterest income) | \$31,258                          | \$ 95,175                         |
| Net income   | \$6,455                           | \$ 17,052                         |

The pro forma information above excludes the impact of any provision recorded related to renewing Central loans.

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Revenues and earnings of the acquired company for the current period have not been disclosed as it is not practicable because Central Bank was merged into MidWestOne Bank on April 1, 2016, and separate financial information is not readily available.

### 3. Shareholders' Equity

**Preferred Stock:** The number of authorized shares of preferred stock for the Company is 500,000. As of September 30, 2016, none were issued or outstanding.

**Common Stock:** As of September 30, 2016, the number of authorized shares of common stock for the Company was 15,000,000. As of September 30, 2016, 11,435,860 shares were outstanding.

On May 1, 2015, in connection with the Central merger, the Company issued 2,723,083 shares of its common stock.

On June 22, 2015, the Company entered into a Securities Purchase Agreement with certain institutional accredited investors, pursuant to which, on June 23, 2015, the Company sold an aggregate of 300,000 newly issued shares of the Company's common stock, at a purchase price of \$28.00 per share. Each of the purchasers was an existing shareholder of the Company.

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

### 4. 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<br>Ended September<br>30, |            | Nine Months Ended<br>September 30, |            |
|--|--|------------|------------------------------------|------------|
|  | 2016                                   | 2015       | 2016                               | 2015       |
| Basic earnings per common share computation                                  |  |            |                                    |            |
| Numerator:   |  |            |                                    |            |
| Net income   | \$6,222                                | \$ 7,615   | \$16,521                           | \$ 16,880  |
| Denominator:   |  |            |                                    |            |
| Weighted average shares outstanding  | 11,435,860                             | 10,406,132 | 11,428,060                         | 10,010,926 |
| Basic earnings per common share  | \$0.54                                 | \$ 0.67    | \$1.45                             | \$ 1.69    |
| Diluted earnings per common share computation                                |  |            |                                    |            |
| Numerator:   |  |            |                                    |            |
| Net income   | \$6,222                                | \$ 7,615   | \$16,521                           | \$ 16,880  |
| Denominator:   |  |            |                                    |            |
| Weighted average shares outstanding, including all dilutive potential shares | 11,461,108                             | 10,434,186 | 11,451,958                         | 10,038,093 |
| Diluted earnings per common share  | \$0.54                                 | \$ 0.67    | \$1.44                             | \$ 1.68    |

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## 5. Investment Securities

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

|   | As of September 30, 2016 |                              |                               |                            |
|---|--------------------------|------------------------------|-------------------------------|----------------------------|
|   | Amortized<br>Cost        | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| (in thousands)                            |                          |                              |                               |                            |
| U.S. Government agencies and corporations | \$5,958                  | \$ 86                        | \$ —                          | \$6,044                    |
| State and political subdivisions          | 158,902                  | 6,910                        | 3                             | 165,809                    |
| Mortgage-backed securities                | 42,592                   | 980                          | 3                             | 43,569                     |
| Collateralized mortgage obligations       | 172,031                  | 789                          | 648                           | 172,172                    |
| Corporate debt securities                 | 46,902                   | 493                          | 29                            | 47,366                     |
| Total debt securities                     | 426,385                  | 9,258                        | 683                           | 434,960                    |
| Other equity securities                   | 1,257                    | 42                           | 20                            | 1,279                      |
| Total                                     | \$427,642                | \$ 9,300                     | \$ 703                        | \$436,239                  |

|   | As of December 31, 2015 |                              |                               |                            |
|---|-------------------------|------------------------------|-------------------------------|----------------------------|
|   | Amortized<br>Cost       | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| (in thousands)                            |                         |                              |                               |                            |
| U.S. Treasury securities                  | \$6,931                 | \$ —                         | \$ 21                         | \$6,910                    |
| U.S. Government agencies and corporations | 26,600                  | 99                           | 46                            | 26,653                     |
| State and political subdivisions          | 176,794                 | 6,662                        | 72                            | 183,384                    |
| Mortgage-backed securities                | 56,950                  | 569                          | 457                           | 57,062                     |
| Collateralized mortgage obligations       | 107,613                 | 321                          | 1,530                         | 106,404                    |
| Corporate debt securities                 | 45,602                  | 50                           | 86                            | 45,566                     |
| Total debt securities                     | 420,490                 | 7,701                        | 2,212                         | 425,979                    |
| Other equity securities                   | 1,250                   | 50                           | 38                            | 1,262                      |
| Total                                     | \$421,740               | \$ 7,751                     | \$ 2,250                      | \$427,241                  |

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

|                                     | As of September 30, 2016 |                              |                               |                         |
|-------------------------------------|--------------------------|------------------------------|-------------------------------|-------------------------|
|                                     | Amortized<br>Cost        | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
| (in thousands)                      |                          |                              |                               |                         |
| State and political subdivisions    | \$92,224                 | \$ 1,917                     | \$ 173                        | \$93,968                |
| Mortgage-backed securities          | 2,752                    | 54                           | —                             | 2,806                   |
| Collateralized mortgage obligations | 27,110                   | 213                          | 23                            | 27,300                  |
| Corporate debt securities           | 29,024                   | 669                          | 293                           | 29,400                  |
| Total                               | \$151,110                | \$ 2,853                     | \$ 489                        | \$153,474               |

  

|                | As of December 31, 2015 |                              |                               |                         |
|----------------|-------------------------|------------------------------|-------------------------------|-------------------------|
|                | Amortized<br>Cost       | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
| (in thousands) |                         |                              |                               |                         |

(in thousands)

|                                     |           |        |          |            |
|-------------------------------------|-----------|--------|----------|------------|
| State and political subdivisions    | \$66,454  | \$ 928 | \$ 110   | \$ 67,272  |
| Mortgage-backed securities          | 3,920     | 4      | 38       | 3,886      |
| Collateralized mortgage obligations | 30,505    | 1      | 459      | 30,047     |
| Corporate debt securities           | 17,544    | —      | 515      | 17,029     |
| Total                               | \$118,423 | \$ 933 | \$ 1,122 | \$ 118,234 |

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Investment securities with a carrying value of \$164.6 million and \$321.6 million at September 30, 2016 and December 31, 2015, respectively, were pledged on public deposits, securities sold under agreements to repurchase and for other purposes, as required or permitted by law.

The summary of investment securities shows that some of the securities in the available for sale and held to maturity investment portfolios had unrealized losses, or were temporarily impaired, as of September 30, 2016 and December 31, 2015. 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 September 30, 2016 and December 31, 2015, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

| Available for Sale                          | As of September 30, 2016 |                                |                   |                              |                   |                  |                   |
|---|--------------------------|--------------------------------|-------------------|------------------------------|-------------------|------------------|-------------------|
|   | Number of Securities     | Less than 12 Months Fair Value | Unrealized Losses | 12 Months or More Fair Value | Unrealized Losses | Total Fair Value | Unrealized Losses |
| (in thousands, except number of securities) |                          |                                |                   |                              |                   |                  |                   |
| State and political subdivisions            | 1                        | \$—                            | \$ —              | \$453                        | \$ 3              | \$453            | \$ 3              |
| Mortgage-backed securities                  | 5                        | 215                            | 2                 | 88                           | 1                 | 303              | 3                 |
| Collateralized mortgage obligations         | 13                       | 89,323                         | 348               | 18,162                       | 300               | 107,485          | 648               |
| Corporate debt securities                   | 2                        | 12,139                         | 29                | —                            | —                 | 12,139           | 29                |
| Other equity securities                     | 1                        | —                              | —                 | 980                          | 20                | 980              | 20                |
| Total                                       | 22                       | \$101,677                      | \$ 379            | \$19,683                     | \$ 324            | \$121,360        | \$ 703            |

|   | As of December 31, 2015 |                                |                   |                              |                   |                  |                   |
|---|-------------------------|--------------------------------|-------------------|------------------------------|-------------------|------------------|-------------------|
|   | Number of Securities    | Less than 12 Months Fair Value | Unrealized Losses | 12 Months or More Fair Value | Unrealized Losses | Total Fair Value | Unrealized Losses |
| (in thousands, except number of securities) |                         |                                |                   |                              |                   |                  |                   |
| U.S. Treasury securities                    | 1                       | \$6,910                        | \$ 21             | \$—                          | \$ —              | \$6,910          | \$ 21             |
| U.S. Government agencies and corporations   | 1                       | 4,890                          | 46                | —                            | —                 | 4,890            | 46                |
| State and political subdivisions            | 22                      | 8,419                          | 24                | 3,177                        | 48                | 11,596           | 72                |
| Mortgage-backed securities                  | 27                      | 37,753                         | 457               | —                            | —                 | 37,753           | 457               |
| Collateralized mortgage obligations         | 23                      | 56,447                         | 420               | 31,253                       | 1,110             | 87,700           | 1,530             |
| Corporate debt securities                   | 8                       | 30,496                         | 86                | —                            | —                 | 30,496           | 86                |
| Other equity securities                     | 1                       | —                              | —                 | 962                          | 38                | 962              | 38                |
| Total                                       | 83                      | \$144,915                      | \$ 1,054          | \$35,392                     | \$ 1,196          | \$180,307        | \$ 2,250          |

| Held to Maturity                            | As of September 30, 2016 |                                |                   |                              |                   |                  |                   |
|---|--------------------------|--------------------------------|-------------------|------------------------------|-------------------|------------------|-------------------|
|   | Number of Securities     | Less than 12 Months Fair Value | Unrealized Losses | 12 Months or More Fair Value | Unrealized Losses | Total Fair Value | Unrealized Losses |
| (in thousands, except number of securities) |                          |                                |                   |                              |                   |                  |                   |
| State and political subdivisions            | 34                       | \$14,646                       | \$ 173            | \$—                          | \$ —              | \$14,646         | \$ 173            |
| Collateralized mortgage obligations         | 1                        | —                              | —                 | 6,889                        | 23                | 6,889            | 23                |
| Corporate debt securities                   | 3                        | 2,383                          | 2                 | 2,598                        | 291               | 4,981            | 293               |
| Total                                       | 38                       | \$17,029                       | \$ 175            | \$9,487                      | \$ 314            | \$26,516         | \$ 489            |



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|   | Number<br>of<br>Securities | As of December 31, 2015 |                      |                   |                      |               |                      |
|---|----------------------------|-------------------------|----------------------|-------------------|----------------------|---------------|----------------------|
|   |                            | Less than 12<br>Months  |                      | 12 Months or More |                      | Total         |                      |
|   |                            | Fair<br>Value           | Unrealized<br>Losses | Fair<br>Value     | Unrealized<br>Losses | Fair<br>Value | Unrealized<br>Losses |
| (in thousands, except number of securities) |                            |                         |                      |                   |                      |               |                      |
| State and political subdivisions            | 32                         | \$9,345                 | \$ 93                | \$2,040           | \$ 17                | \$11,385      | \$ 110               |
| Mortgage-backed securities                  | 5                          | 3,723                   | 38                   | —                 | —                    | 3,723         | 38                   |
| Collateralized mortgage obligations         | 7                          | 22,571                  | 320                  | 7,416             | 139                  | 29,987        | 459                  |
| Corporate debt securities                   | 6                          | 15,606                  | 309                  | 680               | 206                  | 16,286        | 515                  |
| Total                                       | 50                         | \$51,245                | \$ 760               | \$10,136          | \$ 362               | \$61,381      | \$ 1,122             |

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

At September 30, 2016 and December 31, 2015, 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 September 30, 2016, approximately 58% of the municipal bonds held by the Company were Iowa-based, and approximately 21% were Minnesota-based. The Company does not intend to sell these municipal obligations, and it is more likely than not that the Company will not be required to sell them until the recovery of their cost. Due to the issuers' continued satisfaction of their obligations under the securities in accordance with their contractual terms and the expectation that they will continue to do so, management's intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value, as well as the evaluation of the fundamentals of the issuers' financial conditions and other objective evidence, the Company believes that the municipal obligations identified in the tables above were temporarily impaired as of September 30, 2016 and December 31, 2015.

At September 30, 2016 and December 31, 2015, all but one of the Company's corporate bonds held an investment grade rating from Moody's, S&P or Kroll, or carried a guarantee from an agency of the US government. We have evaluated financial statements of the company issuing the non-investment grade bond and found the company's earnings and equity position to be satisfactory and in line with industry norms. Therefore, we believe the low market value of this investment is temporary and expect to receive all contractual payments. The internal evaluation of the non-investment grade bond along with the investment grade ratings on the remainder of the corporate portfolio lead us to conclude that all of the corporate bonds in our portfolio will continue to pay according to their contractual terms.

Since the Company has the ability and intent to hold securities until price recovery, we believe that there is no other-than-temporary-impairment of in the corporate bond portfolio.

As of September 30, 2016, the Company also owned \$0.3 million of equity securities in banks and financial service-related companies, and \$1.0 million of mutual funds invested in debt securities and other debt instruments that will cause units of the fund to be deemed to be qualified under the Community Reinvestment Act. Equity securities are considered to have OTTI whenever they have been in a loss position, compared to current book value, for twelve consecutive months, and the Company does not expect them to recover to their original cost basis. For the nine months ended September 30, 2016 and the full year of 2015, no impairment charges were recorded, as the affected equity securities were not deemed impaired due to stabilized market prices in relation to the Company's original purchase price.

It is reasonably possible that the fair values of the Company's investment securities could decline in the future if interest rates increase or the overall economy or the financial conditions of the issuers deteriorate. As a result, there is



a risk that OTTI may be recognized in the future, and any such amounts could be material to the Company's consolidated statements of operations.

The contractual maturity distribution of investment debt securities at September 30, 2016, is summarized as follows:

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|  | Available For Sale |            | Held to Maturity  |            |
|--|--------------------|------------|-------------------|------------|
|  | Amortized<br>Cost  | Fair Value | Amortized<br>Cost | Fair Value |
| (in thousands)                                 |                    |            |                   |            |
| Due in one year or less                        | \$ 11,122          | \$ 11,190  | \$ 2,385          | \$ 2,383   |
| Due after one year through five years          | 95,185             | 97,648     | 9,154             | 9,317      |
| Due after five years through ten years         | 95,093             | 99,660     | 62,172            | 63,958     |
| Due after ten years                            | 10,362             | 10,721     | 47,537            | 47,710     |
| Debt securities without a single maturity date | 214,623            | 215,741    | 29,862            | 30,106     |
| Total  | \$426,385          | \$434,960  | \$151,110         | \$153,474  |

Mortgage-backed securities and collateralized mortgage obligations are collateralized by mortgage loans and guaranteed by U.S. government agencies. Our experience has indicated that principal payments will be collected sooner than scheduled because of prepayments. Therefore, these securities are not scheduled in the maturity categories indicated above. Equity securities available for sale with an amortized cost of \$1.3 million and a fair value of \$1.3 million are also excluded from this table.

Proceeds from the sales of investment securities available for sale during the nine months ended September 30, 2016 and September 30, 2015 were \$23.4 million and \$112.1 million, respectively.

Realized gains and losses on sales are determined on the basis of specific identification of investments based on the trade date. Realized gains on investments for the three and nine months ended September 30, 2016 and 2015 are as follows:

|   | Three<br>Months<br>Ended<br>September<br>30,<br>2016 |      | Nine Months<br>Ended<br>September 30,<br>2015 |         |
|---|--|------|---|---------|
|   | 2016   | 2015 | 2016  | 2015    |
| (in thousands)                                |  |      |   |         |
| Available for sale fixed maturity securities: |  |      |   |         |
| Gross realized gains                          | \$ —   | \$ — | -\$467  | \$1,265 |
| Gross realized losses                         | —  | —    | —   | (442)   |
| Other-than-temporary impairment               | —  | —    | 467   | 823     |
| Equity securities:                            |  |      |   |         |
| Gross realized gains                          | —  | —    | —   | 188     |
| Gross realized losses                         | —  | —    | —   | —       |
| Other-than-temporary impairment               | —  | —    | —   | —       |
| Total net realized gains and losses           | \$ —   | \$ — | -\$467  | \$1,011 |

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

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

|                    | Allowance for Loan Losses and Recorded Investment in Loan<br>Receivables |                           |                           |                               | Consumer<br>Total |
|--------------------|--|---------------------------|---------------------------|-------------------------------|-------------------|
|                    | As of September 30, 2016   |                           | As of December 31, 2015   |                               |                   |
| (in thousands)     | Agricultural<br>and<br>Industrial  | Commercial<br>Real Estate | Commercial<br>Real Estate | Residential<br>Real<br>Estate |                   |
| September 30, 2016 |  |                           |                           |                               |                   |

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Allowance for loan losses:

|                                       |           |            |             |            |           |             |
|---------------------------------------|-----------|------------|-------------|------------|-----------|-------------|
| Individually evaluated for impairment | \$351     | \$ 1,023   | \$2,541     | \$ 237     | \$ —      | \$4,152     |
| Collectively evaluated for impairment | 2,151     | 4,288      | 7,305       | 2,680      | 365       | 16,789      |
| Purchased credit impaired loans       | —         | —          | 177         | 277        | —         | 454         |
| Total                                 | \$2,502   | \$ 5,311   | \$10,023    | \$ 3,194   | \$ 365    | \$21,395    |
| Loans receivable                      |           |            |             |            |           |             |
| Individually evaluated for impairment | \$3,120   | \$ 9,048   | \$10,845    | \$ 3,954   | \$ —      | \$26,967    |
| Collectively evaluated for impairment | 118,505   | 467,530    | 992,505     | 477,049    | 36,935    | 2,092,524   |
| Purchased credit impaired loans       | —         | 150        | 16,296      | 5,895      | —         | 22,341      |
| Total                                 | \$121,625 | \$ 476,728 | \$1,019,646 | \$ 486,898 | \$ 36,935 | \$2,141,832 |

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| (in thousands)                        | Agricultural | Commercial and Industrial | Commercial Real Estate | Residential Real Estate | Consumer  | Unallocated | Total        |
|---------------------------------------|--------------|---------------------------|------------------------|-------------------------|-----------|-------------|--------------|
| December 31, 2015                     |              |                           |                        |                         |           |             |              |
| Allowance for loan losses:            |              |                           |                        |                         |           |             |              |
| Individually evaluated for impairment | \$ 51        | \$ 489                    | \$ 2,786               | \$ 387                  | \$ 1      | \$ —        | \$ 3,714     |
| Collectively evaluated for impairment | 1,366        | 4,962                     | 5,718                  | 3,539                   | 408       | (374 )      | 15,619       |
| Purchased credit impaired loans       | —            | —                         | 52                     | 42                      | —         | —           | 94           |
| Total                                 | \$ 1,417     | \$ 5,451                  | \$ 8,556               | \$ 3,968                | \$ 409    | \$ (374 )   | \$ 19,427    |
| Loans receivable                      |              |                           |                        |                         |           |             |              |
| Individually evaluated for impairment | \$ 3,072     | \$ 7,718                  | \$ 23,697              | \$ 5,725                | \$ 26     | \$ —        | \$ 40,238    |
| Collectively evaluated for impairment | 118,642      | 461,275                   | 950,207                | 517,482                 | 38,506    | —           | 2,086,112    |
| Purchased credit impaired loans       | —            | 256                       | 18,037                 | 7,299                   | —         | —           | 25,592       |
| Total                                 | \$ 121,714   | \$ 469,249                | \$ 991,941             | \$ 530,506              | \$ 38,532 | \$ —        | \$ 2,151,942 |

Included above as of September 30, 2016, are loans with a contractual balance of \$79.7 million and a recorded balance of \$76.5 million, which are covered under loss sharing agreements with the FDIC. The agreements cover certain losses and expenses and expire at various dates through October 7, 2021. The related FDIC indemnification asset is reported separately in Note 8. "Other Assets".

As of September 30, 2016, the purchased credit impaired loans included above are \$27.1 million, net of a discount of \$4.8 million.

Loans with unpaid principal in the amount of \$509.8 million and \$558.8 million at September 30, 2016 and December 31, 2015, respectively, were pledged to the Federal Home Loan Bank (the "FHLB") as collateral for borrowings.

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

| Allowance for Loan Loss Activity                       |              |                           |                        |                         |          |             |           |
|--|--------------|---------------------------|------------------------|-------------------------|----------|-------------|-----------|
| For the Three Months Ended September 30, 2016 and 2015 |              |                           |                        |                         |          |             |           |
| (in thousands)   | Agricultural | Commercial and Industrial | Commercial Real Estate | Residential Real Estate | Consumer | Unallocated | Total     |
| 2016   |              |                           |                        |                         |          |             |           |
| Beginning balance                                      | \$ 2,354     | \$ 5,385                  | \$ 10,628              | \$ 2,463                | \$ 367   | \$ —        | \$ 21,197 |
| Charge-offs  | (140 )       | (520 )                    | (29 )                  | (195 )                  | (42 )    | —           | (926 )    |
| Recoveries   | 20           | 19                        | 8                      | 69                      | 3        | —           | 119       |
| Provision  | 268          | 427                       | (584 )                 | 857                     | 37       | —           | 1,005     |
| Ending balance   | \$ 2,502     | \$ 5,311                  | \$ 10,023              | \$ 3,194                | \$ 365   | \$ —        | \$ 21,395 |
| 2015   |              |                           |                        |                         |          |             |           |
| Beginning balance                                      | \$ 1,480     | \$ 5,425                  | \$ 5,766               | \$ 3,224                | \$ 337   | \$ 935      | \$ 17,167 |
| Charge-offs  | —            | (106 )                    | (239 )                 | (93 )                   | (24 )    | —           | (462 )    |
| Recoveries   | —            | 10                        | —                      | 10                      | 5        | —           | 25        |
| Provision  | 154          | 342                       | 1,094                  | 1,048                   | 66       | (563 )      | 2,141     |
| Ending balance   | \$ 1,634     | \$ 5,671                  | \$ 6,621               | \$ 4,189                | \$ 384   | \$ 372      | \$ 18,871 |

Allowance for Loan Loss Activity  
For the Nine Months Ended September 30, 2016 and 2015

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| (in thousands)    | Agricultural | Commercial<br>and<br>Industrial | Commercial<br>Real Estate | Residential<br>Real<br>Estate | Consumer | Unallocated | Total    |
|-------------------|--------------|---------------------------------|---------------------------|-------------------------------|----------|-------------|----------|
| 2016              |              |                                 |                           |                               |          |             |          |
| Beginning balance | \$1,417      | \$ 5,451                        | \$ 8,556                  | \$ 3,968                      | \$ 409   | \$ (374 )   | \$19,427 |
| Charge-offs       | (265 )       | (530 )                          | (70 )                     | (708 )                        | (169 )   | —           | (1,742 ) |
| Recoveries        | 27           | 91                              | 188                       | 146                           | 17       | —           | 469      |
| Provision         | 1,323        | 299                             | 1,349                     | (212 )                        | 108      | 374         | 3,241    |
| Ending balance    | \$2,502      | \$ 5,311                        | \$ 10,023                 | \$ 3,194                      | \$ 365   | \$ —        | \$21,395 |
| 2015              |              |                                 |                           |                               |          |             |          |
| Beginning balance | \$1,506      | \$ 5,780                        | \$ 4,399                  | \$ 3,167                      | \$ 323   | \$ 1,188    | \$16,363 |
| Charge-offs       | —            | (397 )                          | (430 )                    | (641 )                        | (76 )    | —           | (1,544 ) |
| Recoveries        | —            | 361                             | 6                         | 22                            | 21       | —           | 410      |
| Provision         | 128          | (73 )                           | 2,646                     | 1,641                         | 116      | (816 )      | 3,642    |
| Ending balance    | \$1,634      | \$ 5,671                        | \$ 6,621                  | \$ 4,189                      | \$ 384   | \$ 372      | \$18,871 |

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Loan Portfolio Segment Risk Characteristics

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

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

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

**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.

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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 purchased 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.

### The Allowance for Loan and Lease Losses

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

As part of the merger between MidWestOne Bank and Central Bank, management developed a single methodology for determining the amount of the ALLL that would be needed at the combined bank. The new methodology is a hybrid of the methods used at MidWestOne Bank and Central Bank prior to the bank merger, and the results from the new ALLL model are consistent with the results that the two banks calculated individually. The refined allowance calculation allocates the portion of allowance that was previously deemed to be unallocated to instead be included in management’s determination of appropriate qualitative factors. These qualitative factors include (i) national and local economic conditions, (ii) the quality and experience of lending staff and management, (iii) changes in lending policies and procedures, (iv) changes in volume and severity of past due loans, classified loans and non-performing loans, (v) potential impact of any concentrations of credit, (vi) changes in the nature and terms of loans such as growth rates and utilization rates, (vii) changes in the value of underlying collateral for collateral-dependent loans, considering the Company’s disposition bias, and (viii) 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.

### 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

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(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.

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

|   | Three Months Ended September 30,<br>2016   |  | 2015   |  |
|---|--|--|--|--|
|   | Pre-Modification<br>Number<br>of<br>Outstanding<br>Recorded<br>Contracts<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment | Pre-Modification<br>Number<br>of<br>Outstanding<br>Recorded<br>Contracts<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment |
| (dollars in thousands)                        |  |  |  |  |
| Troubled Debt Restructurings <sup>(1)</sup> : |  |  |  |  |
| Commercial real estate:                       |  |  |  |  |
| Construction and development                  |  |  |  |  |
| Other   | 1 \$ 1,000   | \$ 700   | —\$ —  | \$ —   |
| Residential real estate:                      |  |  |  |  |
| One- to four- family first liens              |  |  |  |  |
| Interest rate reduction                       | 1 290  | 290  | 1 236  | 236  |
| Total   | 2 \$ 1,290   | \$ 990   | 1 \$ 236   | \$ 236   |

|   | Nine Months Ended September 30,<br>2016  |  | 2015   |  |
|---|--|--|--|--|
|   | Pre-Modification<br>Number<br>of<br>Outstanding<br>Recorded<br>Contracts<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment | Pre-Modification<br>Number<br>of<br>Outstanding<br>Recorded<br>Contracts<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment |
| (dollars in thousands)                        |  |  |  |  |
| Troubled Debt Restructurings <sup>(1)</sup> : |  |  |  |  |
| Agricultural                                  |  |  |  |  |
| Extended maturity date                        | 1 \$ 25  | \$ 25  | —\$ —  | \$ —   |
| Commercial real estate:                       |  |  |  |  |
| Construction and development                  |  |  |  |  |
| Other   | 1 1,000  | 700  | —  | —  |
| Residential real estate:                      |  |  |  |  |
| One- to four- family first liens              |  |  |  |  |
| Interest rate reduction                       | 2 394  | 394  | 1 236  | 236  |
| One- to four- family junior liens             |  |  |  |  |
| Interest rate reduction                       | 1 71   | 71   | —  | —  |
| Total   | 5 \$ 1,490   | \$ 1,190   | 1 \$ 236   | \$ 236   |

(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<br>September 30,<br>2016         |   | Nine Months Ended<br>September 30,<br>2015          |   |
|--|---|---|---|---|
|  | Number<br>Recorded<br>of<br>Investment<br>Contracts | Number<br>Recorded<br>of<br>Investment<br>Contracts | Number<br>Recorded<br>of<br>Investment<br>Contracts | Number<br>Recorded<br>of<br>Investment<br>Contracts |

(dollars in thousands)

Troubled Debt Restructurings<sup>(1)</sup> That Subsequently

Defaulted:

Total —\$ — \$ —\$ — \$ —

(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 and over are classified special mention/watch and substandard, respectively, for allocation purposes.

The Company's historical loss experience for each group segmented by loan type is calculated for the prior 20 quarters as a starting point for estimating losses. In addition, other prevailing qualitative or environmental factors likely to cause probable losses to vary from historical data are incorporated in the form of adjustments to increase or decrease the loss

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

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 September 30, 2016 and December 31, 2015:

|                                   | Pass         | Special<br>Mention/<br>Watch | Substandard | Doubtful | Loss | Total         |
|-----------------------------------|--------------|------------------------------|-------------|----------|------|---------------|
| (in thousands)                    |              |                              |             |          |      |               |
| September 30, 2016                |              |                              |             |          |      |               |
| Agricultural                      | \$ 105,464   | \$ 13,019                    | \$ 3,142    | \$ —     | \$ — | \$ —121,625   |
| Commercial and industrial         | 441,377      | 13,530                       | 20,286      | 9        | —    | 475,202       |
| Credit cards                      | 1,526        | —                            | —           | —        | —    | 1,526         |
| Commercial real estate:           |              |                              |             |          |      |               |
| Construction and development      | 121,171      | 2,700                        | 2,644       | —        | —    | 126,515       |
| Farmland                          | 85,078       | 7,442                        | 2,618       | —        | —    | 95,138        |
| Multifamily                       | 117,135      | 360                          | 897         | —        | —    | 118,392       |
| Commercial real estate-other      | 639,197      | 22,654                       | 17,750      | —        | —    | 679,601       |
| Total commercial real estate      | 962,581      | 33,156                       | 23,909      | —        | —    | 1,019,646     |
| Residential real estate:          |              |                              |             |          |      |               |
| One- to four- family first liens  | 355,615      | 3,165                        | 10,827      | —        | —    | 369,607       |
| One- to four- family junior liens | 113,693      | 1,635                        | 1,963       | —        | —    | 117,291       |
| Total residential real estate     | 469,308      | 4,800                        | 12,790      | —        | —    | 486,898       |
| Consumer                          | 36,750       | 2                            | 144         | 39       | —    | 36,935        |
| Total                             | \$ 2,017,006 | \$ 64,507                    | \$ 60,271   | \$ 48    | \$ — | \$ —2,141,832 |

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|                                   | Pass         | Special<br>Mention/<br>Watch | Substandard | Doubtful | Loss | Total         |
|-----------------------------------|--------------|------------------------------|-------------|----------|------|---------------|
| (in thousands)                    |              |                              |             |          |      |               |
| December 31, 2015                 |              |                              |             |          |      |               |
| Agricultural                      | \$ 111,361   | \$ 8,536                     | \$ 1,817    | \$ —     | \$ — | \$ -121,714   |
| Commercial and industrial         | 436,857      | 12,893                       | 17,652      | 10       | —    | 467,412       |
| Credit cards                      | 1,354        | 19                           | 4           | —        | —    | 1,377         |
| Overdrafts                        | 1,168        | 100                          | 215         | —        | —    | 1,483         |
| Commercial real estate:           |              |                              |             |          |      |               |
| Construction and development      | 114,640      | 2,406                        | 3,707       | —        | —    | 120,753       |
| Farmland                          | 82,442       | 2,408                        | 4,234       | —        | —    | 89,084        |
| Multifamily                       | 119,139      | 371                          | 2,253       | —        | —    | 121,763       |
| Commercial real estate-other      | 609,651      | 19,402                       | 31,288      | —        | —    | 660,341       |
| Total commercial real estate      | 925,872      | 24,587                       | 41,482      | —        | —    | 991,941       |
| Residential real estate:          |              |                              |             |          |      |               |
| One- to four- family first liens  | 410,143      | 4,813                        | 13,042      | 235      | —    | 428,233       |
| One- to four- family junior liens | 96,223       | 1,782                        | 4,209       | 59       | —    | 102,273       |
| Total residential real estate     | 506,366      | 6,595                        | 17,251      | 294      | —    | 530,506       |
| Consumer                          | 37,184       | 6                            | 278         | 41       | —    | 37,509        |
| Total                             | \$ 2,020,162 | \$ 52,736                    | \$ 78,699   | \$ 345   | \$ — | \$ -2,151,942 |

Included within the special mention/watch, substandard, and doubtful categories at September 30, 2016 and December 31, 2015 are purchased credit impaired loans totaling \$16.8 million and \$23.7 million, respectively.

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

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

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

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

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The following table presents loans individually evaluated for impairment, excluding purchased credit impaired loans, by class of loan, as of September 30, 2016 and December 31, 2015:

|                                     | September 30, 2016  |                          |                   | December 31, 2015   |                          |                   |
|-------------------------------------|---------------------|--------------------------|-------------------|---------------------|--------------------------|-------------------|
|                                     | Recorded Investment | Unpaid Principal Balance | Related Allowance | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| (in thousands)                      |                     |                          |                   |                     |                          |                   |
| With no related allowance recorded: |                     |                          |                   |                     |                          |                   |
| Agricultural                        | \$ 1,266            | \$ 1,766                 | \$ —              | \$ 1,512            | \$ 2,084                 | \$ —              |
| Commercial and industrial           | 5,063               | 5,107                    | —                 | 6,487               | 6,752                    | —                 |
| Credit cards                        | —                   | —                        | —                 | —                   | —                        | —                 |
| Commercial real estate:             |                     |                          |                   |                     |                          |                   |
| Construction and development        | —                   | —                        | —                 | 321                 | 448                      | —                 |
| Farmland                            | 2,414               | 2,564                    | —                 | 2,711               | 2,870                    | —                 |
| Multifamily                         | —                   | —                        | —                 | 1,632               | 1,798                    | —                 |
| Commercial real estate-other        | 2,586               | 2,783                    | —                 | 12,230              | 12,642                   | —                 |
| Total commercial real estate        | 5,000               | 5,347                    | —                 | 16,894              | 17,758                   | —                 |
| Residential real estate:            |                     |                          |                   |                     |                          |                   |
| One- to four- family first liens    | 2,840               | 2,850                    | —                 | 2,494               | 2,533                    | —                 |
| One- to four- family junior liens   | —                   | —                        | —                 | 1,297               | 1,308                    | —                 |
| Total residential real estate       | 2,840               | 2,850                    | —                 | 3,791               | 3,841                    | —                 |
| Consumer                            | —                   | —                        | —                 | 17                  | 33                       | —                 |
| Total                               | \$ 14,169           | \$ 15,070                | \$ —              | \$ 28,701           | \$ 30,468                | \$ —              |
| With an allowance recorded:         |                     |                          |                   |                     |                          |                   |
| Agricultural                        | \$ 1,854            | \$ 1,858                 | \$ 351            | \$ 1,560            | \$ 1,560                 | \$ 51             |
| Commercial and industrial           | 3,985               | 3,985                    | 1,023             | 1,231               | 1,258                    | 489               |
| Credit cards                        | —                   | —                        | —                 | —                   | —                        | —                 |
| Commercial real estate:             |                     |                          |                   |                     |                          |                   |
| Construction and development        | 270                 | 270                      | 28                | 34                  | 34                       | 34                |
| Farmland                            | —                   | —                        | —                 | 69                  | 69                       | 3                 |
| Multifamily                         | 159                 | 159                      | 41                | 224                 | 224                      | 73                |
| Commercial real estate-other        | 5,416               | 5,416                    | 2,472             | 6,476               | 6,478                    | 2,676             |
| Total commercial real estate        | 5,845               | 5,845                    | 2,541             | 6,803               | 6,805                    | 2,786             |
| Residential real estate:            |                     |                          |                   |                     |                          |                   |
| One- to four- family first liens    | 1,114               | 1,114                    | 237               | 1,919               | 2,056                    | 383               |
| One- to four- family junior liens   | —                   | —                        | —                 | 15                  | 15                       | 4                 |
| Total residential real estate       | 1,114               | 1,114                    | 237               | 1,934               | 2,071                    | 387               |
| Consumer                            | —                   | —                        | —                 | 9                   | 9                        | 1                 |
| Total                               | \$ 12,798           | \$ 12,802                | \$ 4,152          | \$ 11,537           | \$ 11,703                | \$ 3,714          |
| Total:                              |                     |                          |                   |                     |                          |                   |
| Agricultural                        | \$ 3,120            | \$ 3,624                 | \$ 351            | \$ 3,072            | \$ 3,644                 | \$ 51             |
| Commercial and industrial           | 9,048               | 9,092                    | 1,023             | 7,718               | 8,010                    | 489               |
| Credit cards                        | —                   | —                        | —                 | —                   | —                        | —                 |
| Commercial real estate:             |                     |                          |                   |                     |                          |                   |
| Construction and development        | 270                 | 270                      | 28                | 355                 | 482                      | 34                |
| Farmland                            | 2,414               | 2,564                    | —                 | 2,780               | 2,939                    | 3                 |
| Multifamily                         | 159                 | 159                      | 41                | 1,856               | 2,022                    | 73                |
| Commercial real estate-other        | 8,002               | 8,199                    | 2,472             | 18,706              | 19,120                   | 2,676             |
| Total commercial real estate        | 10,845              | 11,192                   | 2,541             | 23,697              | 24,563                   | 2,786             |

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Residential real estate:

|                                   |          |          |          |          |          |          |
|-----------------------------------|----------|----------|----------|----------|----------|----------|
| One- to four- family first liens  | 3,954    | 3,964    | 237      | 4,413    | 4,589    | 383      |
| One- to four- family junior liens | —        | —        | —        | 1,312    | 1,323    | 4        |
| Total residential real estate     | 3,954    | 3,964    | 237      | 5,725    | 5,912    | 387      |
| Consumer                          | —        | —        | —        | 26       | 42       | 1        |
| Total                             | \$26,967 | \$27,872 | \$ 4,152 | \$40,238 | \$42,171 | \$ 3,714 |

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

|                                     | Three Months Ended September 30,<br>2016 |                        | 2015                              |                        | Nine Months Ended September 30,<br>2016 |                        | 2015                              |                        |
|-------------------------------------|--|------------------------|-----------------------------------|------------------------|---|------------------------|-----------------------------------|------------------------|
|                                     | Average<br>Recorded<br>Investment        | Interest<br>Recognized | Average<br>Recorded<br>Investment | Interest<br>Recognized | Average<br>Recorded<br>Investment       | Interest<br>Recognized | Average<br>Recorded<br>Investment | Interest<br>Recognized |
| (in thousands)                      |  |                        |                                   |                        |   |                        |                                   |                        |
| With no related allowance recorded: |  |                        |                                   |                        |   |                        |                                   |                        |
| Agricultural                        | \$1,266                                  | \$ 14                  | \$1,516                           | \$ 13                  | \$1,285                                 | \$ 41                  | \$1,534                           | \$ 47                  |
| Commercial and industrial           | 5,115                                    | 34                     | 1,318                             | 26                     | 5,233                                   | 39                     | 1,665                             | 79                     |
| Credit cards                        | —  | —                      | —                                 | —                      | —                                       | —                      | —                                 | —                      |
| Commercial real estate:             |  |                        |                                   |                        |   |                        |                                   |                        |
| Construction and development        | —  | —                      | 325                               | 3                      | —                                       | —                      | 326                               | 4                      |
| Farmland                            | 2,414                                    | 29                     | 2,730                             | 35                     | 2,426                                   | 78                     | 2,749                             | 93                     |
| Multifamily                         | —  | —                      | 1,839                             | 26                     | —                                       | —                      | 1,849                             | 43                     |
| Commercial real estate-other        | 2,594                                    | 9                      | 12,327                            | 147                    | 2,865                                   | 8                      | 12,374                            | 250                    |
| Total commercial real estate        | 5,008                                    | 38                     | 17,221                            | 211                    | 5,291                                   | 86                     | 17,298                            | 390                    |
| Residential real estate:            |  |                        |                                   |                        |   |                        |                                   |                        |
| One- to four- family first liens    | 2,843                                    | 32                     | 2,354                             | 17                     | 2,867                                   | 88                     | 2,345                             | 27                     |
| One- to four- family junior liens   | —  | —                      | 773                               | 9                      | —                                       | —                      | 775                               | 15                     |
| Total residential real estate       | 2,843                                    | 32                     | 3,127                             | 26                     | 2,867                                   | 88                     | 3,120                             | 42                     |
| Consumer                            | —  | —                      | 20                                | 1                      | —                                       | —                      | 21                                | 1                      |
| Total                               | \$14,232                                 | \$ 118                 | \$23,202                          | \$ 277                 | \$14,676                                | \$ 254                 | \$23,638                          | \$ 559                 |
| With an allowance recorded:         |  |                        |                                   |                        |   |                        |                                   |                        |
| Agricultural                        | \$1,854                                  | \$ 12                  | \$1,561                           | \$ 12                  | \$1,870                                 | \$ 32                  | \$1,575                           | \$ 36                  |
| Commercial and industrial           | 3,988                                    | 16                     | 1,103                             | 12                     | 3,789                                   | 26                     | 1,144                             | 32                     |
| Credit cards                        | —  | —                      | —                                 | —                      | —                                       | —                      | —                                 | —                      |
| Commercial real estate:             |  |                        |                                   |                        |   |                        |                                   |                        |
| Construction and development        | 270                                      | —                      | 151                               | 1                      | 271                                     | 3                      | 151                               | 2                      |
| Farmland                            | —  | —                      | 69                                | 1                      | —                                       | —                      | 70                                | 2                      |
| Multifamily                         | 159                                      | —                      | 158                               | 1                      | 158                                     | —                      | 160                               | 5                      |
| Commercial real estate-other        | 5,416                                    | —                      | 431                               | 5                      | 5,416                                   | —                      | 432                               | 13                     |
| Total commercial real estate        | 5,845                                    | —                      | 809                               | 8                      | 5,845                                   | 3                      | 813                               | 22                     |
| Residential real estate:            |  |                        |                                   |                        |   |                        |                                   |                        |
| One- to four- family first liens    | 1,118                                    | 8                      | 1,369                             | 7                      | 1,123                                   | 22                     | 1,375                             | 27                     |
| One- to four- family junior liens   | —  | —                      | 15                                | —                      | —                                       | —                      | 15                                | —                      |
| Total residential real estate       | 1,118                                    | 8                      | 1,384                             | 7                      | 1,123                                   | 22                     | 1,390                             | 27                     |
| Consumer                            | —  | —                      | 9                                 | —                      | —                                       | —                      | 9                                 | —                      |
| Total                               | \$12,805                                 | \$ 36                  | \$4,866                           | \$ 39                  | \$12,627                                | \$ 83                  | \$4,931                           | \$ 117                 |
| Total:                              |  |                        |                                   |                        |   |                        |                                   |                        |
| Agricultural                        | \$3,120                                  | \$ 26                  | \$3,077                           | \$ 25                  | \$3,155                                 | \$ 73                  | \$3,109                           | \$ 83                  |
| Commercial and industrial           | 9,103                                    | 50                     | 2,421                             | 38                     | 9,022                                   | 65                     | 2,809                             | 111                    |
| Credit cards                        | —  | —                      | —                                 | —                      | —                                       | —                      | —                                 | —                      |
| Commercial real estate:             |  |                        |                                   |                        |   |                        |                                   |                        |
| Construction and development        | 270                                      | —                      | 476                               | 4                      | 271                                     | 3                      | 477                               | 6                      |
| Farmland                            | 2,414                                    | 29                     | 2,799                             | 36                     | 2,426                                   | 78                     | 2,819                             | 95                     |
| Multifamily                         | 159                                      | —                      | 1,997                             | 27                     | 158                                     | —                      | 2,009                             | 48                     |

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|                                   |          |        |          |        |          |        |          |        |
|-----------------------------------|----------|--------|----------|--------|----------|--------|----------|--------|
| Commercial real estate-other      | 8,010    | 9      | 12,758   | 152    | 8,281    | 8      | 12,806   | 263    |
| Total commercial real estate      | 10,853   | 38     | 18,030   | 219    | 11,136   | 89     | 18,111   | 412    |
| Residential real estate:          |          |        |          |        |          |        |          |        |
| One- to four- family first liens  | 3,961    | 40     | 3,723    | 24     | 3,990    | 110    | 3,720    | 54     |
| One- to four- family junior liens | —        | —      | 788      | 9      | —        | —      | 790      | 15     |
| Total residential real estate     | 3,961    | 40     | 4,511    | 33     | 3,990    | 110    | 4,510    | 69     |
| Consumer                          | —        | —      | 29       | 1      | —        | —      | 30       | 1      |
| Total                             | \$27,037 | \$ 154 | \$28,068 | \$ 316 | \$27,303 | \$ 337 | \$28,569 | \$ 676 |

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The following table presents the contractual aging of the recorded investment in past due loans by class of loans at September 30, 2016 and December 31, 2015:

|  | 30 - 59<br>Days<br>Past<br>Due | 60 - 89<br>Days<br>Past<br>Due | 90 Days<br>or More<br>Past<br>Due | Total<br>Past<br>Due | Current     | Total<br>Loans<br>Receivable |
|--|--------------------------------|--------------------------------|-----------------------------------|----------------------|-------------|------------------------------|
| (in thousands)   |                                |                                |                                   |                      |             |                              |
| September 30, 2016   |                                |                                |                                   |                      |             |                              |
| Agricultural   | \$376                          | \$—                            | \$520                             | \$896                | \$120,729   | \$121,625                    |
| Commercial and industrial  | 2,204                          | 2,264                          | 7,435                             | 11,903               | 463,299     | 475,202                      |
| Credit cards   | —                              | —                              | —                                 | —                    | 1,526       | 1,526                        |
| Commercial real estate:  |                                |                                |                                   |                      |             |                              |
| Construction and development   | 319                            | —                              | 584                               | 903                  | 125,612     | 126,515                      |
| Farmland   | —                              | 118                            | 167                               | 285                  | 94,853      | 95,138                       |
| Multifamily  | —                              | 90                             | 226                               | 316                  | 118,076     | 118,392                      |
| Commercial real estate-other   | 1,929                          | 182                            | 7,049                             | 9,160                | 670,441     | 679,601                      |
| Total commercial real estate   | 2,248                          | 390                            | 8,026                             | 10,664               | 1,008,982   | 1,019,646                    |
| Residential real estate:   |                                |                                |                                   |                      |             |                              |
| One- to four- family first liens   | 2,134                          | 1,119                          | 1,520                             | 4,773                | 364,834     | 369,607                      |
| One- to four- family junior liens  | 650                            | 94                             | 663                               | 1,407                | 115,884     | 117,291                      |
| Total residential real estate  | 2,784                          | 1,213                          | 2,183                             | 6,180                | 480,718     | 486,898                      |
| Consumer   | 59                             | 20                             | 19                                | 98                   | 36,837      | 36,935                       |
| Total  | \$7,671                        | \$3,887                        | \$18,183                          | \$29,741             | \$2,112,091 | \$2,141,832                  |
| Included in the totals above are the following purchased credit impaired loans | \$779                          | \$359                          | \$654                             | \$1,792              | \$20,878    | \$22,670                     |
| December 31, 2015  |                                |                                |                                   |                      |             |                              |
| Agricultural   | \$19                           | \$190                          | \$169                             | \$378                | \$121,336   | \$121,714                    |
| Commercial and industrial  | 1,046                          | 710                            | 644                               | 2,400                | 465,012     | 467,412                      |
| Credit cards   | 2                              | 17                             | 4                                 | 23                   | 1,354       | 1,377                        |
| Overdrafts   | 175                            | 8                              | 31                                | 214                  | 1,269       | 1,483                        |
| Commercial real estate:  |                                |                                |                                   |                      |             |                              |
| Construction and development   | —                              | —                              | 415                               | 415                  | 120,338     | 120,753                      |
| Farmland   | 120                            | —                              | 80                                | 200                  | 88,884      | 89,084                       |
| Multifamily  | —                              | —                              | 224                               | 224                  | 121,539     | 121,763                      |
| Commercial real estate-other   | 1,190                          | 754                            | 1,636                             | 3,580                | 656,761     | 660,341                      |
| Total commercial real estate   | 1,310                          | 754                            | 2,355                             | 4,419                | 987,522     | 991,941                      |
| Residential real estate:   |                                |                                |                                   |                      |             |                              |
| One- to four- family first liens   | 2,611                          | 1,293                          | 1,772                             | 5,676                | 422,557     | 428,233                      |
| One- to four- family junior liens  | 168                            | 120                            | 317                               | 605                  | 101,668     | 102,273                      |
| Total residential real estate  | 2,779                          | 1,413                          | 2,089                             | 6,281                | 524,225     | 530,506                      |
| Consumer   | 62                             | 6                              | 17                                | 85                   | 37,424      | 37,509                       |
| Total  | \$5,393                        | \$3,098                        | \$5,309                           | \$13,800             | \$2,138,142 | \$2,151,942                  |
| Included in the totals above are the following purchased credit impaired loans | \$473                          | \$799                          | \$989                             | \$2,261              | \$23,331    | \$25,592                     |
| 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.

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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 September 30, 2016 and December 31, 2015:

|                                   | September 30,<br>2016  |             | December 31,<br>2015   |             |
|-----------------------------------|--|-------------|--|-------------|
|                                   | Loans<br>Past Due<br>90 Days<br>or More<br>and Still<br>Accruing | Non-Accrual | Loans<br>Past Due<br>90 Days<br>or More<br>and Still<br>Accruing | Non-Accrual |
| (in thousands)                    |  |             |  |             |
| Agricultural                      | \$401  | \$ —        | \$172  | \$ —        |
| Commercial and industrial         | 5,966  | —           | 575  | —           |
| Credit cards                      | —  | —           | —  | —           |
| Commercial real estate:           |  |             |  |             |
| Construction and development      | 343  | 248         | 95   | —           |
| Farmland                          | 228  | —           | 20   | 80          |
| Multifamily                       | 226  | —           | 224  | —           |
| Commercial real estate-other      | 6,994  | 60          | 1,452  | —           |
| Total commercial real estate      | 7,791  | 308         | 1,791  | 80          |
| Residential real estate:          |  |             |  |             |
| One- to four- family first liens  | 1,102  | 448         | 1,182  | 199         |
| One- to four- family junior liens | 105  | 186         | 281  | —           |
| Total residential real estate     | 1,207  | 634         | 1,463  | 199         |
| Consumer                          | 12   | —           | 11   | 5           |
| Total                             | \$15,377   | \$ 942      | \$4,012  | \$ 284      |

Not included in the loans above as of September 30, 2016 and December 31, 2015 were purchased credit impaired loans with an outstanding balance of \$2.8 million and \$4.1 million, net of a discount of \$0.9 million and \$1.4 million, respectively.

As of September 30, 2016, the Company had no commitments to lend additional funds to any borrowers who have had a TDR.

**Purchased Loans**

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

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

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

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

anticipate recording a provision for the acquired portfolio in future quarters as the former Central loans renew and the discount is accreted.

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

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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 nine months ended September 30, 2016 and 2015:

|  | Three Months  |         | Nine Months   |         |
|--|---------------|---------|---------------|---------|
|  | Ended         |         | Ended         |         |
|  | September 30, |         | September 30, |         |
|  | 2016          | 2015    | 2016          | 2015    |
| (in thousands)                                 |               |         |               |         |
| Balance at beginning of period                 | \$3,544       | \$1,839 | \$1,446       | \$—     |
| Purchases                                      | —             | —       | —             | 1,882   |
| Accretion                                      | (1,167 )      | (184 )  | (2,277 )      | (227 )  |
| Reclassification from nonaccretible difference | 595           | —       | 3,803         | —       |
| Balance at end of period                       | \$2,972       | \$1,655 | \$2,972       | \$1,655 |

#### 7. 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 nine months ended September 30, 2016. The carrying amount of goodwill was \$64.7 million at September 30, 2016 and \$64.6 million at December 31, 2015. The increase of \$0.1 million in goodwill was due to the finalization of merger accounting issues related to the Central merger.

In addition to goodwill, the Company recognized a \$12.7 million core deposit intangible, and a \$1.4 million trade name intangible in 2015 due to the Central merger.

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 nine months ended September 30, 2016:

|                                     | Insurance Agency Intangible | Core Deposit Intangible | Indefinite-Lived Trade Name Intangible | Finite-Lived Trade Name Intangible | Customer List Intangible | Total     |
|-------------------------------------|-----------------------------|-------------------------|--|------------------------------------|--------------------------|-----------|
| (in thousands)                      |                             |                         |  |                                    |                          |           |
| September 30, 2016                  |                             |                         |  |                                    |                          |           |
| Balance, beginning of period        | \$ 275                      | \$ 10,480               | \$ 7,040                               | \$ 1,203                           | \$ 143                   | \$19,141  |
| Additions from business combination | —                           | —                       | —                                      | —                                  | —                        | —         |
| Amortization expense                | (54 )                       | (2,791 )                | —                                      | (185 )                             | (16 )                    | (3,046 )  |
| Balance at end of period            | \$ 221                      | \$ 7,689                | \$ 7,040                               | \$ 1,018                           | \$ 127                   | \$16,095  |
| Gross carrying amount               | \$ 1,320                    | \$ 18,206               | \$ 7,040                               | \$ 1,380                           | \$ 330                   | \$28,276  |
| Accumulated amortizations           | (1,099 )                    | (10,517 )               | —                                      | (362 )                             | (203 )                   | (12,181 ) |
| Net book value                      | \$ 221                      | \$ 7,689                | \$ 7,040                               | \$ 1,018                           | \$ 127                   | \$16,095  |

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## 8. Other Assets

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

|  | September 30, December 31, |           |
|--|----------------------------|-----------|
|  | 2016                       | 2015      |
| (in thousands)                                   |                            |           |
| Federal Home Loan Bank Stock                     | \$ 11,614                  | \$ 9,832  |
| FDIC indemnification asset, net                  | 1,530                      | 4,274     |
| Prepaid expenses                                 | 2,172                      | 2,271     |
| Mortgage servicing rights                        | 1,838                      | 2,249     |
| Federal & state income taxes receivable, current | —                          | 1,079     |
| Accounts receivable & other miscellaneous assets | 1,731                      | 2,104     |
|  | \$ 18,885                  | \$ 21,809 |

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 nine months ended September 30, 2016 or in the year ended December 31, 2015.

As part of the Central merger, the Company became a party to certain loss-share agreements with the FDIC from previous Central-related acquisitions. These agreements cover realized losses on loans and foreclosed real estate for specified periods. These loss-share assets are measured separately from the loan portfolios because they are not contractually embedded in the loans and are not transferable with the loans should the Company choose to dispose of them. Fair values at the acquisition dates were estimated based on projected cash flows available for loss-share based on the credit adjustments estimated for each loan. The loss-share assets are recorded within other assets on the balance sheet.

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.

## 9. Short-Term Borrowings

Short-term borrowings were as follows as of September 30, 2016 and December 31, 2015:

|  | September 30, December 31, |                 |
|--|----------------------------|-----------------|
|  | 2016                       | 2015            |
|  | Weighted                   | Weighted        |
| (in thousands)                                 | Average                    | Average         |
|  | Balance                    | Balance         |
|  | Cost                       | Cost            |
| Federal funds purchased                        | 0.45 % \$19,309            | 0.34 % \$1,500  |
| Securities sold under agreements to repurchase | 0.22 63,469                | 0.31 67,463     |
| Total  | 0.27 % \$82,778            | 0.31 % \$68,963 |

At September 30, 2016 and December 31, 2015, the Company had no borrowings through the Federal Reserve Discount Window, while the borrowing capacity was \$11.9 million as of September 30, 2016 and \$11.8 million as of December 31, 2015. As of September 30, 2016 and December 31, 2015, the Bank had municipal securities pledged with a market value of \$13.2 million and \$13.1 million pledged, respectively, to the Federal Reserve to secure potential borrowings. The Company also has various other unsecured federal funds agreements with correspondent banks. As of September 30, 2016 and December 31, 2015, there were \$19.3 million and \$1.5 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.

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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 April 2016, and is now scheduled to mature on April 27, 2017. The Company had no balance outstanding under this agreement as of September 30, 2016.

## 10. Subordinated Notes Payable

The Company has established three statutory business trusts under the laws of the state of Delaware: Central Bancshares Capital Trust II, Barron Investment Capital Trust I, and MidWestOne Statutory Trust II. The trusts exist for the exclusive purposes of (i) issuing trust securities representing undivided beneficial interests in the assets of the respective trust; (ii) investing the gross proceeds of the trust securities in junior subordinated deferrable interest debentures (subordinated debentures); 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 September 30, 2016 and December 31, 2015:

| (in thousands)   | Face Value | Book Value | Interest Rate             | Interest Rate at 9/30/2016  | Maturity Date | Callable Date |
|--|------------|------------|---------------------------|-----------------------------|---------------|---------------|
| September 30, 2016                                     |            |            |                           |                             |               |               |
| Central Bancshares Capital Trust II <sup>(1) (2)</sup> | \$7,217    | \$6,599    | Three-month LIBOR + 3.50% | 4.35 %                      | 03/15/2038    | 03/15/2013    |
| Barron Investment Capital Trust I <sup>(1) (2)</sup>   | 2,062      | 1,604      | Three-month LIBOR + 2.15% | 3.01 %                      | 09/23/2036    | 09/23/2011    |
| MidWestOne Statutory Trust II <sup>(1)</sup>           | 15,464     | 15,464     | Three-month LIBOR + 1.59% | 2.44 %                      | 12/15/2037    | 12/15/2012    |
| Total  | \$24,743   | \$23,667   |                           |                             |               |               |
| (in thousands)   | Face Value | Book Value | Interest Rate             | Interest Rate at 12/31/2015 | Maturity Date | Callable Date |
| December 31, 2015                                      |            |            |                           |                             |               |               |
| Central Bancshares Capital Trust II <sup>(1) (2)</sup> | \$7,217    | \$6,552    | Three-month LIBOR + 3.50% | 4.01 %                      | 03/15/2038    | 03/15/2013    |
| Barron Investment Capital Trust I <sup>(1) (2)</sup>   | 2,062      | 1,571      | Three-month LIBOR + 2.15% | 2.74 %                      | 09/23/2036    | 09/23/2011    |
| MidWestOne Statutory Trust II <sup>(1)</sup>           | 15,464     | 15,464     | Three-month LIBOR + 1.59% | 2.10 %                      | 12/15/2037    | 12/15/2012    |
| Total  | \$24,743   | \$23,587   |                           |                             |               |               |

(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 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.

11. Long-Term Borrowings

Long-term borrowings were as follows as of September 30, 2016 and December 31, 2015:

| (in thousands)                    | September 30,<br>2016       |           | December 31,<br>2015        |           |
|-----------------------------------|-----------------------------|-----------|-----------------------------|-----------|
|                                   | Weighted<br>Average<br>Cost | Balance   | Weighted<br>Average<br>Cost | Balance   |
| FHLB Borrowings                   | 1.55%                       | \$100,000 | 1.64%                       | \$87,000  |
| Note payable to unaffiliated bank | 2.27                        | 18,750    | 2.17                        | 22,500    |
| Total                             | 1.66%                       | \$118,750 | 1.75%                       | \$109,500 |

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The Company utilizes FHLB borrowings as a supplement to customer deposits to fund 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 6 "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 September 30, 2015. As of September 30, 2016, \$18.8 million of that note was outstanding.

## 12. Income Taxes

The income tax provisions for the three and nine months ended September 30, 2016 and 2015 were less than the amounts computed by applying the maximum effective federal income tax rate of 35% to the income before income taxes, because of the following items:

|   | For the Three Months Ended |                    |         |                    | For the Nine Months Ended |                    |          |                    |
|---|----------------------------|--------------------|---------|--------------------|---------------------------|--------------------|----------|--------------------|
|   | September 30,              |                    | 2015    |                    | September 30,             |                    | 2015     |                    |
| (in thousands)  | Amount                     | % of Pretax Income | Amount  | % of Pretax Income | Amount                    | % of Pretax Income | Amount   | % of Pretax Income |
| Expected provision                                    | \$3,098                    | 35.0 %             | \$3,407 | 35.0 %             | \$7,997                   | 35.0 %             | \$8,144  | 35.0 %             |
| Tax-exempt interest                                   | (761 )                     | (8.6 )             | (742 )  | (7.6 )             | (2,260 )                  | (9.9 )             | (2,077 ) | (8.9 )             |
| Bank-owned life insurance                             | (114 )                     | (1.3 )             | (117 )  | (1.2 )             | (363 )                    | (1.6 )             | (330 )   | (1.4 )             |
| State income taxes, net of federal income tax benefit | 398                        | 4.5                | (35 )   | (0.4 )             | 1,045                     | 4.6                | 478      | 2.1                |
| Non-deductible acquisition expenses                   | 18                         | 0.2                | 21      | 0.2                | 71                        | 0.3                | 676      | 2.9                |
| General business credits                              | (15 )                      | (0.2 )             | (423 )  | (4.3 )             | (168 )                    | (0.7 )             | (439 )   | (1.9 )             |
| Other   | 5                          | 0.1                | 10      | 0.1                | 6                         | —                  | (62 )    | (0.3 )             |
| Total income tax provision                            | \$2,629                    | 29.7 %             | \$2,121 | 21.8 %             | \$6,328                   | 27.7 %             | \$6,390  | 27.5 %             |

The Company also recognized income tax expense pertaining to state franchise and income taxes payable by the Bank.

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

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

GAAP requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset

(replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, GAAP establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

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

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

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

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

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

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

The following table summarizes assets measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015. There were no liabilities subject to fair value measurement as of these dates. The assets are segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value:

## Fair Value Measurement at September 30, 2016 Using

| (in thousands)                            | Total   | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---|---------|---|---|--|
| Assets:                                   |         |   |   |  |
| Available for sale debt securities:       |         |   |   |  |
| U.S. Government agencies and corporations | \$6,044 | \$ —  | \$ 6,044  | \$ —   |
| State and political subdivisions          | 165,809 | —   | 165,809   | —  |
| Mortgage-backed securities                | 43,569  | —   | 43,569  | —  |
| Collateralized mortgage obligations       | 172,172 | —   | 172,172   | —  |
| Corporate debt securities                 | 47,366  | —   | 47,366  | —  |

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|  |           |          |            |      |
|--|-----------|----------|------------|------|
| Total available for sale debt securities | 434,960   | —        | 434,960    | —    |
| Other equity securities                  | 1,279     | 1,279    | —          | —    |
| Total securities available for sale      | \$436,239 | \$ 1,279 | \$ 434,960 | \$ — |

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| (in thousands)                            | Fair Value Measurement at December 31, 2015 Using |   |  |  |
|---|---|---|--|--|
|   | Total   | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Assets:                                   |   |   |  |  |
| Available for sale debt securities:       |   |   |  |  |
| U.S. Treasury securities                  | \$6,910   | \$ —  | \$ 6,910   | \$ —   |
| U.S. Government agencies and corporations | 26,653  | —   | 26,653   | —  |
| State and political subdivisions          | 183,384   | —   | 183,384  | —  |
| Mortgage-backed securities                | 57,062  | —   | 57,062   | —  |
| Collateralized mortgage obligations       | 106,404   | —   | 106,404  | —  |
| Corporate debt securities                 | 45,566  | —   | 45,566   | —  |
| Total available for sale debt securities  | 425,979   | —   | 425,979  | —  |
| Other equity securities                   | 1,262   | 1,262   | —  | —  |
| Total securities available for sale       | \$427,241   | \$ 1,262  | \$ 425,979   | \$ —   |

There were no transfers of assets between levels of the fair value hierarchy during the three and nine months ended September 30, 2016 or the year ended December 31, 2015.

There have been no changes in valuation techniques used for any assets measured at fair value during the three and nine months ended September 30, 2016 or the year ended December 31, 2015.

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

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

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

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

The following table discloses the Company's estimated fair value amounts of its assets recorded at fair value on a nonrecurring basis. It is management's belief that the fair values presented below are reasonable based on the valuation techniques and data available to the Company as of September 30, 2016 and December 31, 2015, as more fully described above.

| (in thousands) | Fair Value Measurement at September 30, 2016 |  |
|----------------|--|--|
|                | Total  | Using<br>Quoted Prices in<br>Significant |



|                                     | Active Markets<br>for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) |
|-------------------------------------|--|---|-------------------------------------|
| Assets:                             |  |   |                                     |
| Collateral dependent impaired loans | \$7,017  | \$  | —\$ 7,017                           |
| Other real estate owned             | \$3,452  | \$  | —\$ 3,452                           |

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| Fair Value Measurement at December 31, 2015 Using  |                 |  |  |   |   |
|--|-----------------|--|--|---|---|
| (in thousands)   | Total           | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2)                  | Significant Unobservable Inputs (Level 3)     |   |
| <b>Assets:</b>   |                 |  |  |   |   |
| Collateral dependent impaired loans  | \$23,812        | \$   | —  | \$  | 23,812                                    |
| Other real estate owned  | \$8,834         | \$   | —  | \$  | 8,834                                     |
| The following presents the carrying amount and estimated fair value of the financial instruments held by the Company at September 30, 2016 and December 31, 2015. The information presented is subject to change over time based on a variety of factors. The operations of the Company are managed on a going concern basis and not a liquidation basis. As a result, the ultimate value realized from the financial instruments presented could be substantially different when actually recognized over time through the normal course of operations. Additionally, a substantial portion of the Company's inherent value is the capitalization and franchise value of the Bank. Neither of these components has been given consideration in the presentation of fair values below. |                 |  |  |   |   |
| September 30, 2016   |                 |  |  |   |   |
| (in thousands)   | Carrying Amount | Estimated Fair Value   | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <b>Financial assets:</b>   |                 |  |  |   |   |
| Cash and cash equivalents  | \$51,958        | \$51,958   | \$51,958   | \$  | —   |
| <b>Investment securities:</b>  |                 |  |  |   |   |
| Available for sale   | 436,239         | 436,239  | 1,279  | 434,960                                       | —   |
| Held to maturity   | 151,110         | 153,474  | —  | 153,474                                       | —   |
| Total investment securities  | 587,349         | 589,713  | 1,279  | 588,434                                       | —   |
| Loans held for sale  | 2,742           | 2,786  | —  | —   | 2,786                                     |
| Loans, net   | 2,120,437       | 2,122,937  | —  | 2,122,937                                     | —   |
| Accrued interest receivable  | 13,139          | 13,139   | 13,139   | —   | —   |
| Federal Home Loan Bank stock   | 11,614          | 11,614   | —  | 11,614  | —   |
| <b>Financial liabilities:</b>  |                 |  |  |   |   |
| <b>Deposits:</b>   |                 |  |  |   |   |
| Non-interest bearing demand  | 493,820         | 493,820  | 493,820  | —   | —   |
| Interest-bearing checking  | 1,114,536       | 1,114,536  | 1,114,536  | —   | —   |
| Savings  | 196,426         | 196,426  | 196,426  | —   | —   |
| Certificates of deposit under \$100,000  | 332,194         | 332,351  | —  | 332,351                                       | —   |
| Certificates of deposit \$100,000 and over   | 308,956         | 309,792  | —  | 309,792                                       | —   |
| Total deposits   | 2,445,932       | 2,446,925  | 1,804,782  | 642,143                                       | —   |
| Federal funds purchased and securities sold under agreements to repurchase   | 82,778          | 82,778   | 82,778   | —   | —   |
| Federal Home Loan Bank borrowings  | 100,000         | 101,019  | —  | 101,019                                       | —   |
| Junior subordinated notes issued to capital trusts   | 23,667          | 19,139   | —  | 19,139  | —   |
| Long-term debt   | 18,750          | 18,750   | —  | 18,750  | —   |

|                          |       |       |       |   |   |
|--------------------------|-------|-------|-------|---|---|
| Accrued interest payable | 1,552 | 1,552 | 1,552 | — | — |
|--------------------------|-------|-------|-------|---|---|

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|  | December 31, 2015 |                      |  |   |   |
|--|-------------------|----------------------|--|---|---|
|  | Carrying Amount   | Estimated Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| (in thousands)   |                   |                      |  |   |   |
| Financial assets:  |                   |                      |  |   |   |
| Cash and cash equivalents  | \$47,097          | \$ 47,097            | \$ 47,097  | \$ —  | —   |
| Investment securities:   |                   |                      |  |   |   |
| Available for sale   | 427,241           | 427,241              | 1,262  | 425,979                                       | —   |
| Held to maturity   | 118,423           | 118,234              | —  | 118,234                                       | —   |
| Total investment securities  | 545,664           | 545,475              | 1,262  | 544,213                                       | —   |
| Loans held for sale  | 3,187             | 3,262                | —  | —   | 3,262                                     |
| Loans, net   | 2,132,512         | 2,132,009            | —  | 2,132,009                                     | —   |
| Accrued interest receivable  | 13,736            | 13,736               | 13,736   | —   | —   |
| Federal Home Loan Bank stock   | 9,832             | 9,832                | —  | 9,832   | —   |
| Financial liabilities:   |                   |                      |  |   |   |
| Deposits:  |                   |                      |  |   |   |
| Non-interest bearing demand  | 559,586           | 559,586              | 559,586  | —   | —   |
| Interest-bearing checking  | 1,064,350         | 1,064,350            | 1,064,350  | —   | —   |
| Savings  | 189,489           | 189,489              | 189,489  | —   | —   |
| Certificates of deposit under \$100,000                                    | 348,268           | 346,875              | —  | 346,875                                       | —   |
| Certificates of deposit \$100,000 and over                                 | 301,828           | 301,521              | —  | 301,521                                       | —   |
| Total deposits   | 2,463,522         | 2,461,821            | 1,813,425  | 648,396                                       | —   |
| Federal funds purchased and securities sold under agreements to repurchase | 68,963            | 68,963               | 68,963   | —   | —   |
| Federal Home Loan Bank borrowings  | 87,000            | 86,817               | —  | 86,817  | —   |
| Junior subordinated notes issued to capital trusts                         | 23,587            | 18,611               | —  | 18,611  | —   |
| Long-term debt   | 22,500            | 22,500               | —  | 22,500  | —   |
| Accrued interest payable   | 1,507             | 1,507                | 1,507  | —   | —   |

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

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

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

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

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

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

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

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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 September 30, 2016, categorized within Level 3 of the fair value hierarchy:

| (dollars in thousands)              | Quantitative Information About Level 3 Fair Value Measurements |                          |                       |                 |                  |
|-------------------------------------|--|--------------------------|-----------------------|-----------------|------------------|
|                                     | Fair Value at September 30, 2016                               | Valuation Techniques(s)  | Unobservable Input    | Range of Inputs | Weighted Average |
| Collateral dependent impaired loans | \$7,017  | Modified appraised value | Third party appraisal | NM * NM * NM *  |                  |
|                                     |  |                          | Appraisal discount    | NM * NM * NM *  |                  |
| Other real estate owned             | \$3,452  | Modified appraised value | Third party appraisal | NM * NM * NM *  |                  |
|                                     |  |                          | Appraisal discount    | NM * NM * NM *  |                  |

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

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

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

#### 15. Branch Sale

On May 9, 2016, the Bank entered into an agreement to sell its Davenport, Iowa branch to CBI Bank and Trust ("CBI Bank") headquartered in Muscatine, Iowa, a unit of Central Bancshares, Inc. of Muscatine, Iowa. CBI Bank assumed approximately \$12.0 million in deposits and \$33.0 million in loans on the sale completion date of August 5, 2016, and the Company realized a net gain of \$0.7 million, which is included on the Consolidated Statement of Operations in Other gain (loss).

#### 16. Effect of New Financial Accounting Standards

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contract with Customers (Topic 606). The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following five steps: 1) identify the contracts(s) with the customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract; and 5) recognize revenue when (or as) the entity satisfies a performance obligation. The guidance also specifies the accounting for some costs to obtain or fulfill a

contract with a customer. For a public entity, the amendments in this update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The adoption of this amendment is not expected to have a material effect on the Company's consolidated financial statements.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The amendments in this update provide guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. In doing so, the amendment should reduce diversity in the timing and content of footnote disclosures. Disclosures are required if it is probable an entity will be unable to meet its obligations within the look-forward period of twelve months after the financial statements are made available. Incremental substantial doubt disclosure is required if the probability is not mitigated by management's plans. The new standard applies to all entities for the first annual period ending after December 15, 2016, and interim periods thereafter. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements.

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In July 2015, the FASB announced a delay to the effective date of Accounting Standards Update No. 2015-09, Revenue from Contract with Customers (Topic 606). Reporting entities may choose to adopt the standard as of the original date, or take advantage of a one-year delay. For a public entity, the revised effective date is for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted prior to the original effective date. The adoption of this amendment is not expected to have a material effect on the Company's consolidated financial statements.

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

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 is still evaluating the effect of this guidance on the Company's consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation - Stock Compensation (Topic 718). The guidance involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new standard applies to public business entities for annual periods beginning after December 15, 2016, including interim periods within those annual periods, with early adoption permitted. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is still evaluating the effect of this guidance on the Company's consolidated financial statements.

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



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

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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. The Company is still evaluating the effect of this guidance on the Company's consolidated financial statements, but it is expected to be material.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments, a consensus of the FASB Emerging Issues Task Force. The new guidance addresses diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other topics. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments in this update apply to all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under Topic 230. The update applies to public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted, and the Company has elected to adopt the guidance effective September 30, 2016.

### 17. Contingency

In the second quarter of 2012, the Bank, terminated its non-contributory defined benefit pension plan. In the normal course of business, the termination of the plan is subject to audit by the Pension Benefit Guaranty Corporation (PBGC), which may result in additional distribution of assets to participants. The Bank has received an initial summary of audit findings and is requesting reconsideration of this initial determination. In addition, the Bank has identified a potential inadvertent drafting issue with the wording of the plan amendment adopted by the Bank in 2005. The Bank has evaluated the likelihood of a potential future liability relating to this amendment issue and determined that while future liability is possible, the amount of the liability cannot be reasonably estimated at this time. As such, no liability relating to this matter has been recorded in the financial statements for the third quarter of 2016.

### 18. Subsequent Events

Management evaluated subsequent events through the date the consolidated financial statements were issued. Events or transactions occurring after September 30, 2016, but prior to the date the consolidated financial statements were issued, that provided additional evidence about conditions that existed at September 30, 2016 have been recognized in the consolidated financial statements for the three and nine months ended September 30, 2016. Events or transactions that provided evidence about conditions that did not exist at September 30, 2016, but arose before the consolidated financial statements were issued, have not been recognized in the consolidated financial statements for the three and nine months ended September 30, 2016.

On October 11, 2016, the board of directors of the Company declared a cash dividend of \$0.16 per share payable on December 15, 2016 to shareholders of record as of the close of business on December 1, 2016.

## 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, and Florida. 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 MidWestOne Bank administers estates, personal trusts,

conservatorships, and pension and profit-sharing accounts along with providing brokerage and other investment management services to customers. MidWestOne Insurance Services, Inc., also a wholly-owned subsidiary of the Company, provides personal and business insurance services in Iowa.

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

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

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes and with the statistical information and financial data appearing in this report as well as our 2015 Annual Report on Form 10-K. Results of operations for the three and nine months ended September 30, 2016 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, 2015.

**RESULTS OF OPERATIONS****Comparison of Operating Results for the Three Months Ended September 30, 2016 and September 30, 2015  
Summary**

For the quarter ended September 30, 2016, we earned net income of \$6.2 million, which was a decrease of \$1.4 million from \$7.6 million for the quarter ended September 30, 2015. Basic and diluted earnings per common share for the third quarter of 2016 were \$0.54 for both, versus \$0.67 for both for the third quarter of 2015. After excluding the effects of \$0.2 million (\$0.1 million after tax) of expenses related to the merger of MidWestOne Bank with Central Bank, adjusted diluted earnings per share for the third quarter of 2016 were \$0.55, versus \$0.68 diluted earnings per share after excluding \$0.2 million (\$0.2 million after tax) of expenses related to the merger with Central in the third quarter of 2015. Our annualized Return on Average Assets ("ROAA") for the third quarter of 2016 was 0.83% compared with a ROAA of 1.03% for the same period in 2015. Our annualized Return on Average Shareholders' Equity ("ROAE") was 8.06% for the three months ended September 30, 2016 compared with 10.55% for the three months ended September 30, 2015. The annualized Return on Average Tangible Equity ("ROATE") was 12.07% for the third quarter of 2016 compared with 15.76% for the same period in 2015.

The following table presents selected financial results and measures as of and for the quarters ended September 30, 2016 and 2015.

| (dollars in thousands)                             | As of and for the<br>Three Months<br>Ended September<br>30, |           |
|--|---|-----------|
|  | 2016  | 2015      |
| Net Income   | \$6,222   | \$7,615   |
| Average Assets                                     | 2,995,521   | 2,926,612 |
| Average Shareholders' Equity                       | 307,005   | 286,256   |
| Return on Average Assets* (ROAA)                   | 0.83 %  | 1.03 %    |
| Return on Average Shareholders' Equity* (ROAE)     | 8.06  | 10.55     |
| Return on Average Tangible Equity* (ROATE)         | 12.07   | 15.76     |
| Total Equity to Assets (end of period)             | 10.31   | 9.75      |
| Tangible Equity to Tangible Assets (end of period) | 7.94  | 7.33      |

\* Annualized

We have traditionally disclosed certain non-GAAP ratios, including our ROATE and the ratio of our tangible equity to tangible assets. We believe these ratios provide investors with information regarding our financial condition and results of operations and how we evaluate them internally.

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

|  | For the Three Months<br>Ended September 30, |             |
|--|---|-------------|
|  | 2016  | 2015        |
| (dollars in thousands, except per share amounts)   |   |             |
| Net Income:  |   |             |
| Net income   | \$6,222                                     | \$7,615     |
| Plus: Intangible amortization, net of tax <sup>(1)</sup>   | 631   | 520         |
| Adjusted net income  | \$6,853                                     | \$8,135     |
| Average Tangible Equity:   |   |             |
| Average total shareholders' equity   | \$307,005                                   | \$286,256   |
| Less: Average intangibles, net of amortization   | (81,212 )                                   | (81,486 )   |
| Average tangible equity  | \$225,793                                   | \$204,770   |
| ROATE (annualized)   | 12.07                                       | % 15.76 %   |
| Net Income:  |   |             |
| Net income   | \$6,222                                     | \$7,615     |
| Plus: Merger-related expenses  | 182   | 225         |
| Net tax effect of merger-related expenses <sup>(2)</sup>   | (51 )                                       | (57 )       |
| Net income exclusive of merger-related expenses  | \$6,353                                     | \$7,783     |
| Diluted average number of shares   | 11,461,108                                  | 11,434,186  |
| Earnings Per Common Share-Diluted  | \$0.54                                      | \$0.67      |
| Earnings Per Common Share-Diluted, exclusive of merger-related expenses                              | \$0.55                                      | \$0.68      |
| (1) Computed on a tax-equivalent basis, assuming a federal income tax rate of 35%.                   |   |             |
| (2) Computed based on qualifying tax deductible expenses, assuming a federal income tax rate of 35%. |   |             |
| Adjusted Noninterest Income:   |   |             |
| Noninterest income   | \$5,714                                     | \$5,460     |
| Less: Impairment losses on investment securities, net  | —   | —           |
| Gain (loss) on sale of available for sale securities   | —   | —           |
| Gain (loss) on sale of premises and equipment  | (37 )                                       | (5 )        |
| Other gain (loss)  | 306   | 29          |
| Adjusted noninterest income  | \$5,445                                     | \$5,436     |
| Total Revenue:   |   |             |
| Net interest income  | \$24,581                                    | \$26,759    |
| Plus: Noninterest income   | 5,714                                       | 5,460       |
| Less: Impairment losses on investment securities, net  | —   | —           |
| Gain (loss) on sale of available for sale securities   | —   | —           |
| Gain (loss) on sale of premises and equipment  | (37 )                                       | (5 )        |
| Other gain (loss)  | 306   | 29          |
| Total Revenue  | \$30,026                                    | \$32,195    |
| Adjusted Noninterest Income as a Percentage of Total Revenue   | 18.1  | % 16.9 %    |
| As of September 30,  |   |             |
|  | 2016  | 2015        |
| (dollars in thousands)   |   |             |
| Tangible Equity:   |   |             |
| Total shareholders' equity   | \$309,584                                   | \$290,666   |
| Less: Intangible assets, net of amortization and associated deferred tax liability                   | (77,327 )                                   | (77,761 )   |
| Tangible equity  | \$232,257                                   | \$212,905   |
| Tangible Assets:   |   |             |
| Total assets   | \$3,001,974                                 | \$2,981,840 |
| Less: Intangible assets, net of amortization and associated deferred tax liability                   | (77,327 )                                   | (77,761 )   |

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|                                 |             |             |
|---------------------------------|-------------|-------------|
| Tangible assets                 | \$2,924,647 | \$2,904,079 |
| Tangible Equity/Tangible Assets | 7.94        | % 7.33 %    |

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Net Interest Income

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

Certain assets with tax favorable treatment are evaluated on a tax-equivalent basis. Tax-equivalent basis assumes a federal income tax rate of 35%. Tax favorable assets generally have lower contractual pretax 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 \$24.6 million for the third quarter of 2016 decreased \$2.2 million, or 8.1%, from \$26.8 million for the third quarter of 2015, primarily due to a decrease of \$2.1 million, or 7.0%, in interest income. A decrease in the merger-related discount accretion to \$0.6 million for the third quarter of 2016 compared to \$1.7 million for the third quarter of 2015, and generally lower rates being received on new loans, partially offset by an increase in average loan balances, resulted in loan interest income declining \$2.4 million, or 8.8%, to \$24.3 million for the third quarter of 2016 compared to the third quarter of 2015. Income from investment securities was \$3.5 million for the third quarter of 2016, up from \$3.3 million for the third quarter of 2015, which resulted from an increase of \$19.3 million in the average balance, along with an increase of 6 basis points in the yield of investment securities between the two comparable periods.

Interest expense increased \$0.1 million, or 2.5%, to \$3.3 million for the third quarter of 2016, compared to \$3.2 million for the same period in 2015, primarily due to an increase in both the average balance and rate of FHLB borrowings. This increase was partially offset by decreases in the cost of interest on most other categories of interest-bearing liabilities. The decline in the cost of interest-bearing deposits was despite a decrease in the merger-related amortization of the purchase accounting premium on certificates of deposit, from \$0.4 million for the third quarter of 2015, to \$0.2 million for the same period of 2016. Amortization of the purchase accounting premium on certificates of deposit acts to decrease deposit interest expense.

Our net interest margin on a tax-equivalent basis for the third quarter of 2016 declined to 3.72% compared with the net interest margin of 4.14% for the third quarter of 2015. Net interest margin is a measure of the net return on earning assets and is computed by dividing annualized net interest income on a tax-equivalent basis by the average of total earning assets for the period. Our overall yield on earning assets decreased to 4.20% for the third quarter of 2016 from 4.62% for the third quarter of 2015. This decline was due primarily to a lower yield received on loans, and the effect of lower merger-related discount accretion in the third quarter of 2016 compare to the third quarter of 2015. The average cost of interest-bearing liabilities was the same in the third quarter of 2016, at 0.61%, as for the third quarter of 2015.



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The following table shows consolidated average balance sheets, detailing the major categories of assets and liabilities, the interest income earned on earning assets, the interest expense paid for interest-bearing liabilities, and the related yields and interest rates for the quarters ended September 30, 2016 and 2015. Dividing annualized income or expense by the average balances of assets or liabilities results in average yields or rates. Average information is provided on a daily average basis.

|   | Three Months Ended September 30, |                                |                           |                    |                                |                           |
|---|----------------------------------|--------------------------------|---------------------------|--------------------|--------------------------------|---------------------------|
|   | 2016                             |                                |                           | 2015               |                                |                           |
|   | Average<br>Balance               | Interest<br>Income/<br>Expense | Average<br>Rate/<br>Yield | Average<br>Balance | Interest<br>Income/<br>Expense | Average<br>Rate/<br>Yield |
| (dollars in thousands)                            |                                  |                                |                           |                    |                                |                           |
| Average Earning Assets:                           |                                  |                                |                           |                    |                                |                           |
| Loans <sup>(1)(2)(3)</sup>                        | \$2,150,195                      | \$24,775                       | 4.58 %                    | \$2,124,037        | \$27,090                       | 5.06 %                    |
| Investment securities:                            |                                  |                                |                           |                    |                                |                           |
| Taxable investments                               | 360,550                          | 2,088                          | 2.30                      | 355,432            | 1,914                          | 2.14                      |
| Tax exempt investments <sup>(2)</sup>             | 191,253                          | 2,133                          | 4.44                      | 177,059            | 2,087                          | 4.68                      |
| Total investment securities                       | 551,803                          | 4,221                          | 3.04                      | 532,491            | 4,001                          | 2.98                      |
| Federal funds sold and interest-bearing balances  | 52,121                           | 66                             | 0.50                      | 15,994             | 13                             | 0.32                      |
| Total interest-earning assets                     | \$2,754,119                      | \$29,062                       | 4.20 %                    | \$2,672,522        | \$31,104                       | 4.62 %                    |
| Cash and due from banks                           | 35,287                           |                                |                           | 43,145             |                                |                           |
| Premises and equipment                            | 75,882                           |                                |                           | 73,364             |                                |                           |
| Allowance for loan losses                         | (21,609 )                        |                                |                           | (17,519 )          |                                |                           |
| Other assets                                      | 151,842                          |                                |                           | 155,100            |                                |                           |
| Total assets                                      | \$2,995,521                      |                                |                           | \$2,926,612        |                                |                           |
| Average Interest-Bearing Liabilities:             |                                  |                                |                           |                    |                                |                           |
| Savings and interest-bearing demand deposits      | \$1,292,623                      | \$860                          | 0.26 %                    | \$1,210,924        | \$754                          | 0.25 %                    |
| Certificates of deposit                           | 653,462                          | 1,614                          | 0.98                      | 678,470            | 1,731                          | 1.01                      |
| Total deposits                                    | 1,946,085                        | 2,474                          | 0.51                      | 1,889,394          | 2,485                          | 0.52                      |
| Federal funds purchased and repurchase agreements | 67,591                           | 41                             | 0.24                      | 70,140             | 70                             | 0.40                      |
| Federal Home Loan Bank borrowings                 | 106,239                          | 469                            | 1.76                      | 81,869             | 334                            | 1.62                      |
| Long-term debt and other                          | 45,127                           | 326                            | 2.87                      | 50,307             | 341                            | 2.69                      |
| Total borrowed funds                              | 218,957                          | 836                            | 1.52                      | 202,316            | 745                            | 1.46                      |
| Total interest-bearing liabilities                | \$2,165,042                      | \$3,310                        | 0.61 %                    | \$2,091,710        | \$3,230                        | 0.61 %                    |
| Net interest spread <sup>(2)</sup>                |                                  |                                | 3.59 %                    |                    |                                | 4.01 %                    |
| Demand deposits                                   | 502,611                          |                                |                           | 535,379            |                                |                           |
| Other liabilities                                 | 20,863                           |                                |                           | 16,267             |                                |                           |
| Shareholders' equity                              | 307,005                          |                                |                           | 286,256            |                                |                           |
| Total liabilities and shareholders' equity        | \$2,995,521                      |                                |                           | \$2,929,612        |                                |                           |
| Interest income/earning assets <sup>(2)</sup>     | \$2,754,119                      | \$29,062                       | 4.20 %                    | \$2,672,522        | \$31,104                       | 4.62 %                    |
| Interest expense/earning assets                   | \$2,754,119                      | \$3,310                        | 0.48 %                    | \$2,672,522        | \$3,230                        | 0.48 %                    |
| Net interest margin <sup>(2)(4)</sup>             |                                  | \$25,752                       | 3.72 %                    |                    | \$27,874                       | 4.14 %                    |

Non-GAAP to GAAP Reconciliation:

Tax Equivalent Adjustment:

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|                                 |          |          |
|---------------------------------|----------|----------|
| Loans                           | \$432    | \$393    |
| Securities                      | 739      | 722      |
| Total tax equivalent adjustment | 1,171    | 1,115    |
| Net Interest Income             | \$24,581 | \$26,759 |

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

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

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

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

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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 September 30, 2016, compared to the same period in 2015, reported on a fully tax-equivalent basis assuming a 35% tax rate. The table distinguishes between the changes related to average outstanding balances (changes in volume holding the initial interest rate constant) and the changes related to average interest rates (changes in average rate holding the initial outstanding balance constant). The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

|  | Three Months Ended September 30,<br>2016 Compared to 2015 Change due to |             |             |
|--|---|-------------|-------------|
|  | Volume  | Rate/Yield  | Net         |
| (in thousands)   |   |             |             |
| Increase (decrease) in interest income:                      |   |             |             |
| Loans, tax equivalent  | \$ 2,077  | \$ (4,392 ) | \$ (2,315 ) |
| Investment securities:                                       |   |             |             |
| Taxable investments  | 28  | 146         | 174         |
| Tax exempt investments                                       | 546   | (500 )      | 46          |
| Total investment securities                                  | 574   | (354 )      | 220         |
| Federal funds sold and interest-bearing balances             | 42  | 11          | 53          |
| Change in interest income                                    | 2,693   | (4,735 )    | (2,042 )    |
| Increase (decrease) in interest expense:                     |   |             |             |
| Savings and interest-bearing demand deposits                 | 67  | 39          | 106         |
| Certificates of deposit                                      | (65 )   | (52 )       | (117 )      |
| Total deposits   | 2   | (13 )       | (11 )       |
| Federal funds purchased and repurchase agreements            | (2 )  | (27 )       | (29 )       |
| Federal Home Loan Bank borrowings                            | 105   | 30          | 135         |
| Other long-term debt   | (119 )  | 104         | (15 )       |
| Total borrowed funds   | (16 )   | 107         | 91          |
| Change in interest expense                                   | (14 )   | 94          | 80          |
| Increase in net interest income                              | \$ 2,707  | \$ (4,829 ) | \$ (2,122 ) |
| Percentage decrease in net interest income over prior period |   |             | (7.6 )%     |

Interest income and fees on loans on a tax-equivalent basis in the third quarter of 2016 decreased \$2.3 million, or 8.5%, compared with the same period in 2015. This decrease includes the effect of the merger-related discount accretion of \$0.6 million on loans for the third quarter of 2016 compared to \$1.7 million of merger-related discount accretion for the third quarter of 2015. Average loans were \$26.2 million, or 1.2%, higher in the third quarter of 2016 compared with the third quarter of 2015, due primarily to the origination of new loans (primarily commercial real estate and agricultural), and despite the loss of approximately \$33.0 million of loans due to the sale of the Company's Davenport, Iowa branch in early August 2016. 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 decrease in interest income on loans was primarily the result of a decrease in the average yield on loans from 5.06% in the third quarter of 2015 to 4.58% in the third quarter of 2016, which was primarily attributable to purchase accounting adjustments, partially offset by the higher average balances in the loan portfolio.

Interest income on investment securities on a tax-equivalent basis totaled \$4.2 million in the third quarter of 2016 compared with \$4.0 million for the same period of 2015, including \$0.1 million of purchase accounting premium amortization expense in both the 2015 and 2016 periods. The tax-equivalent yield on our investment portfolio in the third quarter of 2016 increased to 3.04% from 2.98% in the comparable period of 2015. The average balance of investments in the third quarter of 2016 was \$551.8 million compared with \$532.5 million in the third quarter of 2015,

an increase of \$19.3 million, or 3.6%. The increase in average balance resulted primarily from deploying excess cash available at the end of the prior quarter into new investments.

Interest expense on deposits was generally unchanged in the third quarter of 2016 compared with the same period in 2015 at \$2.5 million for both periods. While the Company experienced an increase in average balances of interest-bearing deposits for the third quarter of 2016 of \$56.7 million compared with the same period in 2015, this increase was offset by the weighted average rate paid on interest-bearing deposits declining to 0.51% in the third quarter of 2016, compared with 0.52% in the third quarter of 2015. This decrease includes the effect of the merger-related premium amortization of \$0.2 million on certificates of deposit

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for the third quarter of 2016 compared with \$0.4 million for the same period in 2015. The premium amortization acts to decrease deposit interest expense.

Interest expense on borrowed funds of \$0.8 million in the third quarter of 2016 was an increase of \$0.1 million, or 12.2%, compared with \$0.7 million for the same period in 2015. Average borrowed funds for the third quarter of 2016 were \$16.6 million higher compared with the same period in 2015. This increase was primarily due to the \$24.4 million increase in the average level of FHLB borrowing. The weighted average rate on borrowed funds increased to 1.52% for the third quarter of 2016 compared with 1.46% for the third quarter of 2015, primarily reflecting the increased cost of FHLB borrowings.

**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 \$1.0 million in the third quarter of 2016, a decrease of \$1.1 million, from \$2.1 million in the third quarter of 2015. The higher provision expense in 2015 was primarily due to the greater volume of acquired loans coming out of purchase accounting and moving into the Company's standard allowance for loan loss methodology. Net loans charged off in the third quarter of 2016 totaled \$0.8 million, compared to \$0.4 million net loans charged off in the third quarter of 2015. We determine an appropriate provision based on our evaluation of the adequacy of the allowance for loan losses in relationship to a continuing review of problem loans, current economic conditions, actual loss experience and industry trends. We believed that the allowance for loan losses was adequate based on the inherent risk in the portfolio as of September 30, 2016; however, there is no assurance losses will not exceed the allowance, and any growth in the loan portfolio and the uncertainty of the general economy may require additional provisions in future periods as deemed necessary.

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

**Noninterest Income**

|  | Three Months Ended September 30, |         |              |             |
|--|----------------------------------|---------|--------------|-------------|
|  | 2016                             | 2015    | \$<br>Change | %<br>Change |
| (dollars in thousands)                       |                                  |         |              |             |
| Trust, investment, and insurance fees        | \$1,306                          | \$1,428 | \$(122 )     | (8.5 )%     |
| Service charges and fees on deposit accounts | 1,346                            | 1,297   | 49           | 3.8         |
| Loan origination and servicing fees          | 1,162                            | 1,025   | 137          | 13.4        |
| Other service charges and fees               | 1,307                            | 1,342   | (35 )        | (2.6 )      |
| Bank-owned life insurance income             | 324                              | 344     | (20 )        | (5.8 )      |
| Loss on sale of premises and equipment       | (37 )                            | (5 )    | (32 )        | NM          |
| Other gain (loss)                            | 306                              | 29      | 277          | NM          |
| Total noninterest income                     | \$5,714                          | \$5,460 | \$254        | 4.7 %       |
| Noninterest income as a % of total revenue*  | 18.1 %                           | 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 third quarter of 2016 increased to \$5.7 million, up \$0.2 million, or 4.7%, from \$5.5 million in the third quarter of 2015. The greatest increase was in other gain (loss), which increased \$0.3 million to a \$0.3 million gain for the third quarter of 2016, compared to a negligible gain for the third quarter of 2015. Other gain (loss) represents gains and losses on other real estate owned, repossessed assets, and branch banking offices. The third quarter of 2016 reflects a net gain on other real estate owned of \$0.1 million, a write down of other real estate owned of \$0.5 million, and a net gain on the sale of the Bank's Davenport, Iowa branch of \$0.7 million, while the third quarter of 2015 included a small net gain on other real estate owned. These items were previously classified as other service charges and fees and have now been broken out to provide additional transparency. Loan origination and servicing fees increased from \$1.0 million for the third quarter of 2015 to \$1.2 million for the third quarter

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of 2016. These increases were partially offset by a decrease in trust, investment and insurance fees of \$0.1 million, or 8.5%, from \$1.4 million for the third quarter of 2015 to \$1.3 million for the third quarter of 2016.

Management's strategic goal is for noninterest income to constitute 25% of total revenues (net interest income plus noninterest income excluding gain/loss on securities and premises and equipment and impairment of investment securities) over time. For the three months ended September 30, 2016, noninterest income comprised 18.1% of total revenues, compared with 16.9% for the same period in 2015. With the recent merger of Central Bank into MidWestOne Bank, management expects to see gradual improvement in this ratio in future periods.

## Noninterest Expense

|                                     | Three Months Ended September 30, |          |              |          |
|-------------------------------------|----------------------------------|----------|--------------|----------|
|                                     | 2016                             | 2015     | \$<br>Change | % Change |
| (dollars in thousands)              |                                  |          |              |          |
| Salaries and employee benefits      | \$11,641                         | \$12,191 | \$ (550 )    | (4.5 )%  |
| Net occupancy and equipment expense | 3,293                            | 2,719    | 574          | 21.1     |
| Professional fees                   | 1,014                            | 959      | 55           | 5.7      |
| Data processing expense             | 599                              | 928      | (329 )       | (35.5 )  |
| FDIC insurance expense              | 412                              | 431      | (19 )        | (4.4 )   |
| Amortization of intangible assets   | 970                              | 800      | 170          | 21.3     |
| Other operating expense             | 2,510                            | 2,314    | 196          | 8.5      |
| Total noninterest expense           | \$20,439                         | \$20,342 | \$ 97        | 0.5 %    |

Noninterest expense for the third quarter of 2016 was \$20.4 million, up \$0.1 million, or 0.5%, from the third quarter of 2015. Net occupancy and equipment expense increased \$0.6 million, or 21.1%, from \$2.7 million for the third quarter of 2015 to \$3.3 million for the third quarter of 2016 due to the additional depreciation expense associated with the completion of the Company's new operations center and remodeling of its corporate headquarters. Other operating expense for the third quarter of 2016 increased \$0.2 million, or 8.5%, compared with the third quarter of 2015, and amortization of intangible assets expense increased from \$0.8 million for the third quarter of 2015 to \$1.0 million for the third quarter of 2016. These increases were partially offset by a decrease in salaries and employee benefits of \$0.6 million, or 4.5%, and a decrease in data processing fees of \$0.3 million, or 35.5%, both due to merger-related cost savings. Merger-related expenses in the third quarter of 2016 were \$0.2 million (\$0.1 million after tax) relating to the merger of MidWestOne Bank and Central Bank, compared to \$0.2 million (\$0.2 million after tax) in the third quarter of 2015 relating to the holding company merger. The majority of the third quarter 2016 merger expenses were comprised of data processing expenses from bills received in the third quarter of 2016 relating to the bank merger, which were \$0.1 million for the third quarter of 2016 compared to no merger-related data processing expenses in the third quarter of 2015. Merger-related professional fees expense decreased \$0.1 million, or 90.7%, for the third quarter of 2016, compared with the third quarter of 2015.

## Income Tax Expense

Our effective income tax rate, or income taxes divided by income before taxes, was 29.7% for the third quarter of 2016, which was higher than the effective tax rate of 21.8% for the third quarter of 2015. Income tax expense was \$2.6 million in the third quarter of 2016 compared to \$2.1 million for the same period of 2015. The primary reason for the increase in income tax expense was the partial recognition of rehabilitation and historic tax credits on the Company's headquarters building in the amount of \$1.3 million in the third quarter of 2015.

Comparison of Operating Results for the Nine Months Ended September 30, 2016 and September 30, 2015  
Summary

For the nine months ended September 30, 2016, we earned net income of \$16.5 million, compared with \$16.9 million for the nine months ended September 30, 2015, a decrease of 2.1%. The decrease in net income was due primarily to increased noninterest expense during the first nine months 2016 compared to the first nine months of 2015, which included only five months of post-merger operations. Basic and diluted earnings per common share for the first nine months of 2016 were \$1.45 and \$1.44, respectively, versus \$1.69 and \$1.68, respectively, for the first nine months of

2015. After excluding the effects of \$4.2 million (\$2.6 million after tax) of expenses related to the merger with Central Bank, adjusted diluted earnings per share for the nine months ended September 30, 2016 were \$1.67, compared to \$1.97, after excluding \$3.4 million (\$2.9 million after tax) of expenses related to the merger with Central, for the same period last year. Our annualized ROAA for the first nine months of 2016 was 0.74% compared with 0.85% for the same period in 2015. Our annualized ROAE was 7.28% for the nine months ended September 30, 2016 versus 9.29% for the nine months ended September 30, 2015. The annualized ROATE was 11.19% for the first nine months of 2016 compared with 13.52% for the same period in 2015.



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The following table presents selected financial results and measures as of and for the nine months ended September 30, 2016 and 2015.

| (dollars in thousands)                             | As of and for the Nine<br>Months Ended<br>September 30, |           |
|--|---|-----------|
|  | 2016  | 2015      |
| Net Income   | \$16,521  | \$16,880  |
| Average Assets                                     | 2,984,220   | 2,640,774 |
| Average Shareholders' Equity                       | 303,146   | 242,872   |
| Return on Average Assets* (ROAA)                   | 0.74  | % 0.85 %  |
| Return on Average Shareholders' Equity* (ROAE)     | 7.28  | 9.29      |
| Return on Average Tangible Equity* (ROATE)         | 11.19   | 13.52     |
| Total Equity to Assets (end of period)             | 10.31   | 9.75      |
| Tangible Equity to Tangible Assets (end of period) | 7.94  | 7.33      |

\* Annualized

We have traditionally disclosed certain non-GAAP ratios, including our ROATE and the ratio of our tangible equity to tangible assets. We believe these ratios provide investors with information regarding our financial condition and results of operations and how we evaluate them internally.

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

| (dollars in thousands, except per share amounts)                        | For the Nine Months<br>Ended September 30, |            |
|---|--|------------|
|   | 2016                                       | 2015       |
| Net Income:   |  |            |
| Net income  | \$16,521                                   | \$16,880   |
| Plus: Intangible amortization, net of tax <sup>(1)</sup>                | 1,980                                      | 1,388      |
| Adjusted net income   | \$18,501                                   | \$18,268   |
| Average Tangible Equity:  |  |            |
| Average total shareholders' equity                                      | \$303,146                                  | \$242,872  |
| Less: Average intangibles, net of amortization                          | (82,237 )                                  | (62,204 )  |
| Average tangible equity   | \$220,909                                  | \$180,668  |
| ROATE (annualized)  | 11.19                                      | % 13.52 %  |
| Net Income:   |  |            |
| Net income  | \$16,521                                   | \$16,880   |
| Plus: Merger-related expenses   | 4,162                                      | 3,402      |
| Net tax effect of merger-related expenses <sup>(2)</sup>                | (1,544 )                                   | (514 )     |
| Net income exclusive of merger-related expenses                         | \$19,139                                   | \$19,768   |
| Diluted average number of shares  | 11,451,958                                 | 10,038,093 |
| Earnings Per Common Share-Diluted                                       | \$1.44                                     | \$1.68     |
| Earnings Per Common Share-Diluted, exclusive of merger-related expenses | \$1.67                                     | \$1.97     |

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

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

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|  | For the Nine Months<br>Ended September 30, |           |                     |              |
|--|--|-----------|---------------------|--------------|
| (dollars in thousands)   | 2016                                       | 2015      |                     |              |
| Adjusted Noninterest Income:   |  |           |                     |              |
| Noninterest income   | \$ 17,714                                  | \$ 14,555 |                     |              |
| Less: Impairment losses on investment securities, net                              | —  | —         |                     |              |
| Gain (loss) on sale of available for sale securities                               | 467  | 1,011     |                     |              |
| Gain (loss) on sale of premises and equipment                                      | (53 )                                      | (15 )     |                     |              |
| Other gain (loss)  | 1,378                                      | (396 )    |                     |              |
| Adjusted noninterest income  | \$ 15,922                                  | \$ 13,955 |                     |              |
| Total Revenue:   |  |           |                     |              |
| Net interest income  | \$ 75,076                                  | \$ 63,724 |                     |              |
| Plus: Noninterest income   | 17,714                                     | 14,555    |                     |              |
| Less: Impairment losses on investment securities, net                              | —  | —         |                     |              |
| Gain (loss) on sale of available for sale securities                               | 467  | 1,011     |                     |              |
| Gain (loss) on sale of premises and equipment                                      | (53 )                                      | (15 )     |                     |              |
| Other gain (loss)  | 1,378                                      | (396 )    |                     |              |
| Total Revenue  | \$ 90,998                                  | \$ 77,679 |                     |              |
| Adjusted Noninterest Income as a Percentage of Total Revenue                       | 17.5 %                                     | 18.0 %    |                     |              |
|  |  |           | As of September 30, |              |
| (dollars in thousands)   |  |           | 2016                | 2015         |
| Tangible Equity:   |  |           |                     |              |
| Total shareholders' equity   |  |           | \$ 309,584          | \$ 290,666   |
| Less: Intangible assets, net of amortization and associated deferred tax liability |  |           | (77,327 )           | (77,761 )    |
| Tangible equity  |  |           | \$ 232,257          | \$ 212,905   |
| Tangible Assets:   |  |           |                     |              |
| Total assets   |  |           | \$ 3,001,974        | \$ 2,981,840 |
| Less: Intangible assets, net of amortization and associated deferred tax liability |  |           | (77,327 )           | (77,761 )    |
| Tangible assets  |  |           | \$ 2,924,647        | \$ 2,904,079 |
| Tangible Equity/Tangible Assets  |  |           | 7.94 %              | 7.33 %       |

**Net Interest Income**

Our net interest income for the nine months ended September 30, 2016 was \$75.1 million, up \$11.4 million, or 17.8%, from \$63.7 million for the nine months ended September 30, 2015, primarily due to an increase of \$12.8 million, or 17.8%, in interest income. Loan interest income increased \$13.1 million, or 21.5%, to \$74.1 million for the first nine months of 2016 compared to the first nine months of 2015, primarily due to the merger-related increase in average loan balances of \$305.0 million, or 16.4%, between the two periods, and despite the effect of a decrease in the merger-related discount accretion to \$2.4 million for the nine months ended September 30, 2016, compared to \$3.0 million for the nine months ended September 30, 2015. Interest income on investment securities increased \$0.3 million, or 3.1%, to \$10.2 million for the first nine months of 2016 compared to the first nine months of 2015 primarily due to an increase of 13 basis points on the portfolio's yield, somewhat offset by a decrease of \$7.4 million in the average balance between the comparative periods. There was no income from loan pool participations in the first nine months of 2016 compared to \$0.8 million of income in the first nine months of 2015, as the Company sold its remaining loan pool participations in June 2015.

Total interest expense was \$9.3 million for the nine months ended September 30, 2016, an increase of \$1.4 million, or 17.7%, compared to the first nine months of 2015. Interest expense on deposits increased \$0.9 million, or 16.2%, to \$6.8 million for the nine months ended September 30, 2016 (including \$0.8 million in merger-related amortization of the purchase accounting premium on certificates of deposit), compared to \$5.9 million (including \$1.0 million in merger-related amortization) for the nine months ended September 30, 2015.

Our net interest margin on a tax-equivalent basis for the first nine months of 2016 increased to 3.83% compared with the net interest margin of 3.69% for the first nine months of 2015. Net interest margin is a measure of the net return on earning assets and is computed by dividing annualized net interest income on a tax-equivalent basis by the average of total earning assets for the period. Our overall yield on earning assets was 4.29% for the first nine months of 2016, an increase of 16 basis points compared to the first nine months of 2015. This increase was despite the inclusion of \$2.4 million of merger-related discount accretion income

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for loans in the first nine months of 2016, compared to \$3.0 million of discount for the first nine months of 2015. The average cost of interest-bearing liabilities increased in the first nine months of 2016 to 0.58% from 0.56% for the first nine months of 2015, due primarily to the higher cost of obtaining deposits during the period and increased rates on FHLB borrowings, despite the inclusion of \$0.8 million of merger-related amortization of the purchase accounting premium on certificates of deposit in the first nine months of 2016, compared to \$1.0 million of such amortization for the first nine months of 2015.

The following table shows consolidated average balance sheets, detailing the major categories of assets and liabilities, the interest income earned on earning assets, the interest expense paid for interest-bearing liabilities, and the related yields and interest rates for the nine months ended September 30, 2016 and 2015. 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.

|   | Nine Months Ended September 30, |                          |                     |                 |                          |                     |
|---|---------------------------------|--------------------------|---------------------|-----------------|--------------------------|---------------------|
|   | 2016                            |                          |                     | 2015            |                          |                     |
|   | Average Balance                 | Interest Income/ Expense | Average Rate/ Yield | Average Balance | Interest Income/ Expense | Average Rate/ Yield |
| (dollars in thousands)                            |                                 |                          |                     |                 |                          |                     |
| Average Earning Assets:                           |                                 |                          |                     |                 |                          |                     |
| Loans <sup>(1)(2)(3)</sup>                        | \$2,164,740                     | \$75,379                 | 4.65 %              | \$1,859,735     | \$62,037                 | 4.46 %              |
| Loan pool participations <sup>(4)</sup>           | —                               | —                        | —                   | 13,413          | 798                      | 7.95                |
| Investment securities:                            |                                 |                          |                     |                 |                          |                     |
| Taxable investments                               | 341,621                         | 5,924                    | 2.32                | 359,475         | 5,721                    | 2.13                |
| Tax exempt investments <sup>(2)</sup>             | 189,712                         | 6,504                    | 4.58                | 179,297         | 6,341                    | 4.73                |
| Total investment securities                       | 531,333                         | 12,428                   | 3.12                | 538,772         | 12,062                   | 2.99                |
| Federal funds sold and interest-bearing balances  | 40,813                          | 145                      | 0.47                | 16,025          | 29                       | 0.24                |
| Total interest-earning assets                     | \$2,736,886                     | \$87,952                 | 4.29 %              | \$2,427,945     | \$74,926                 | 4.13 %              |
| Cash and due from banks                           | 37,120                          |                          |                     | 36,714          |                          |                     |
| Premises and equipment                            | 76,247                          |                          |                     | 62,528          |                          |                     |
| Allowance for loan losses                         | (20,736 )                       |                          |                     | (18,461 )       |                          |                     |
| Other assets                                      | 154,703                         |                          |                     | 132,048         |                          |                     |
| Total assets                                      | \$2,984,220                     |                          |                     | \$2,640,774     |                          |                     |
| Average Interest-Bearing Liabilities:             |                                 |                          |                     |                 |                          |                     |
| Savings and interest-bearing demand deposits      | \$1,270,067                     | \$2,562                  | 0.27 %              | \$1,076,323     | \$2,031                  | 0.25 %              |
| Certificates of deposit                           | 650,176                         | 4,260                    | 0.88                | 632,419         | 3,841                    | 0.81                |
| Total deposits                                    | 1,920,243                       | 6,822                    | 0.47                | 1,708,742       | 5,872                    | 0.46                |
| Federal funds purchased and repurchase agreements | 74,006                          | 151                      | 0.27                | 69,077          | 157                      | 0.30                |
| Federal Home Loan Bank borrowings                 | 106,909                         | 1,387                    | 1.73                | 86,797          | 1,086                    | 1.67                |
| Long-term debt and other                          | 46,452                          | 978                      | 2.81                | 37,658          | 817                      | 2.90                |
| Total borrowed funds                              | 227,367                         | 2,516                    | 1.48                | 193,532         | 2,060                    | 1.42                |
| Total interest-bearing liabilities                | \$2,147,610                     | \$9,338                  | 0.58 %              | \$1,902,274     | \$7,932                  | 0.56 %              |
| Net interest spread <sup>(2)</sup>                |                                 |                          | 3.71 %              |                 |                          | 3.57 %              |
| Demand deposits                                   | 514,991                         |                          |                     | 450,219         |                          |                     |
| Other liabilities                                 | 18,473                          |                          |                     | 45,409          |                          |                     |
| Shareholders' equity                              | 303,146                         |                          |                     | 242,872         |                          |                     |
| Total liabilities and shareholders' equity        | \$2,984,220                     |                          |                     | \$2,640,774     |                          |                     |

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|   |             |          |        |             |          |        |
|---|-------------|----------|--------|-------------|----------|--------|
| Interest income/earning assets <sup>(2)</sup> | \$2,736,886 | \$87,952 | 4.29 % | \$2,427,945 | \$74,926 | 4.13 % |
| Interest expense/earning assets               | \$2,736,886 | \$9,338  | 0.46 % | \$2,427,945 | \$7,932  | 0.44 % |
| Net interest margin <sup>(2)(5)</sup>         |             | \$78,614 | 3.83 % |             | \$66,994 | 3.69 % |

Non-GAAP to GAAP Reconciliation:

Tax Equivalent Adjustment:

|                                 |          |          |
|---------------------------------|----------|----------|
| Loans                           | \$1,285  | \$1,078  |
| Securities                      | 2,253    | 2,192    |
| Total tax equivalent adjustment | 3,538    | 3,270    |
| Net Interest Income             | \$75,076 | \$63,724 |

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- (1) Loan fees included in interest income are not material.  
(2) Computed on a tax-equivalent basis, assuming a federal income tax rate of 35%.  
(3) Non-accrual loans have been included in average loans, net of unearned discount.  
(4) Includes interest income and discount realized on loan pool participations.  
(5) Net interest margin is tax-equivalent net interest income as a percentage of average earning assets.

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 nine months ended September 30, 2016, compared to the same period in 2015, reported on a fully tax-equivalent basis assuming a 35% tax rate. The table distinguishes between the changes related to average outstanding balances (changes in volume holding the initial interest rate constant) and the changes related to average interest rates (changes in average rate holding the initial outstanding balance constant). The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

|  | Nine Months Ended September 30,<br>2016 Compared to 2015 Change due to |            |           |
|--|--|------------|-----------|
|  | Volume   | Rate/Yield | Net       |
| (in thousands)   |  |            |           |
| Increase (decrease) in interest income:                    |  |            |           |
| Loans, tax equivalent                                      | \$ 10,591  | \$ 2,751   | \$ 13,342 |
| Loan pool participations                                   | (399 )   | (399 )     | (798 )    |
| Investment securities:                                     |  |            |           |
| Taxable investments  | (416 )   | 619        | 203       |
| Tax exempt investments                                     | 453  | (290 )     | 163       |
| Total investment securities                                | 37   | 329        | 366       |
| Federal funds sold and interest-bearing balances           | 72   | 44         | 116       |
| Change in interest income                                  | 10,301   | 2,725      | 13,026    |
| Increase (decrease) in interest expense:                   |  |            |           |
| Savings and interest-bearing demand deposits               | 368  | 163        | 531       |
| Certificates of deposit                                    | 103  | 316        | 419       |
| Total deposits   | 471  | 479        | 950       |
| Federal funds purchased and repurchase agreements          | 15   | (21 )      | (6 )      |
| Federal Home Loan Bank borrowings                          | 261  | 40         | 301       |
| Other long-term debt                                       | 202  | (41 )      | 161       |
| Total borrowed funds                                       | 478  | (22 )      | 456       |
| Change in interest expense                                 | 949  | 457        | 1,406     |
| Change in net interest income                              | \$ 9,352   | \$ 2,268   | \$ 11,620 |
| Percentage change in net interest income over prior period |  |            | 17.3 %    |

Interest income and fees on loans on a tax-equivalent basis increased \$13.3 million, or 21.5%, in the first nine months of 2016 compared to the same period in 2015. This increase reflects the effect of the merger-related discount accretion for loans of \$2.4 million in the first nine months of 2016, compared to \$3.0 million of discount accretion in the first nine months of 2015. The increased income is mainly due to an increase in average loans balances of \$305.0 million, or 16.4%, in the first nine months of 2016 compared to the same period in 2015, primarily resulting from the merger. The yield on loans increased from 4.46% in the first nine months of 2015 to 4.65% in the same period of 2016. 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.

Interest and discount income on loan pool participations was nothing for the first nine months of 2016, a decrease of \$0.8 million compared to the first nine months of 2015. The Company sold its remaining loan pool participations in the second quarter of 2015.

Interest income on investment securities on a tax-equivalent basis totaled \$12.4 million in the first nine months of 2016 compared with \$12.1 million for the same period of 2015, reflecting \$0.2 million of purchase accounting premium amortization expense in the first nine months of 2016 compared to \$0.2 million of purchase accounting premium amortization in the first nine months of 2015. The tax-equivalent yield on our investment portfolio for the first nine months of 2016 increased to 3.12% from

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2.99% in the comparable period of 2015, with the first nine months of 2016 yield including 7 basis points of decrease attributable to purchase accounting. The average balance of investments in the first nine months of 2016 was \$531.3 million compared with \$538.8 million in the first nine months of 2015, a decrease of \$7.4 million, or 1.4%.

Interest expense on deposits was \$6.8 million for the first nine months of 2016 compared with \$5.9 million for the same period in 2015. This increase was in part due to average interest-bearing deposits for the first nine months of 2016 increasing \$211.5 million, or 12.4%, compared with the same period in 2015, due primarily to the merger.

The weighted average rate paid on interest-bearing deposits was 0.47% for the first nine months of 2016 compared with 0.46% for the first nine months of 2015. This increase reflects the merger-related amortization of the purchase accounting premium on certificates of deposit in the amount of \$0.8 million for the first nine months of 2016 compared with \$1.0 million for the first nine months of 2015. The impact of the amortization in 2016 was to reduce the average cost of deposits by 6 basis points.

Interest expense on borrowed funds in the first nine months of 2016 was \$2.5 million, compared with \$2.1 million for the same period in 2015. Average borrowed funds for the first nine months of 2016 were \$33.8 million higher compared with the same period in 2015. This increase was primarily due to the borrowing of \$25.0 million in new long-term debt as well as \$21.6 million of subordinated notes assumed in the merger during the second quarter of 2015, and the \$20.1 million increase in the average level of FHLB borrowings for the first nine months of 2016 compared to the first nine months of 2015. The weighted average rate on borrowed funds increased to 1.48% for the first nine months of 2016 compared with 1.42% for the first nine months of 2015, reflecting the increased cost of new debt relative to that of pre-merger debt.

**Provision for Loan Losses**

We recorded a provision for loan losses of \$3.2 million in the first nine months of 2016, \$0.4 million, or 11.0%, less than the \$3.6 million provision in the first nine months of 2015. The decreased provision is primarily due to the lower level of loans moving from the purchased accounting portfolio to the Company's standard allowance for loan loss methodology. Net loans charged off in the first nine months of 2016 totaled \$1.3 million compared with \$1.1 million in the first nine months of 2015.

**Noninterest Income**

|   | Nine Months Ended |          | \$       | % Change |
|---|-------------------|----------|----------|----------|
|   | 2016              | 2015     |          |          |
|   |                   |          | Change   |          |
| (dollars in thousands)                                |                   |          |          |          |
| Trust, investment, and insurance fees                 | \$4,244           | \$4,642  | \$(398 ) | (8.6 )%  |
| Service charges and fees on deposit accounts          | 3,887             | 3,098    | 789      | 25.5     |
| Loan origination and servicing fees                   | 2,636             | 2,096    | 540      | 25.8     |
| Other service charges and fees                        | 4,115             | 3,155    | 960      | 30.4     |
| Bank-owned life insurance income                      | 1,040             | 964      | 76       | 7.9      |
| Gain on sale or call of available for sale securities | 467               | 1,011    | (544 )   | (53.8 )  |
| Loss on sale of premises and equipment                | (53 )             | (15 )    | (38 )    | NM       |
| Other gain (loss)                                     | 1,378             | (396 )   | 1,774    | NM       |
| Total noninterest income                              | \$17,714          | \$14,555 | \$3,159  | 21.7 %   |
| Adjusted noninterest income as a % of total revenue*  | 17.5 %            | 18.0 %   |          |          |

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 rose to \$17.7 million for the first nine months of 2016, an increase of \$3.2 million, or 21.7%, from \$14.6 million during the same period of 2015. The greatest increase for the nine months ended September 30, 2016, was in other gain (loss), which increased \$1.8 million to a gain of \$1.4 million for the nine months ended September 30, 2016, compared to a loss of \$0.4 million for the nine months ended September 30, 2015. The first nine months of 2016 reflect a net gain on other real estate owned of \$0.8 million, and a net gain on the sales of the Rice



Lake and Barron, Wisconsin and Davenport, Iowa branches of \$1.2 million. The first nine months of 2015 included a net loss on other real estate owned of \$0.4 million, due primarily the sale of the loan pool participations in June 2015. Other service charges and fees rose from \$3.2 million for the nine months ended September 30, 2015, to \$4.1 million for the nine months ended September 30, 2016, an increase of \$0.9 million, or 30.4%. Another significant contributor to the overall increase in noninterest income was service charges and fees on deposit accounts, which increased \$0.8 million to \$3.9 million for the first nine months of 2016, compared with \$3.1 million for the same period of 2015. Loan origination and servicing fees in the first nine months of 2016 increased \$0.5 million, or 25.8%, from \$2.1 million for the same period in 2015. These increases were partially offset by decreased gains on the sale of available for sale securities of \$0.5

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million between the nine months ended September 30, 2016 and the same period of 2015. In addition, trust, investment, and insurance fees also decreased to \$4.2 million for the first nine months of 2016, a decline of \$0.4 million, or 8.6%, from \$4.6 million for the same period in 2015.

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 nine months ended September 30, 2016, noninterest income comprised 17.5% of total revenues, compared with 18.0% for the same period in 2015. With the recent merger of Central Bank into MidWestOne Bank, management expects to see gradual improvement in this ratio in future periods.

## Noninterest Expense

|                                     | Nine Months<br>Ended September<br>30, |          |           |          |
|-------------------------------------|---------------------------------------|----------|-----------|----------|
|                                     | 2016                                  | 2015     | \$ Change | % Change |
| (dollars in thousands)              |                                       |          |           |          |
| Salaries and employee benefits      | \$37,607                              | \$29,054 | \$8,553   | 29.4 %   |
| Net occupancy and equipment expense | 9,870                                 | 6,585    | 3,285     | 49.9     |
| Professional fees                   | 3,181                                 | 3,868    | (687)     | (17.8)   |
| Data processing expense             | 3,981                                 | 2,028    | 1,953     | 96.3     |
| FDIC insurance expense              | 1,231                                 | 1,058    | 173       | 16.4     |
| Amortization of intangible assets   | 3,046                                 | 2,136    | 910       | 42.6     |
| Other operating expense             | 7,784                                 | 6,638    | 1,146     | 17.3     |
| Total noninterest expense           | \$66,700                              | \$51,367 | \$15,333  | 29.8 %   |

Noninterest expense increased to \$66.7 million for the nine months ended September 30, 2016 compared with \$51.4 million for the nine months ended September 30, 2015, an increase of \$15.3 million, or 29.8%. All categories of noninterest expense increased for the nine months ended September 30, 2016, with the exception of professional fees, which decreased \$0.7 million, or 17.8%, due to lower merger-related professional fee expenses of \$0.3 million for the first nine months of 2016 compared with \$1.9 million for the same period last year. Salaries and employee benefits increased \$8.5 million, or 29.4%, from \$29.1 million for the nine months ended September 30, 2015, to \$37.6 million for the nine months ended September 30, 2016. This increase in salaries and employee benefits includes \$1.7 million of merger-related expenses, mainly severance and retention payments, for the nine months ended September 30, 2016, compared to \$0.5 million for the same period in 2015. Net occupancy and equipment expense rose from \$6.6 million for the first nine months of 2015 to \$9.9 million for the same period of 2016, an increase of \$3.3 million, or 49.9%, primarily due to the merger. The increase in data processing expense for the nine months ended September 30, 2016, of \$2.0 million, or 96.3%, compared to the same period of 2015, was attributable primarily to contract termination expenses of \$1.9 million in connection with the merger of the banks.

## Income Tax Expense

Our effective tax rate, or income taxes divided by income before taxes, was 27.7% for the first nine months of 2016, and 27.5% for the first nine months of 2015. Income tax expense decreased to \$6.3 million in the first nine months of 2016 compared with \$6.4 million for the same period of 2015, primarily due to the decrease in the level of taxable income between the two periods and the non-deductible merger-related expenses incurred in the respective periods.

## FINANCIAL CONDITION

Our total assets increased to \$3.00 billion at September 30, 2016, from \$2.98 billion at December 31, 2015, mainly attributable to an increase in investment securities, which increased \$41.7 million, or 7.6%, and cash and cash equivalents, which increased \$4.9 million, or 10.3%, between these dates. These increases were partially offset by decreases in total loans of \$10.1 million, or 0.5%, primarily due to the sale of our Rice Lake and Barron, Wisconsin and Davenport, Iowa branch offices, and decreases in other real estate owned of \$5.4 million, or 60.9%, between December 31, 2015 and September 30, 2016. Total deposits at September 30, 2016, were \$2.45 billion, a decrease of \$17.6 million, or 0.7%, from December 31, 2015, again primarily due to the sale of our Rice Lake and Barron,

Wisconsin and Davenport, Iowa branch offices. The mix of deposits saw a decrease in non-interest bearing demand deposits of \$65.8 million, or 11.8%, and a decrease of \$8.9 million, or 1.38%, in certificates of deposit between December 31, 2015 and September 30, 2016. These decreases were partially offset by increases between December 31, 2015 and September 30, 2016 of \$50.2 million, or 4.7%, in interest-bearing checking deposits, and \$6.9 million, or 3.7%, in savings deposits. Federal funds purchased increased \$17.8 million, from \$1.5 million at December 31, 2015, to \$19.3 million at September 30, 2016, to help offset the overall decline in deposit balances. At September 30, 2016, the long-term borrowings incurred by the Company in connection with the closing of the holding company merger had an outstanding balance of \$18.8 million, a decrease of \$3.8 million, or 16.7%, from December 31, 2015, due to normal scheduled repayments. Securities sold under agreement to repurchase declined \$4.0 million between December 31, 2015 and September 30, 2016, while FHLB borrowings

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increased \$13.0 million, or 14.9%, between December 31, 2015, and September 30, 2016, to \$100.0 million at September 30, 2016.

**Investment Securities**

Investment securities totaled \$587.3 million at September 30, 2016, or 19.6% of total assets, an increase of \$41.7 million, or 7.6%, from \$545.7 million, or 18.3% of total assets, as of December 31, 2015. A total of \$436.2 million of the investment securities were classified as available for sale at September 30, 2016, compared to \$427.2 million at December 31, 2015. This represents an increase in investment securities available for sale of \$9.0 million, or 2.1%, from December 31, 2015 to September 30, 2016. As of September 30, 2016, the portfolio consisted mainly of obligations of states and political subdivisions (43.9%), mortgage-backed securities and collateralized mortgage obligations (41.8%), and obligations of U.S. government agencies (1.0%). Investment securities held to maturity were \$151.1 million at September 30, 2016, compared to \$118.4 million at December 31, 2015.

**Loans**

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

|                                  | September 30, 2016 |            | December 31, 2015 |            |
|----------------------------------|--------------------|------------|-------------------|------------|
|                                  | Balance            | % of Total | Balance           | % of Total |
| (dollars in thousands)           |                    |            |                   |            |
| Agricultural                     | \$121,625          | 5.7 %      | \$121,714         | 5.7 %      |
| Commercial and industrial        | 475,202            | 22.2       | 467,412           | 21.7       |
| Credit cards                     | 1,526              | 0.1        | 1,377             | 0.1        |
| Overdrafts <sup>1</sup>          | —                  | 0.0        | 1,483             | 0.1        |
| Commercial real estate:          |                    |            |                   |            |
| Construction and development     | 126,515            | 5.9        | 120,753           | 5.6        |
| Farmland                         | 95,138             | 4.4        | 89,084            | 4.1        |
| Multifamily                      | 118,392            | 5.5        | 121,763           | 5.7        |
| Commercial real estate-other     | 679,601            | 31.7       | 660,341           | 30.7       |
| Total commercial real estate     | 1,019,646          | 47.5       | 991,941           | 46.1       |
| Residential real estate:         |                    |            |                   |            |
| One- to four-family first liens  | 369,607            | 17.3       | 428,233           | 19.9       |
| One- to four-family junior liens | 117,291            | 5.5        | 102,273           | 4.7        |
| Total residential real estate    | 486,898            | 22.8       | 530,506           | 24.6       |
| Consumer                         | 36,935             | 1.7        | 37,509            | 1.7        |
| Total loans                      | \$2,141,832        | 100.0 %    | \$2,151,942       | 100.0 %    |

(1) As of the first quarter of 2016, overdrafts are no longer included as a separate class of loan.

Total loans (excluding loans held for sale) decreased \$10.1 million, or 0.5%, from \$2.15 billion at December 31, 2015, to \$2.14 billion at September 30, 2016. The decrease was primarily concentrated in residential real estate loans. This decrease was partially offset by increases in commercial real estate-other, commercial and industrial, farmland, and construction and development loans. As of September 30, 2016, the largest category of loans was commercial real estate loans, comprising approximately 48% of the portfolio, of which 6% of total loans were multifamily residential mortgages, 6% of total loans were construction and development, and 4% of total loans were farmland. Residential real estate loans was the next largest category at 23% of total loans, followed by commercial and industrial loans at 22%, agricultural loans at 6%, and consumer loans at 2%. The Company also held \$22.3 million net of a discount of \$4.8 million, or 1.0% of the total loan portfolio, in purchased credit impaired loans as a result of the merger.

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.



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### Premises and Equipment

As of September 30, 2016, premises and equipment totaled \$75.1 million, a decrease of \$1.1 million, or 1.4%, from \$76.2 million at December 31, 2015. This decrease was primarily due to normal depreciation expense of \$3.3 million, partially offset by ongoing capital improvement projects. The Company completed the construction of a new Home Mortgage and Operations Center, which was complete at the end of 2015, at a total cost of \$16.0 million. The Company also undertook the restoration and remodeling of the building that serves as the main office of the Bank and headquarters of the Company, which was completed in April 2016 at a cost of \$13.8 million.

### Deposits

Total deposits as of September 30, 2016 were \$2.45 billion, a decrease of \$17.6 million, or 0.7% from December 31, 2015. Interest-bearing checking deposits were the largest category of deposits at September 30, 2016, representing approximately 45.6% of total deposits. Total interest-bearing checking deposits were \$1.11 billion at September 30, 2016, an increase of \$50.2 million, or 4.7%, from \$1.06 billion at December 31, 2015. Included in interest-bearing checking deposits at September 30, 2016 were \$39.0 million of brokered deposits in the Insured Cash Sweep (ICS) program, an increase of \$18.8 million, or 92.7%, from \$20.3 million at December 31, 2015, due primarily to the addition of one account holder. Non-interest bearing demand deposits were \$493.8 million at September 30, 2016, a decrease of \$65.8 million, or 11.8%, from \$559.6 million at December 31, 2015. Savings deposits were \$196.4 million at September 30, 2016, an increase of \$6.9 million, or 3.7%, from December 31, 2015. Total certificates of deposit were \$641.2 million at September 30, 2016, down \$8.9 million, or 1.4%, from \$650.1 million at December 31, 2015. Included in total certificates of deposit at September 30, 2016 was \$3.0 million of brokered deposits in the Certificate of Deposit Account Registry Service (CDARS) program, an increase of \$0.1 million, or 5.2%, from December 31, 2015. Based on recent experience, management anticipates that many of the maturing certificates of deposit will not be renewed upon maturity due to the current low interest rate environment. Approximately 87.4% of our total deposits were considered “core” deposits as of September 30, 2016.

### Goodwill and Other Intangible Assets

Goodwill increased from \$64.5 million as of December 31, 2015, to \$64.7 million as of September 30, 2016 due to the finalization of merger accounting amounts related to the Central merger in the first quarter of 2016. Other intangible assets decreased \$3.0 million, or 15.9%, to \$16.1 million at September 30, 2016 compared to \$19.1 million at December 31, 2015, due to normal amortization. See Note 7. “Goodwill and Intangible Assets” to our consolidated financial statements for additional information.

### Debt

#### Federal Home Loan Bank Borrowings

FHLB borrowings totaled \$100.0 million as of September 30, 2016 compared with \$87.0 million as of December 31, 2015. We utilize FHLB borrowings as a supplement to customer deposits to fund earning assets and to assist in managing interest rate risk. Thus, when deposits decline, FHLB borrowing may increase to provide necessary liquidity. See Note 11. “Long-Term Borrowings” to our consolidated financial statements for additional information related to our FHLB borrowings.

#### Junior Subordinated Notes Issued to Capital Trusts

Junior subordinated notes that have been issued to capital trusts that issued trust preferred securities were \$23.7 million as of September 30, 2016, an increase of \$0.1 million from December 31, 2015. This increase was due to the accretion of the purchase accounting discount on the two junior subordinated notes assumed in the Central merger. See Note 10. “Subordinated Notes Payable” to our consolidated financial statements for additional information related to our junior subordinated notes.

#### Long-term Debt

Long-term debt in the form of a \$35.0 million unsecured note, of which \$25.0 million was drawn upon, payable to a correspondent bank was entered into on April 30, 2015 in connection with the payment of the merger consideration at the closing of the Central merger, of which \$18.8 million was outstanding as of September 30, 2016. See Note 11. “Long-Term Borrowings” to our consolidated financial statements for additional information related to our long-term debt.



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## Nonperforming Assets

The following tables set forth information concerning nonperforming loans by class of loans at September 30, 2016 and December 31, 2015:

|                                   | 90 Days<br>or More<br>Past Due<br>and Still<br>Accruing<br>Interest | Restructured | Nonaccrual | Total    |
|-----------------------------------|---|--------------|------------|----------|
| (in thousands)                    |   |              |            |          |
| September 30, 2016                |   |              |            |          |
| Agricultural                      | \$ —  | \$ 2,795     | \$ 401     | \$3,196  |
| Commercial and industrial         | —   | 669          | 5,966      | 6,635    |
| Credit cards                      | —   | —            | —          | —        |
| Commercial real estate:           |   |              |            |          |
| Construction and development      | 248   | —            | 343        | 591      |
| Farmland                          | —   | 2,174        | 228        | 2,402    |
| Multifamily                       | —   | —            | 226        | 226      |
| Commercial real estate-other      | 60  | 248          | 6,994      | 7,302    |
| Total commercial real estate      | 308   | 2,422        | 7,791      | 10,521   |
| Residential real estate:          |   |              |            |          |
| One- to four- family first liens  | 448   | 1,447        | 1,102      | 2,997    |
| One- to four- family junior liens | 186   | 13           | 105        | 304      |
| Total residential real estate     | 634   | 1,460        | 1,207      | 3,301    |
| Consumer                          | —   | 12           | 12         | 24       |
| Total                             | \$ 942  | \$ 7,358     | \$ 15,377  | \$23,677 |

|                                   | 90 Days<br>or More<br>Past Due<br>and Still<br>Accruing<br>Interest | Restructured | Nonaccrual | Total   |
|-----------------------------------|---|--------------|------------|---------|
| (in thousands)                    |   |              |            |         |
| December 31, 2015                 |   |              |            |         |
| Agricultural                      | \$ —  | \$ 2,901     | \$ 172     | \$3,073 |
| Commercial and industrial         | —   | 1,122        | 575        | 1,697   |
| Credit cards                      | —   | —            | —          | —       |
| Overdrafts                        | —   | —            | —          | —       |
| Commercial real estate:           |   |              |            |         |
| Construction and development      | —   | —            | 95         | 95      |
| Farmland                          | 80  | 2,209        | 20         | 2,309   |
| Multifamily                       | —   | —            | 224        | 224     |
| Commercial real estate-other      | —   | —            | 1,452      | 1,452   |
| Total commercial real estate      | 80  | 2,209        | 1,791      | 4,080   |
| Residential real estate:          |   |              |            |         |
| One- to four- family first liens  | 199   | 972          | 1,182      | 2,353   |
| One- to four- family junior liens | —   | 13           | 281        | 294     |
| Total residential real estate     | 199   | 985          | 1,463      | 2,647   |
| Consumer                          | 5   | 15           | 11         | 31      |



Total                                   \$ 284     \$ 7,232     \$ 4,012     \$ 11,528

Not included in the loans above as of September 30, 2016, were purchased credit impaired loans with an outstanding balance of \$2.8 million, net of a discount of \$0.9 million.

Our nonperforming assets (which include nonperforming loans and OREO) totaled \$27.1 million as of September 30, 2016, an increase of \$6.8 million, or 33.2%, from December 31, 2015. The balance of OREO at September 30, 2016 was \$3.5 million, a decrease of \$5.4 million, from \$8.8 million of OREO at December 31, 2015. All of the OREO property was acquired through foreclosures, and we are actively working to sell all properties held as of September 30, 2016. 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.

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Nonperforming loans increased from \$11.5 million, or 0.54% of total loans, at December 31, 2015, to \$23.7 million, or 1.11% of total loans, at September 30, 2016. At September 30, 2016, nonperforming loans consisted of \$15.4 million in nonaccrual loans, \$7.4 million in TDRs and \$0.9 million in loans past due 90 days or more and still accruing. This compares to nonaccrual loans of \$4.0 million, TDRs of \$7.2 million, and loans past due 90 days or more and still accruing of \$0.3 million at December 31, 2015. Nonaccrual loans increased \$11.4 million between December 31, 2015, and September 30, 2016, due primarily to the addition of one commercial loan customer with four loans totaling \$10.4 million. The Company is actively working to resolve the issues with these four loans. The balance of TDRs increased \$0.1 million between these two dates, as the addition of four loans totaling \$0.5 million were partially offset by payments collected from TDR-status borrowers and the charge-off of two TDRs totaling \$0.2 million. Loans 90 days or more past due and still accruing interest increased \$0.7 million between December 31, 2015 and September 30, 2016. Loans past due 30 to 89 days and still accruing interest (not included in the nonperforming loan totals) increased to \$11.6 million at September 30, 2016, compared with \$8.5 million at December 31, 2015. At September 30, 2016, other real estate owned (not included in nonperforming loans) was \$3.5 million, down from \$8.8 million of other real estate owned at December 31, 2015. During the first nine months of 2016, the Company had a net decrease of 29 properties in other real estate owned. As of September 30, 2016, the allowance for loan losses was \$21.4 million, or 1.00% of total loans, compared with \$19.4 million, or 0.90% of total loans at December 31, 2015. The allowance for loan losses represented 90.36% of nonperforming loans at September 30, 2016, compared with 168.52% of nonperforming loans at December 31, 2015. The Company had net loan charge-offs of \$1.3 million in the nine months ended September 30, 2016, or an annualized 0.08% of average loans outstanding, compared to net charge-offs of \$1.1 million, or an annualized 0.08% of average loans outstanding, for the same period of 2015. Loan Review and Classification Process for Agricultural, Commercial and Industrial, and Commercial Real Estate Loans:

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

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

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

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

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

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

**Restructured Loans**

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

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

• The borrower receives an extension of the maturity date or dates at a stated interest rate lower than the current market interest rate for new debt with similar risk characteristics.

• The borrower receives a reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement.

• The borrower receives a deferral of required payments (principal and/or interest).

• The borrower receives a reduction of the accrued interest.

Generally, loans are restructured through short-term interest rate relief, short-term principal payment relief or short-term principal and interest payment relief. Once a restructured loan has gone 90 days or more past due or is placed on nonaccrual status, it is included in the 90 days and over past due or nonaccrual totals.

During the nine months ended September 30, 2016, the Company restructured five loans by granting concessions to borrowers 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 September 30, 2016 and December 31, 2015 is as follows:

|  | September 30,<br>2016 | December<br>31,<br>2015 |
|--|-----------------------|-------------------------|
| (in thousands)   |                       |                         |
| <b>Restructured Loans (TDRs):</b>                            |                       |                         |
| In compliance with modified terms                            | \$ 7,358              | \$ 7,232                |
| Not in compliance with modified terms - on nonaccrual status | 1,092                 | 458                     |
| <b>Total restructured loans</b>                              | <b>\$ 8,450</b>       | <b>\$ 7,690</b>         |

**Allowance for Loan Losses**

Our ALLL as of September 30, 2016 was \$21.4 million, which was 1.00% of total loans and 1.30% of purchased non-credit impaired loans as of that date. This compares with an ALLL of \$19.4 million as of December 31, 2015, which was 0.90% of total loans and 1.32% of purchased non-credit impaired loans as of that date. Gross charge-offs for the first nine months of 2016 totaled \$1.7 million, while recoveries of previously charged-off loans totaled \$0.5 million. The ratio of annualized net loan charge offs to average loans for the first nine months of 2016 was 0.08% compared to 0.11% for the year ended December 31, 2015. As of September 30, 2016, the ALLL was 90.4% of nonperforming loans compared with 168.5% as of December 31, 2015. Based on the inherent risk in the loan portfolio, we believed that as of September 30, 2016, 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 may require that management continue to evaluate the adequacy of the ALLL and make additional provisions in future periods as deemed necessary.

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Non-acquired loans with a balance of \$1.61 billion at September 30, 2016, had \$20.9 million of the allowance for loan losses allocated to them, providing an allocated allowance for loan loss to non-acquired loan ratio of 1.30%.

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 September 30, 2016

|                          | Gross<br>Loans<br>(A) | Discount<br>(B) | Loans, Net<br>of<br>Discount<br>(A-B) | Allowance<br>(C) | Allowance/Gross<br>Loans<br>(C/A) |   | Allowance +<br>Discount/Gross<br>Loans<br>((B+C)/A) |   |
|--------------------------|-----------------------|-----------------|---------------------------------------|------------------|-----------------------------------|---|---|---|
| Total Non-Acquired Loans | \$1,613,618           | \$—             | \$1,613,618                           | \$ 20,941        | 1.30                              | % | 1.30  | % |
| Total Acquired Loans     | 543,418               | 15,204          | 528,214                               | 454              | 0.08                              |   | 2.88  |   |
| Total Loans              | \$2,157,036           | \$15,204        | \$2,141,832                           | \$ 21,395        | 1.00                              | % | 1.70  | % |

As part of the merger between MidWestOne Bank and Central Bank, management developed a single methodology for determining the amount of the ALLL that would be needed at the combined bank. The new methodology is a hybrid of the methods used at MidWestOne Bank and Central Bank prior to the bank merger, and the results from the new ALLL model are consistent with the results that the two banks calculated individually.

During the first quarter of 2016 we changed the historical charge-off component of the ALLL calculation to include both Central Bank and MidWestOne Bank in the 20-quarter annual average. A separate qualitative factor table is now being maintained for each region MidWestOne Bank services (Iowa, Minnesota/Wisconsin, and Florida), all with a similar methodology, but adjusted based on the economic/business conditions in each region. Loans below \$250,000 continue to be evaluated solely based on delinquency status, but no longer receive an increased allocation of between 25% and 50% of the loss given default. Instead they receive the normal ASC 450 allocation based on the type of loan and the risk rating. To streamline the ALLL process, a number of low-balance loan types that do not have a material impact on the overall calculation are now excluded. As of the first quarter 2016, overdrafts are no longer included in the ALLL calculation. Additionally, the guaranteed portion of government guaranteed loans is no longer being adjusted out of the calculation, and as a result, the entire loan balance is subject to reserve requirements. Special mention/watch and substandard rated credits not individually reviewed for impairment previously received an allocation of 2 times and 6 times, respectively, of the pass allocation. 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 covers 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. Classified and impaired loans are reviewed per the requirements of FASB ASC Topic 310.

We currently track the loan to value (“LTV”) ratio of loans in our portfolio, and those loans in excess of internal and supervisory guidelines are presented to the Bank’s board of directors on a quarterly basis. At September 30, 2016, there were 31 owner-occupied 1-4 family loans with a LTV ratio of 100% or greater. In addition, there were 224 home equity loans without credit enhancement that had a LTV ratio of 100% or greater. We have the first lien on 15 of these equity loans and other financial institutions have the first lien on the remaining 209. Additionally, there were 172 commercial real estate loans without credit enhancement that exceeded the supervisory LTV guidelines.

We review all impaired and nonperforming loans individually on a quarterly basis to determine their level of impairment due to collateral deficiency or insufficient cash-flow based on a discounted cash-flow analysis. At September 30, 2016, 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.

#### Capital Resources

Total shareholders’ equity was \$309.6 million as of September 30, 2016, compared to \$296.2 million as of December 31, 2015, an increase of \$13.4 million, or 4.5%. This increase was primarily attributable to net income of \$16.5 million for the first nine months of 2016, a \$1.8 million increase in accumulated other comprehensive income

due to market value adjustments on investment securities available for sale, and a \$0.6 million decrease in treasury stock due to the issuance of 27,067 shares of Company common stock in connection with stock compensation plans. These increases were partially offset by the payment of \$5.5 million in common stock dividends. No shares of Company common stock were repurchased in the third quarter of 2016.

Total shareholders' equity was 10.31% of total assets as of September 30, 2016 and was 9.94% of total assets as of December 31, 2015. The ratio of tangible equity to tangible assets was 7.94% as of September 30, 2016 and 7.51% as of December 31, 2015. Our Tier 1 capital to risk-weighted assets ratio was 10.90% as of September 30, 2016 and was 10.63% as of December 31, 2015. Risk-based capital guidelines require the classification of assets and some off-balance-sheet items in terms

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of credit-risk exposure and the measuring of capital as a percentage of the risk-adjusted asset totals. We believed that, as of September 30, 2016, 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. In July 2013, the U.S. federal banking agencies approved the implementation of the Basel III regulatory capital reforms in pertinent part (the “Basel III Rules”), and, at the same time, promulgated rules effecting certain changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). In contrast to capital requirements historically, which were in the form of guidelines, Basel III was released in the form of regulations by each of the regulatory agencies. 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). The Basel III Rules not only increased most of the required minimum regulatory capital ratios, but they also introduced a Common Equity Tier 1 capital ratio and the concept of a capital conservation buffer. The Basel III Rules also expanded the definition of capital as in effect previously by establishing criteria that instruments must meet to be considered Additional Tier 1 capital (Tier 1 capital in addition to Common Equity) and Tier 2 capital. A number of instruments that previously generally qualified as Tier 1 capital now do not qualify, or their qualifications changed. The Basel III Rules also permitted banking organizations with less than \$250.0 billion in assets to retain, through a one-time election, the existing treatment for accumulated other comprehensive income, which previously did not affect regulatory capital. The Company elected to retain this treatment, which reduces the volatility of regulatory capital levels. The Basel III Rules have maintained the general structure of the prompt corrective action framework, while incorporating the increased requirements. The prompt corrective action guidelines were also revised to add the Common Equity Tier 1 capital ratio. In order to be a “well-capitalized” depository institution under the new regime, 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 new 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 and increases each subsequent year by an additional 0.625% until reaching the final level of 2.5% on January 1, 2019. Generally, financial institutions became subject to the new Basel III Rules on January 1, 2015, with phase-in periods for many of the changes.

We have traditionally disclosed certain non-GAAP ratios and amounts to evaluate and measure our financial condition, including our Tier 1 capital to risk-weighted assets ratio. We believe this ratio provides investors with information regarding our financial condition and how we evaluate our financial condition internally. The following table provides a reconciliation of this non-GAAP measure to the most comparable GAAP equivalent.

|   | At September<br>30,<br>2016 | At December<br>31,<br>2015 |   |
|---|-----------------------------|----------------------------|---|
| (in thousands)  |                             |                            |   |
| Tier 1 capital  |                             |                            |   |
| Total shareholders' equity  | \$309,584                   | \$296,178                  |   |
| Less: Net unrealized gains on securities available for sale                                   | (5,220 )                    | (3,408 )                   |   |
| Disallowed Intangibles  | (72,247 )                   | (72,203 )                  |   |
| Common equity tier 1 capital  | \$232,117                   | 220,567                    |   |
| Plus: Junior subordinated notes issued to capital trusts (qualifying restricted core capital) | 23,667                      | 23,587                     |   |
| Tier 1 capital  | \$255,784                   | \$244,154                  |   |
| Risk-weighted assets  | \$2,347,320                 | \$2,296,478                |   |
| Tier 1 capital to risk-weighted assets  | 10.90                       | % 10.63                    | % |
| Common equity tier 1 capital to risk-weighted assets  | 9.89                        | % 9.60                     | % |





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The following table provides the capital levels and minimum required capital levels for the Company, MidWestOne Bank and, at December 31, 2015 only, Central Bank:

|  | Actual    |        | For Capital Adequacy Purposes* |        | To Be Well Capitalized Under Prompt Corrective Action Provisions |        |
|--|-----------|--------|--------------------------------|--------|--|--------|
|  | Amount    | Ratio  | Amount                         | Ratio  | Amount   | Ratio  |
| (dollars in thousands)                         |           |        |                                |        |  |        |
| At September 30, 2016                          |           |        |                                |        |  |        |
| Consolidated:                                  |           |        |                                |        |  |        |
| Total capital/risk based assets                | \$277,477 | 11.82% | \$202,456                      | 8.625% | N/A  | N/A    |
| Tier 1 capital/risk based assets               | 255,784   | 10.90  | 155,510                        | 6.625  | N/A  | N/A    |
| Common equity tier 1 capital/risk based assets | 232,118   | 9.89   | 120,300                        | 5.125  | N/A  | N/A    |
| Tier 1 capital/adjusted average assets         | 255,784   | 8.76   | 116,846                        | 4.000  | N/A  | N/A    |
| MidWestOne Bank:                               |           |        |                                |        |  |        |
| Total capital/risk based assets                | \$284,339 | 12.15% | \$201,827                      | 8.625% | \$234,002  | 10.00% |
| Tier 1 capital/risk based assets               | 262,656   | 11.22  | 155,026                        | 6.625  | 140,401  | 8.00   |
| Common equity tier 1 capital/risk based assets | 262,656   | 11.22  | 119,926                        | 5.125  | 152,101  | 6.50   |
| Tier 1 capital/adjusted average assets         | 262,656   | 8.99   | 116,872                        | 4.000  | 146,090  | 5.00   |
| At December 31, 2015                           |           |        |                                |        |  |        |
| Consolidated:                                  |           |        |                                |        |  |        |
| Total capital/risk based assets                | \$263,717 | 11.48% | \$183,718                      | 8.00%  | N/A  | N/A    |
| Tier 1 capital/risk based assets               | 244,154   | 10.63  | 137,789                        | 6.00   | N/A  | N/A    |
| Common equity tier 1 capital/risk based assets | 220,567   | 9.60   | 103,342                        | 4.50   | N/A  | N/A    |
| Tier 1 capital/adjusted average assets         | 244,154   | 8.34   | 117,123                        | 4.00   | N/A  | N/A    |
| MidWestOne Bank:                               |           |        |                                |        |  |        |
| Total capital/risk based assets                | \$171,583 | 12.53% | \$109,578                      | 8.00%  | \$136,972  | 10.00% |
| Tier 1 capital/risk based assets               | 154,726   | 11.30  | 82,183                         | 6.00   | 109,578  | 8.00   |
| Common equity tier 1 capital/risk based assets | 154,726   | 11.30  | 61,638                         | 4.50   | 89,032   | 6.50   |
| Tier 1 capital/adjusted average assets         | 154,726   | 8.90   | 69,501                         | 4.00   | 86,876   | 5.00   |
| Central Bank:                                  |           |        |                                |        |  |        |
| Total capital/risk based assets                | \$102,718 | 11.14% | \$73,792                       | 8.00%  | \$92,240   | 10.00% |
| Tier 1 capital/risk based assets               | 100,017   | 10.84  | 55,344                         | 6.00   | 73,792   | 8.00   |
| Common equity tier 1 capital/risk based assets | 100,017   | 10.84  | 41,508                         | 4.50   | 59,956   | 6.50   |
| Tier 1 capital/adjusted average assets         | 100,017   | 8.44   | 47,412                         | 4.00   | 59,265   | 5.00   |

\* The ratios for September 30, 2016 include a capital conservation buffer of 0.625%

On February 15, 2016, 30,200 restricted stock units were granted to certain officers of the Company. Additionally, during the first nine months of 2016, 25,633 shares of common stock were issued in connection with the vesting of previously awarded grants of restricted stock units, of which 1,466 shares were surrendered by grantees to satisfy tax requirements, and 6,875 nonvested restricted stock units were forfeited. 2,900 shares of common stock were issued in connection with the exercise of previously issued stock options, and 950 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 \$52.0 million as of September 30, 2016, compared with \$47.1 million as of December 31, 2015. Interest-bearing deposits in banks at September 30, 2016, increased to \$6.3 million, an increase of \$3.6 million from December 31, 2015. Investment securities classified as available for sale, totaling \$436.2 million and \$427.2

million as of September 30, 2016 and December 31, 2015, 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 September 30, 2016 to meet the needs of borrowers and depositors.

Our principal sources of funds between December 31, 2015 and September 30, 2016 were proceeds from the maturity and sale of investment securities, and FHLB borrowings. 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

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conditions, the general level of interest rates, and competition. We utilize particular sources of funds based on comparative costs and availability. This includes fixed-rate FHLB borrowings that can generally be obtained at a more favorable cost than deposits of comparable maturity. We generally manage the pricing of our deposits to maintain a steady deposit base but from time to time may decide, as we have done in the past, not to pay rates on deposits as high as our competition.

As of September 30, 2016, we had \$18.8 million of long-term debt outstanding to an unaffiliated banking organization. See Note 11. “Long-Term Borrowings” to our consolidated financial statements for additional information related to our long-term debt. We also have \$23.7 million of indebtedness payable under junior subordinated debentures issued to subsidiary trusts that issued trust preferred securities in pooled offerings. See Note 10. “Subordinated Notes Payable” to our consolidated financial statements for additional information related to our junior subordinated notes.

### **Inflation**

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

### **Off-Balance-Sheet Arrangements**

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

Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each customer’s creditworthiness on a case-by-case basis. As of September 30, 2016, outstanding commitments to extend credit totaled approximately \$439.1 million. We have established a reserve of \$0.3 million, which represents our estimate of probable losses as a result of these transactions. This reserve is not part of our allowance for loan losses.

Commitments under standby and performance letters of credit outstanding totaled \$12.7 million as of September 30, 2016. We do not anticipate any losses as a result of these transactions.

Residential mortgage loans sold to others are predominantly conventional residential first lien mortgages originated under our usual underwriting procedures, and are most often sold on a nonrecourse basis. At September 30, 2016, there were approximately \$2.7 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.

### **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 and/or fund its acquisition of assets.

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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 \$31.7 million in the first nine months of 2016, compared with \$22.1 million in the first nine months of 2015. 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 \$26.8 million in the first nine months of 2016, compared to net cash inflows of \$53.1 million in the comparable nine-month period of 2015. In the first nine months of 2016, investment securities transactions resulted in net cash outflows of \$39.4 million, compared to inflows of \$155.8 million during the same period of 2015. The sale of our Rice Lake and Barron, Wisconsin and Davenport, Iowa branch offices contributed to net cash inflows related to the net decrease in loans of \$7.1 million for the first nine months of 2016, compared with \$89.5 million of net cash outflows related to the net increase in loans for the same period of 2015.

Purchases of premises and equipment resulted in \$4.6 million cash outflows in the first nine months of 2016, compared to outflows of \$11.6 million in the comparable period of 2015, reflecting the finalization of the construction of a new Home Mortgage and Operations Center, which was complete at the end of 2015, at a total cost of \$16.0 million, and the restoration and remodeling of the building that serves as the main office of the Bank and headquarters of the Company, which was completed in April 2016 at a cost of \$13.8 million. There were no cash inflows from loan pool participations during the first nine months of 2016 compared to \$19.3 million during the same period of 2015, as we sold our interest in these instruments in the second quarter of 2015.

Net cash inflows from financing activities in the first nine months of 2016 was \$2.0 thousand, compared with net cash outflows of \$6.3 million for the same period of 2015. The largest financing cash outflows during the nine months ended September 30, 2016 was a decrease of \$17.6 million in deposits, the use of \$5.5 million to pay dividends, a \$4.0 million and decrease in securities sold under agreement to repurchase, and \$3.8 million of payments on long-term debt. Sources of cash inflows during the first nine months of 2016 were an increase of \$17.8 million in federal funds purchased, and a net increase of \$13.0 million in FHLB borrowings.

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 \$95.0 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. The current FHLB borrowing limit is 35% of total assets. As of September 30, 2016, the Bank had \$100.0 million in outstanding FHLB borrowings, leaving \$226.5 million available for liquidity needs, based on collateral capacity. These borrowings are secured by various real estate loans (residential, commercial and agricultural).

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### Brokered Deposits:

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

### Brokered Repurchase Agreements:

Brokered repurchase agreements may be established with approved brokerage firms and banks. Repurchase agreements create rollover risk (the risk that a broker will discontinue the relationship due to market factors) and are not used as a long-term funding solution, especially when used to fund long-term assets. Collateral requirements and availability are evaluated and monitored. The current policy limit for brokered repurchase agreements is 10% of total assets. There were no outstanding brokered repurchase agreements at September 30, 2016.

### 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 September 30, 2016, the Bank had municipal securities with an approximate market value of \$13.2 million pledged for liquidity purposes.

### 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 very little change in the Company's interest rate profile between September 30, 2016 and December 31, 2015. 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

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and deposit pricing. These assumptions are subjective and, as a result, net interest income simulation results will differ from actual results due to the timing, magnitude and frequency of interest rate changes, changes in market conditions, customer behavior and management strategies, among other factors. We perform various sensitivity analyses on assumptions of deposit attrition and deposit re-pricing.

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

|                        | Immediate |         | Change in Rates |  |
|------------------------|-----------|---------|-----------------|--|
|                        | +100      | +200    |                 |  |
| (dollars in thousands) |           |         |                 |  |
| September 30, 2016     |           |         |                 |  |
| Dollar change          | \$766     | \$1,848 |                 |  |
| Percent change         | 0.8 %     | 1.9 %   |                 |  |
| December 31, 2015      |           |         |                 |  |
| Dollar change          | \$636     | \$1,616 |                 |  |
| Percent change         | 0.7 %     | 1.7 %   |                 |  |

As of September 30, 2016, 40.3% of the Company's earning asset balances will reprice or are expected to pay down in the next twelve months, and 45.6% of the Company's deposit balances are low cost or no cost deposits.

**Economic Value of Equity:**

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

**Interest Rate Gap:**

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

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

Under supervision and with the participation of certain members of our management, including our chief executive officer and chief financial officer, we completed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2016. 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.

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Special Cautionary Note Regarding Forward-Looking Statements

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

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

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

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

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

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

the effects of cyber-attacks; and

other factors and risks described under “Risk Factors” in our Annual Report on Form 10-K for the period ended December 31, 2015.

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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.

**PART II – OTHER INFORMATION**

**Item 1. Legal Proceedings.**

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

**Item 1A. Risk Factors.**

There have been no material changes from the risk factors set forth in Part I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the period ended December 31, 2015. Please refer to that section of our Form 10-K for disclosures regarding the risks and uncertainties related to our business.

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

We did not repurchase any of our equity securities during the third quarter of 2016.

On July 21, 2016, the board of directors of the Company approved a new share repurchase program, allowing for the repurchase of up to \$5.0 million of stock through December 31, 2018. The new repurchase program replaced the Company's prior repurchase program, pursuant to which the Company had repurchased \$1.2 million of common stock since the plan was announced in July 2014. Pursuant to the repurchase program, the Company may continue to repurchase shares from time to time in the open market, and the method, timing and amounts of repurchase will be solely in the discretion of the Company's management. The repurchase program does not require the Company to acquire a specific number of shares. Therefore, the amount of shares repurchased pursuant to the program will depend on several factors, including market conditions, capital and liquidity requirements, and alternative uses for cash available. Of the \$5.0 million of stock authorized under the repurchase plan, \$5.0 million remained available for possible future repurchases as of September 30, 2016.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not Applicable.

**Item 5. Other Information.**

None.

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## Item 6. Exhibits.

| Exhibit Number | Description   | Incorporated by Reference to:                    |
|----------------|---|--|
| 10.1           | Employment Agreement between MidWestOne Financial Group, Inc. and Kurt Weise, dated December 12, 2014   | Current Report on Form 8-K filed October 3, 2016 |
| 10.2           | Letter of Amendment to Employment Agreement between MidWestOne Financial Group, Inc. and Kurt Weise, effective as of September 30, 2016           | Current Report on Form 8-K filed October 3, 2016 |
| 10.3           | Employment Agreement between MidWestOne Financial Group, Inc. and Kevin Kramer, effective October 4, 2016   | Current Report on Form 8-K filed October 4, 2016 |
| 31.1           | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a)  | Filed herewith                                   |
| 31.2           | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a)  | Filed herewith                                   |
| 32.1           | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Filed herewith                                   |
| 32.2           | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Filed herewith                                   |
| 101.INS        | XBRL Instance Document  | Filed herewith                                   |
| 101.SCH        | XBRL Taxonomy Extension Schema Document   | Filed herewith                                   |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document   | Filed herewith                                   |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document  | Filed herewith                                   |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Document   | Filed herewith                                   |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document  | Filed herewith                                   |

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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: November 3, 2016 By: /s/ CHARLES N. FUNK

Charles N. Funk  
President and Chief  
Executive Officer

By: /s/ KATIE A. LORENSON

Katie A. Lorensen  
Senior Vice President and  
Chief Financial Officer