MidWestOne Financial Group, Inc.
Form 10-K
March 03, 2016

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-35968

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

Iowa	42-1206172
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of each exchange on which registered
Common Stock, $1.00 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

Indicate by check mark if registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
o Yes x No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes x No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such

files). x Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the last sales price quoted on the NASDAQ Global Select Market on the last business day of the registrant's most recently completed second fiscal quarter, was approximately $269.3 million.

The number of shares outstanding of the registrant's common stock, par value $1.00 per share, as of March 1, 2016, was 11,425,035.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2016 Annual Meeting of Shareholders of MidWestOne Financial Group, Inc. to be held on April 21, 2016, are incorporated by reference into Part III of this Annual Report on Form 10-K.

MIDWESTONE FINANCIAL GROUP, INC.
Annual Report on Form 10-K
Table of Contents

		Page No.
PART I		
Item 1.	Business	1
Item 1A.	Risk Factors	14
Item 1B.	Unresolved Staff Comments	24
Item 2.	Properties	24
Item 3.	Legal Proceedings	25
Item 4.	Mine Safety Disclosures	25
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	25
Item 6.	Selected Financial Data	27
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	30
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	55
Item 8.	Financial Statements and Supplementary Data	59
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	117
Item 9A.	Controls and Procedures	117
Item 9B.	Other Information	120
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	120
Item 11.	Executive Compensation	120
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	120
Item 13.	Certain Relationships and Related Transactions, and Director Independence	120

Item 14.	Principal Accountant Fees and Services	120
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	120

Table of Contents

PART I

ITEM 1. BUSINESS.

General

MidWestOne Financial Group, Inc. ("MidWestOne" or 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.

We currently operate primarily through our two bank subsidiaries, MidWestOne Bank, an Iowa state non-member bank chartered in 1934 with its main office in Iowa City, Iowa, and Central Bank, a Minnesota state non-member bank chartered in 1988 with its main office in Golden Valley, Minnesota, as well as MidWestOne Insurance Services, Inc., our wholly-owned subsidiary that operates through three agencies located in central and east-central Iowa.

On March 14, 2008, we consummated a merger-of-equals transaction with the former MidWestOne Financial Group, Inc., in Oskaloosa, Iowa ("Former MidWestOne"). Prior to the merger, we operated under the name "ISB Financial Corp." We were the surviving entity in the merger and, upon completion of the merger, changed our name from ISB Financial Corp. to MidWestOne Financial Group, Inc. and our common stock began trading on the NASDAQ Global Select Market under the symbol "MOFG." All references herein to the "Company" and "MidWestOne" refer to the surviving organization in the merger. Following the merger, we consolidated our three bank subsidiaries, Iowa State Bank & Trust Company, First State Bank and MidWestOne Bank, into a single bank charter and renamed the surviving bank MidWestOne Bank.

On May 1, 2015, we consummated a merger with Central Bancshares, Inc. ("Central"), a Minnesota corporation. In connection with the merger, Central Bank, a Minnesota-chartered commercial bank and wholly-owned subsidiary of Central, became a wholly-owned subsidiary of MidWestOne. We expect Central Bank to merge into MidWestOne Bank in the 2nd quarter of 2016. See Note 2. "Business Combination" to our consolidated financial statements.

As of December 31, 2015, we had total consolidated assets of $2.98 billion, total deposits of $2.46 billion and total shareholders' equity of $296.2 million, all of which is common shareholders' equity. For the year ended December 31, 2015, we generated net income available to common shareholders of $25.1 million, which was an increase from the net income available to common shareholders of $18.5 million and $18.6 million for the years ended December 31, 2014 and 2013, respectively. For our complete financial information as of December 31, 2015 and 2014 and for each of the years in the three-year period ended December 31, 2015, see Item 8. Financial Statements and Supplementary Data.

MidWestOne Bank operates a total of 24 branch locations, plus its specialized Home Mortgage Center, in 15 counties throughout central and east-central Iowa. Central Bank is headquartered in Golden Valley, Minnesota and it operates a total of 22 offices, primarily in the Twin Cities metro area with offices in Minnesota and western Wisconsin. Additionally, Central Bank operates two Florida offices in Naples and Fort Myers. MidWestOne Bank and Central Bank provide full-service retail banking in the communities in which their respective branch offices are located. Deposit products offered include checking and other demand deposit accounts, NOW accounts, savings accounts, money market accounts, certificates of deposit, individual retirement accounts and other time deposits. MidWestOne Bank and Central Bank offer commercial and industrial, agricultural, real estate mortgage and consumer loans. Other products and services include debit cards, automated teller machines, on-line banking, mobile banking, and safe deposit boxes. The principal service consists of making loans to and accepting deposits from individuals, businesses, governmental units and institutional customers. MidWestOne Bank also has a trust and investment department through which it offers a variety of trust and investment services, including administering estates, personal trusts, conservatorships, pension and profit-sharing funds and providing property management, farm management, custodial, financial planning, investment management and retail brokerage services (the latter of which is provided through an agreement with a third-party registered broker-dealer).

Operating Strategy

Our operating strategy is based upon a sophisticated community banking model delivering a complete line of financial products and services while following five guiding principles: (1) hire and retain excellent employees; (2) take care of our customers; (3) conduct business with the utmost integrity; (4) work as one team; and (5) learn constantly so we

can continually improve.

Management believes the personal and professional service offered to customers provides an appealing alternative to the "megabanks" that have resulted from large out-of-state national banks acquiring Iowa-based community banks. While we employ a community banking philosophy, we believe that our size, combined with our complete line of financial products and services,

Table of Contents

is sufficient to effectively compete in our relevant market areas. To remain price competitive, management also believes that we must grow organically as well as through strategic transactions, manage expenses and our efficiency ratio, and remain disciplined in our asset/liability management practices.

Market Areas

Our holding company's principal offices are located in Iowa City, Iowa. The city of Iowa City is located in east-central Iowa, approximately 220 miles west of Chicago, Illinois, and approximately 115 miles east of Des Moines, Iowa. It is situated approximately 60 miles west of the Mississippi River on Interstate 80 and is the home of the University of Iowa, a public university with approximately 23,400 undergraduate students and 8,800 graduate and professional students. Iowa City is the home of the University of Iowa Hospitals and Clinics, a 730-bed comprehensive academic medical center and regional referral center with approximately 1,600 staff physicians, residents, and fellows and approximately 2,000 professional nurses. The city of Iowa City has a total population of approximately 73,000 and the Iowa City MSA has a total population of approximately 161,000. Iowa City is the fifth largest city in the state of Iowa. Based on deposit information collected by the FDIC as of June 30, 2015, the most recent date for which data is available, MidWestOne Bank had the second highest deposit market share in the Iowa City MSA at approximately 17.1% compared to 21 other institutions in the market.

MidWestOne Bank operates branch offices and a loan production office in 15 counties in central and east-central Iowa. Based on deposit information collected by the FDIC as of June 30, 2015, in 7 of those 15 counties, MidWestOne Bank held between 8% and 25% of the deposit market share. In Mahaska County, MidWestOne Bank held 39% of the deposit market share. In the remaining 7 counties MidWestOne Bank's market share is less than 8%.

Central Bank operates in Minnesota through 13 banking locations, in Wisconsin through 7 banking locations and in Florida through 2 banking locations. Central Bank operates branch offices in 8 counties in Minnesota, 3 counties in Wisconsin, and 2 counties in Florida. Based on deposit information collected by the FDIC as of June 30, 2015, in 3 of the 8 counties in Minnesota, Central Bank held between 6% and 16% of the deposit market share. In Polk County Wisconsin, Central Bank held 27% of the deposit market share. In the remaining 5 counties Central Bank's market share is less than 6%.

Lending Activities

General

We provide a range of commercial and retail lending services to businesses, individuals and government agencies. These credit activities include commercial, industrial and agricultural loans; real estate construction loans; commercial and residential real estate loans; and consumer loans.

We market our services to qualified lending customers. Lending officers actively solicit the business of new companies entering their market areas as well as long-standing members of the business communities in which we operate. Through professional service, competitive pricing and innovative structure, we have been successful in attracting new lending customers. We also actively pursue consumer lending opportunities. With convenient locations, advertising and customer communications, we believe that we have been successful in capitalizing on the credit needs of our market areas.

Our management emphasizes credit quality and seeks to avoid undue concentrations of loans to a single industry or based on a single class of collateral. We have established lending policies that include a number of underwriting factors to be considered in making a loan, including location, loan-to-value ratio, cash flow, interest rate and credit history of the borrower.

Real Estate Loans

Construction and Development Loans. We offer loans both to individuals who are constructing personal residences and to real estate developers and building contractors for the acquisition of land for development and the construction of homes and commercial properties. These loans are generally in-market to known and established borrowers. Construction loans generally have a short term, such as one to two years. As of December 31, 2015, construction and development loans constituted approximately 5.6% of our total loan portfolio.

Mortgage Loans. We offer residential, commercial and agricultural mortgage loans. As of December 31, 2015, we had $1.52 billion in combined residential, commercial and agricultural mortgage loans outstanding, which represented approximately 70.7% of our total loan portfolio.

2

Table of Contents

Residential mortgage lending is a focal point for us, as residential real estate loans constituted approximately 24.6% of our total loan portfolio at December 31, 2015. Included in this category are home equity loans made to individuals. As long-term interest rates have remained at relatively low levels since 2008, many customers opted for mortgage loans that have a fixed rate with 15- or 30-year maturities. We generally retain short-term residential mortgage loans that we originate for our own portfolio, but sell most long-term loans to other parties while retaining servicing rights on the majority of such loans. We also perform loan servicing activity for third parties on participations sold. At December 31, 2015, we serviced approximately $362.3 million in mortgage loans for others. We do not offer subprime mortgage loans and do not operate a wholesale mortgage business.

We also offer mortgage loans to our commercial and agricultural customers for the acquisition of real estate used in their business, such as offices, farmland, warehouses and production facilities, and to real estate investors for the acquisition of apartment buildings, retail centers, office buildings and other commercial buildings. In deciding whether to make a commercial real estate loan, we consider, among other things, the experience and qualifications of the borrower as well as the value and cash flow of the underlying property. Some factors considered are net operating income of the property before debt service and depreciation, the debt service coverage ratio (the ratio of the property's net cash flow to debt service requirements), the global cash flows of the borrower, the ratio of the loan amount to the property value and the overall creditworthiness of the prospective borrower. As of December 31, 2015, commercial and agricultural real estate mortgage loans, including construction and development loans, constituted approximately 46.1% of our total loan portfolio.

Commercial and Industrial Loans

We have a strong commercial loan base. We focus on, and tailor our commercial loan programs to, small- to mid-sized businesses in our market areas. Our loan portfolio includes loans to wholesalers, manufacturers, contractors, business services companies and retailers. We provide a wide range of business loans, including lines of credit for working capital and operational purposes and term loans for the acquisition of equipment. Although most loans are made on a secured basis, loans may be made on an unsecured basis where warranted by the overall financial condition of the borrower. Terms of commercial business loans generally range from one to five years.

Our 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 is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any exists. The primary repayment risks of commercial loans are that the cash flows of the borrower may be unpredictable, and the collateral securing these loans may fluctuate in value. As of December 31, 2015, commercial and industrial loans comprised approximately 21.8% of our total loan portfolio.

Agricultural Loans

Due to the rural market areas in and around which we operate, agricultural loans are an important part of our business. Agricultural loans include loans made to finance agricultural production and other loans to farmers and farming operations. Agricultural loans comprised approximately 5.7% of our total loan portfolio at December 31, 2015.

Agricultural loans, most of which are secured by crops, livestock and machinery, are generally 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.

Our agricultural lenders work closely with our customers, including companies and individual farmers, and review the preparation of budgets and cash flow projections for the ensuing crop year. These budgets and cash flow projections are monitored closely during the year and reviewed with the customers at least once annually. We also work closely with governmental agencies to help agricultural customers obtain credit enhancement products such as loan guarantees or interest rate assistance.

Consumer Lending

Our consumer lending department provides all types of consumer loans, including personal loans (secured or unsecured) and automobile loans. Consumer loans typically have shorter terms, lower balances, higher yields and higher risks of default than one- to four-family residential real estate mortgage 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. As of December 31, 2015, consumer loans comprised only 1.7% of our total loan portfolio.

Table of Contents

Loan Pool Participations

The Company acquired its loan pool participations in the merger with Former MidWestOne and continued in this business following that merger. However, in 2010, the Company made the decision to exit this line of business and did not purchase new loan pool participations as existing pools paid down. The Company sold its remaining loan pool participations in June 2015, and has now completely exited this line of business.

Other Products and Services

Deposit Products

We believe that we offer competitive deposit products and programs that address the needs of customers in each of the local markets that we serve. The deposit products are offered to individuals, nonprofit organizations, partnerships, small businesses, corporations and public entities. These products include non-interest-bearing and interest-bearing demand deposits, savings accounts, money market accounts and certificates of deposit.

Trust and Investment Services

We offer trust and investment services in our Iowa market areas to help our business and individual clients in meeting their financial goals and preserving wealth. Our services include administering estates, personal trusts, conservatorships, pension and profit-sharing funds and providing property management, farm management, investment advisory, retail securities brokerage, financial planning and custodial services. Licensed brokers (who are registered representatives of a third-party registered broker-dealer) serve selected branches and provide investment-related services including securities trading, financial planning, mutual funds sales, fixed and variable annuities and tax-exempt and conventional unit trusts.

Insurance Services

Through our insurance subsidiary, MidWestOne Insurance Services, Inc., we offer property and casualty insurance products to individuals and small businesses in the Iowa markets that we service.

Liquidity and Funding

A discussion of our liquidity and funding programs has been included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations under "Liquidity," and Item 7A. Quantitative and Qualitative Disclosures About Market Risk under "Liquidity Risk."

Competition

We encounter competition in all areas of our business pursuits. To compete effectively, grow our market share, maintain flexibility and keep pace with changing economic and social conditions, we continuously refine and develop our products and services. The principal methods of competing in the financial services industry are through service, convenience and price.

The banking industry is highly competitive, and we face strong direct competition for deposits, loans, and other finance-related services. Our offices in Iowa, Minnesota, Wisconsin, and Florida compete with other commercial banks, thrifts, credit unions, stockbrokers, finance divisions of auto and farm equipment companies, agricultural suppliers, and other agriculture-related lenders. Some of these competitors are local, while others are statewide, regional or nationwide. We compete for deposits principally by offering depositors a wide variety of deposit programs, convenient office locations, hours and other services, and for loan originations primarily through the interest rates and loan fees we charge, the variety of our loan products and the efficiency and quality of services we provide to borrowers, with an emphasis on building long-lasting relationships. Some of the financial institutions and financial service organizations with which we compete are not subject to the same degree of regulation as that imposed on federally insured state-chartered banks. The financial services industry is also likely to become more competitive as technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties.

We compete for loans principally through the range and quality of the services we provide, with an emphasis on building long-lasting relationships. Our strategy is to serve our customers above and beyond their expectations through excellence in customer service and needs-based selling. We believe that our long-standing presence in the communities we serve and the personal service we emphasize enhance our ability to compete favorably in attracting and retaining individual and business customers. We

4

Table of Contents

actively solicit deposit-oriented clients and compete for deposits by offering personal attention, combined with electronic banking convenience, professional service and competitive interest rates.

Employees

As of December 31, 2015, we had 648 full-time equivalent employees. We provide our employees with a comprehensive program of benefits, some of which are on a contributory basis, including comprehensive medical and dental plans, life insurance, long-term and short-term disability coverage, a 401(k) plan, and an employee stock ownership plan. None of our employees are represented by unions. Our management considers its relationship with our employees to be good.

Company Website

We maintain an Internet website for MidWestOne Bank at www.midwestone.com. We make available, free of charge, on this website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (the “SEC”). Information on, or accessible through, our website is not part of, or incorporated by reference in, this Annual Report on Form 10-K. We also currently maintain an Internet website for Central Bank at www.centralbnk.com.

Supervision and Regulation

General

FDIC-insured institutions, like MidWestOne Bank and Central Bank (collectively, the “Banks”), as well as their holding companies and their affiliates, are extensively regulated under federal and state law. As a result, the Company’s growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the Iowa Superintendent of Banking (the “Iowa Superintendent”), the Minnesota Department of Commerce (the “Minnesota Department”), the Board of Governors of the Federal Reserve System (the “Federal Reserve”), the FDIC and the Bureau of Consumer Financial Protection (the “CFPB”). Furthermore, taxation laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board (“FASB”), securities laws administered by the Securities and Exchange Commission (the “SEC”) and state securities authorities, and anti-money laundering laws enforced by the U.S. Department of the Treasury (the “Treasury”) have an impact on the business of the Company and the Banks. The effect of these statutes, regulations, regulatory policies and accounting rules are significant to the operations and results of the Company and the Banks, and the nature and extent of future legislative, regulatory or other changes affecting financial institutions are impossible to predict with any certainty.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of FDIC-insured institutions, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than shareholders. These federal and state laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of the Company’s and the Banks’ business, the kinds and amounts of investments they may make, bank reserve requirements, capital levels relative to assets, the nature and amount of collateral for loans, the establishment of branches, the Company’s ability to merge, consolidate and acquire, dealings with insiders and affiliates and either of the Banks payment of dividends. In the last several years, the Company and the Banks have experienced heightened regulatory requirements and scrutiny following the global financial crisis and as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). Although the reforms primarily targeted systemically important financial service providers, their influence filtered down in varying degrees to community banks over time, and the reforms have caused the Company’s compliance and risk management processes, and the costs thereof, to increase.

This supervisory and regulatory framework subjects FDIC-insured institutions and their holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that are not publicly available and that can impact the conduct and growth of their business. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability

and performance, earnings, liquidity, and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies.

Table of Contents

The following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and the Banks, beginning with a discussion of the continuing regulatory emphasis on capital levels. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory and regulatory provision.

Regulatory Emphasis on Capital

Regulatory capital represents the net assets of a banking organization available to absorb losses. Because of the risks attendant to their business, FDIC-insured institutions are generally required to hold more capital than other businesses, which directly affects the Company's earnings capabilities. Although capital has historically been one of the key measures of the financial health of banks, its role became fundamentally more important in the wake of the global financial crisis, as the banking regulators recognized that the amount and quality of capital held by banks prior to the crisis was insufficient to absorb losses during periods of severe stress. Certain provisions of the Dodd-Frank Act and Basel III, discussed below, establish strengthened capital standards for banking organizations, require more capital to be held in the form of common stock and disallow certain funds from being included in capital determinations. These standards represent regulatory capital requirements that are meaningfully more stringent than those in place previously.

Minimum Required Capital Levels. Bank holding companies have historically had to comply with less stringent capital standards than their bank subsidiaries and have been able to raise capital with hybrid instruments such as trust preferred securities. The Dodd-Frank Act mandated that the Federal Reserve establish minimum capital levels for holding companies on a consolidated basis as stringent as those required for FDIC-insured institutions. As a consequence, the components of holding company permanent capital known as "Tier 1 Capital" were restricted to those capital instruments that were considered Tier 1 Capital for FDIC-insured institutions. A result of this change is that the proceeds of hybrid instruments, such as trust preferred securities, are being excluded from Tier 1 Capital over a phase-out period. However, if such securities were issued prior to May 19, 2010 by bank holding companies with less than $15 billion of assets, they may be retained, subject to certain restrictions. Because the Company has assets of less than $15 billion, the Company is able to maintain its trust preferred proceeds as Tier 1 Capital but the Company has to comply with new capital mandates in other respects and will not be able to raise Tier 1 Capital in the future through the issuance of trust preferred securities.

The capital standards for the Company and the Banks changed on January 1, 2015 to add the requirements of Basel III, discussed below. The minimum capital standards effective prior to and including December 31, 2014 are:

- A leverage requirement, consisting of a minimum ratio of Tier 1 Capital to total adjusted average quarterly assets of 3% for the most highly-rated banks with a minimum requirement of at least 4% for all others, and
- A risk-based capital requirement, consisting of a minimum ratio of Total Capital to total risk-weighted assets of 8% and a minimum ratio of Tier 1 Capital to total risk-weighted assets of 4%.

For these purposes, "Tier 1 Capital" consists primarily of common stock, noncumulative perpetual preferred stock and related surplus less intangible assets (other than certain loan servicing rights and purchased credit card relationships). Total Capital consists primarily of Tier 1 Capital plus "Tier 2 Capital," which includes other non-permanent capital items, such as certain other debt and equity instruments that do not qualify as Tier 1 Capital, and a bank's allowance for loan losses, subject to a limitation of 1.25% of risk-weighted assets. Further, risk-weighted assets for the purpose of the risk-weighted ratio calculations are balance sheet assets and off-balance sheet exposures to which required risk weightings of 0% to 100% are applied.

The Basel International Capital Accords. The risk-based capital guidelines described above are based upon the 1988 capital accord known as "Basel I" adopted by the international Basel Committee on Banking Supervision, a committee of central banks and bank supervisors, as implemented by the U.S. federal banking regulators on an interagency basis. In 2008, the banking agencies collaboratively began to phase-in capital standards based on a second capital accord, referred to as "Basel II," for large or "core" international banks (generally defined for U.S. purposes as having total assets of $250 billion or more, or consolidated foreign exposures of $10 billion or more). On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement on a strengthened set of capital requirements for banking organizations around the

world, known as Basel III, to address deficiencies recognized in connection with the global financial crisis. Because of Dodd-Frank Act requirements, Basel III essentially layers a new set of capital standards on the previously existing Basel I standards.

The Basel III Rule. In July 2013, the U.S. federal banking agencies approved the implementation of the Basel III regulatory capital reforms in pertinent part, and, at the same time, promulgated rules effecting certain changes required by the Dodd-Frank Act (the “Basel III Rule”). 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 Rule is 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 publically traded companies).
The Basel III Rule not only increased most of the required minimum capital ratios effective January 1, 2015, but it introduced the concept of Common Equity Tier 1 Capital, which consists primarily of common stock, related surplus (net of treasury stock), retained earnings, and Common Equity Tier 1 minority interests subject to certain regulatory adjustments. The Basel III Rule also expanded the definition of capital by establishing more stringent 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 qualified as Tier 1 Capital do not qualify, or their qualifications will change. For example, noncumulative perpetual preferred stock, which qualified as simple Tier 1 Capital, does not qualify as Common Equity Tier 1 Capital, but qualifies as Additional Tier 1 Capital. The Basel III Rule also constrained the inclusion of minority interests, mortgage-servicing assets, and deferred tax assets in capital and requires deductions from Common Equity Tier 1 Capital in the event that such assets exceed a certain percentage of a banking organization's Common Equity Tier 1 Capital.
The Basel III Rule requires minimum capital ratios beginning January 1, 2015, as follows:

- A new ratio of minimum Common Equity Tier 1 equal to 4.5% of risk-weighted assets;
- An increase in the minimum required amount of Tier 1 Capital to 6% of risk-weighted assets;
- A continuation of the current minimum required amount of Total Capital (Tier 1 plus Tier 2) at 8% of risk-weighted assets; and
- A minimum leverage ratio of Tier 1 Capital to total quarterly average assets equal to 4% in all circumstances.

Not only did the capital requirements change but the risk weightings (or their methodologies) for bank assets that are used to determine the capital ratios changed as well. For nearly every class of assets, the Basel III Rule requires a more complex, detailed and calibrated assessment of credit risk and calculation of risk weightings.
Banking organizations (except for large, internationally active banking organizations) became subject to the new rules on January 1, 2015. However, there are separate phase-in/phase-out periods for: (i) the capital conservation buffer; (ii) regulatory capital adjustments and deductions; (iii) nonqualifying capital instruments; and (iv) changes to the prompt corrective action rules. The phase-in periods commenced on January 1, 2016 and extend until 2019.
Well-Capitalized Requirements. The ratios described above are minimum standards in order for banking organizations to be considered "adequately capitalized" under the Prompt Corrective Action rules discussed below. Bank regulatory agencies uniformly encourage banking organizations to hold more capital and be "well-capitalized" and, to that end, federal law and regulations provide various incentives for such organizations to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a banking organization that is well-capitalized may: (i) qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities; (ii) qualify for expedited processing of other required notices or applications; and (iii) accept, roll-over or renew brokered deposits. Higher capital levels could also be required if warranted by the particular circumstances or risk profiles of individual banking organizations. Moreover, the Federal Reserve's capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (i.e., Tier 1 Capital less all intangible assets), well above the minimum levels.
Under the capital regulations of the FDIC and Federal Reserve, in order to be well capitalized, a banking organization must maintain:

- A new Common Equity Tier 1 Capital ratio to risk-weighted assets of 6.5% or more;
- A minimum ratio of Tier 1 Capital to total risk-weighted assets of 8% (6% under Basel I);
- A minimum ratio of Total Capital to total risk-weighted assets of 10% (the same as Basel I); and
- A leverage ratio of Tier 1 Capital to total adjusted average quarterly assets of 5% or greater.

In addition, banking organizations that seek the freedom to make capital distributions (including for dividends and repurchases of stock) and pay discretionary bonuses to executive officers without restriction must also maintain 2.5%

in Common Equity Tier 1 attributable to a capital conservation buffer to be phased in over three years beginning in 2016. The purpose of the conservation buffer is to ensure that banking organizations maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. Factoring in the fully phased-in conservation buffer increases the minimum ratios depicted above to:

7

- 7% for Common Equity Tier 1,
- 8.5% for Tier 1 Capital and
- 10.5% for Total Capital.

It is possible under the Basel III Rule to be well-capitalized while remaining out of compliance with the capital conservation buffer.

As of December 31, 2015: (i) neither of the Banks were subject to a directive from the FDIC to increase its capital and (ii) both Banks were well-capitalized, as defined by FDIC regulations. As of December 31, 2015, the Company had regulatory capital in excess of the Federal Reserve's requirements and met the Basel III Rule requirements to be well-capitalized.

Prompt Corrective Action. An FDIC-insured institution's capital plays an important role in connection with regulatory enforcement as well. Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution's asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to sell itself; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate that the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring dismissal of senior executive officers or directors; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution.

Regulation and Supervision of the Company

General. The Company, as the sole shareholder of the Banks, is a bank holding company for both Banks. As a bank holding company, the Company is registered with, and subject to regulation by, the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the "BHCA"). The Company is legally obligated to act as a source of financial and managerial strength to the Banks and to commit resources to support the Banks in circumstances where it might not otherwise do so. The Company is subject to periodic examination by the Federal Reserve and is required to file with the Federal Reserve periodic reports of its operations and such additional information regarding its operations as the Federal Reserve may require.

Acquisitions, Activities and Change in Control. The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company or any acquisition by a bank holding company of another bank or bank holding company. Subject to certain conditions (including deposit concentration limits established by the BHCA), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its FDIC-insured institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state institutions or their holding companies) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company. Furthermore, in accordance with the Dodd-Frank Act, bank holding companies must be well-capitalized and well-managed in order to effect interstate mergers or acquisitions. For a discussion of the capital requirements, see "Regulatory Emphasis on Capital" above.

The BHCA generally prohibits the Company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve prior to November 11, 1999 to be "so closely related to banking ... as to be a proper incident thereto." This authority would permit the Company to engage in

a variety of banking-related businesses, including the ownership and operation of a savings association, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development) and mortgage banking and brokerage services. The BHCA does not place territorial restrictions on the domestic activities of nonbank subsidiaries of bank holding companies.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature or incidental

Table of Contents

to any such financial activity or that the Federal Reserve determines by order to be complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of FDIC-insured institutions or the financial system generally. We have elected to operate as a financial holding company.

In order to become and maintain our status as a financial holding company, the Company and the Banks must be well-capitalized, well-managed, and the Banks must have a least a satisfactory Community Reinvestment Act ("CRA") rating. If the Federal Reserve determines that a financial holding company is not well-capitalized or well-managed, the company has a period of time in which to achieve compliance, but during the period of noncompliance, the Federal Reserve may place any limitations on the company it believes to be appropriate. Furthermore, if the Federal Reserve determines that a financial holding company's subsidiary bank has not received a satisfactory CRA rating, the company will not be able to commence any new financial activities or acquire a company that engages in such activities.

Federal law also prohibits any person or company from acquiring "control" of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. "Control" is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 10% and 24.99% ownership.

Capital Requirements. Bank holding companies are required to maintain capital in accordance with Federal Reserve capital adequacy requirements, as impacted by the Dodd-Frank Act and Basel III. For a discussion of capital requirements, see "-Regulatory Emphasis on Capital" above.

Dividend Payments. Our ability to pay dividends to our shareholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. As an Iowa corporation, we are subject to the limitations of Iowa law, which allows us to pay dividends unless, after such dividend, (i) we would not be able to pay our debts as they become due in the usual course of business or (ii) our total assets would be less than the sum of our total liabilities plus any amount that would be needed if we were to be dissolved at the time of the dividend payment, to satisfy the preferential rights upon dissolution of shareholders whose rights are superior to the rights of the shareholders receiving the distribution. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends will have to maintain 2.5% in Common Equity Tier 1 attributable to the capital conservation buffer to be phased in over three years beginning in 2016.

As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should eliminate, defer or significantly reduce dividends to shareholders if: (i) its net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) the prospective rate of earnings retention is inconsistent with its capital needs and overall current and prospective financial condition; or (iii) it will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. The Federal Reserve also possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends will have to maintain 2.5% in Common Equity Tier 1 attributable to the capital conservation buffer to be phased in over three years beginning in 2016. See "-Regulatory Emphasis on Capital" above.

Monetary Policy. The monetary policy of the Federal Reserve has a significant effect on the operating results of financial or bank holding companies and their subsidiaries. Among the tools available to the Federal Reserve to affect the money supply are open market transactions in U.S. government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits.

Federal Securities Regulation. Our common stock is registered with the SEC under the Exchange Act. Consequently, the Company is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

Corporate Governance. The Dodd-Frank Act addressed many investor protection, corporate governance and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act increased

stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments, and authorizing the SEC to promulgate rules that would allow stockholders to nominate and solicit voters for their own candidates using a company’s proxy materials. The legislation also directed the Federal Reserve to promulgate rules prohibiting excessive compensation paid to executives of bank holding companies, regardless of whether such companies are publicly traded.

Table of Contents

Regulation and Supervision of the Banks

General. MidWestOne is an Iowa-chartered bank and Central Bank is a Minnesota-chartered bank. The deposit accounts of both are insured by the FDIC's Deposit Insurance Fund ("DIF") to the maximum extent provided under federal law and FDIC regulations. As an Iowa-chartered, FDIC-insured bank, MidWestOne Bank is subject to the examination, supervision, reporting and enforcement requirements of the Iowa Superintendent, the chartering authority for Iowa banks. Central Bank is subject to the examination, supervision, reporting and enforcement requirements of the Minnesota Department, the chartering authority for Minnesota banks. Both Banks are also regulated by the FDIC, designated by federal law as the primary federal regulator of insured state banks that, like the Banks, are not members of the Federal Reserve System ("nonmember banks").

Deposit Insurance. As FDIC-insured institutions, the Banks are each required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured institutions pay insurance premiums at rates based on their risk classification. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. For deposit insurance assessment purposes, an FDIC-insured institution is placed in one of four risk categories each quarter. An institution's assessment is determined by multiplying its assessment rate by its assessment base. The total base assessment rates range from 2.5 basis points to 45 basis points. The assessment base is calculated using average consolidated total assets minus average tangible equity. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease the assessment rates, following notice and comment on proposed rulemaking.

Amendments to the Federal Deposit Insurance Act revised the assessment base against which an FDIC-insured institution's deposit insurance premiums paid to the DIF are calculated to be its average consolidated total assets less its average tangible equity. This change shifted the burden of deposit insurance premiums toward those large depository institutions that rely on funding sources other than U.S. deposits. Additionally, the Dodd-Frank Act altered the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits and eliminating the requirement that the FDIC pay dividends to FDIC-insured institutions. In lieu of dividends, the FDIC has adopted progressively lower assessment rate schedules that will take effect when the reserve ratio exceeds 1.15%, 2%, and 2.5%. As a consequence, premiums will decrease once the 1.15% threshold is exceeded. The FDIC has until September 3, 2020 to meet the 1.35% reserve ratio target. Several of these provisions could increase the Bank's FDIC deposit insurance premiums.

The Dodd-Frank Act also permanently established the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per insured depositor.

FICO Assessments. In addition to paying basic deposit insurance assessments, FDIC-insured institutions must pay Financing Corporation ("FICO") assessments. FICO is a mixed-ownership governmental corporation chartered by the former Federal Home Loan Bank Board pursuant to the Competitive Equality Banking Act of 1987 to function as a financing vehicle for the recapitalization of the former Federal Savings and Loan Insurance Corporation. FICO issued 30-year noncallable bonds of approximately $8.1 billion that mature in 2017 through 2019. FICO's authority to issue bonds ended on December 12, 1991. Since 1996, federal legislation has required that all FDIC-insured institutions pay assessments to cover interest payments on FICO's outstanding obligations. The FICO assessment rate is adjusted quarterly and for the fourth quarter of 2015 was 0.60 basis points (60 cents per $100 dollars of assessable deposits).

Supervisory Assessments. All Iowa banks are required to pay supervisory assessments to the Iowa Superintendent to fund the operations of that agency. The amount of the assessment is calculated on the basis of the Bank's total assets. During the year ended December 31, 2015, MidWestOne Bank paid supervisory assessments to the Iowa Superintendent totaling approximately $89,000.

Similarly, all Minnesota banks are required to pay supervisory assessments to the Minnesota Department to fund the operations of that agency. The amount of the assessment for Minnesota banks is also calculated on the basis of that bank's total assets. During the year ended December 31, 2015, Central Bank paid supervisory assessments to the Minnesota Department totaling approximately $39,000.

Capital Requirements. Banks are generally required to maintain capital levels in excess of other businesses. For a discussion of capital requirements, see "-Regulatory Emphasis on Capital" above.

Liquidity Requirements. Liquidity is a measure of the ability and ease with which assets may be converted to cash. Liquid assets are those that can be converted to cash quickly if needed to meet financial obligations. To remain viable, FDIC-insured institutions must have enough liquid assets to meet their near-term obligations, such as withdrawals by depositors. Because the global financial crisis was in part a liquidity crisis, Basel III also includes a liquidity framework that requires FDIC-insured

10

institutions to measure their liquidity against specific liquidity tests. One test, referred to as the Liquidity Coverage Ratio (“LCR”), is designed to ensure that the institution has an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately in private markets into cash to meet liquidity needs for a 30-calendar day liquidity stress scenario. The other test, known as the Net Stable Funding Ratio, is designed to promote more medium- and long-term funding of the assets and activities of institutions over a one-year horizon. These tests provide an incentive for institutions to increase their holdings in Treasury securities and other sovereign debt as a component of assets, increase the use of long-term debt as a funding source and rely on stable funding like core deposits (in lieu of brokered deposits).

In addition to liquidity guidelines already in place, the U.S. bank regulatory agencies implemented the Basel III LCR in September 2014, which requires large financial firms to hold levels of liquid assets sufficient to protect against constraints on their funding during times of financial turmoil. While the LCR only applies to the largest banking organizations in the country, certain elements are expected to filter down to all FDIC-insured institutions. Each of the Banks is reviewing its liquidity risk management practices in light of the LCR and NSFR.

Stress Testing. A stress test is an analysis or simulation designed to determine the ability of a given FDIC-insured institution to deal with an economic crisis. In October 2012, U.S. bank regulators unveiled new rules mandated by the Dodd-Frank Act that require the largest U.S. banks to undergo stress tests twice per year, once internally and once conducted by the regulators, and began recommending portfolio stress testing as a sound risk management practice for community banks. Although stress tests are not officially required for banks with less than $10 billion in assets, they have become part of annual regulatory exams even for banks small enough to be officially exempted from the process. The FDIC now recommends stress testing as means to identify and quantify loan portfolio risk and the Banks have each begun the process.

Dividend Payments. The primary source of funds for the Company is dividends from the Bank.

Under the Iowa Banking Act, Iowa-chartered banks, such as MidWestOne Bank, generally may pay dividends only out of undivided profits. In addition, the Iowa Superintendent may restrict the declaration or payment of a dividend by an Iowa-chartered bank, such as MidWestOne Bank.

Similarly, under Chapter 48 of Minnesota Statutes, Minnesota-chartered banks, such as Central Bank, generally may pay dividends only out of undivided profits. Further, the Minnesota Department may restrict the declaration or payment of a dividend by a Minnesota-chartered bank, such as Central Bank.

Notwithstanding the availability of funds for dividends, the FDIC and the respective state banking regulator. may prohibit the payment of dividends by the Banks if either or both determine such payment would constitute an unsafe or unsound practice. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends will have to maintain 2.5% in Common Equity Tier 1 attributable to the capital conservation buffer to be phased in over three years beginning in 2016. See “Regulatory Emphasis on Capital” above.

State Bank Investments and Activities. The Banks are permitted to make investments and engage in activities directly or through subsidiaries as authorized by Iowa and Minnesota law, respectively. However, under federal law and FDIC regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law and FDIC regulations also prohibit FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank unless the particular bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines that the activity would not pose a significant risk to the DIF. These restrictions have not had, and are not currently expected to have, a material impact on the operations of either of the Banks.

Insider Transactions. The Banks are subject to certain restrictions imposed by federal law on “covered transactions” between the Banks and any of their “affiliates.” The Company is an affiliate of each of the Banks for purposes of these restrictions, and covered transactions subject to the restrictions include extensions of credit to the Company, investments in the stock or other securities of the Company and the acceptance of the stock or other securities of the Company as collateral for loans made by either or both of the Banks. The Dodd-Frank Act enhanced the requirements for certain transactions with affiliates, including an expansion of the definition of “covered transactions” and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained.

Limitations and reporting requirements are also placed on extensions of credit by the Banks to its directors and officers, to directors and officers of the Company and its subsidiaries, to principal shareholders of the Company and to “related interests” of such directors, officers and principal shareholders. In addition, federal law and regulations may affect the terms upon which

any person who is a director or officer of the Company or the Banks, or a principal shareholder of the Company, may obtain credit from banks with which either of the Bank's maintains a correspondent relationship.

Safety and Soundness Standards/Risk Management. The federal banking agencies have adopted guidelines that establish operational and managerial standards to promote the safety and soundness of FDIC-insured institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings. In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the FDIC-insured institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an FDIC-insured institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the FDIC-insured institution's rate of growth, require the FDIC-insured institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal bank regulatory agencies, including cease and desist orders and civil money penalty assessments.

During the past decade, the bank regulatory agencies have increasingly emphasized the importance of sound risk management processes and strong internal controls when evaluating the activities of the FDIC-insured institutions they supervise. Properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation, and the size and speed of financial transactions have changed the nature of banking markets. The agencies have identified a spectrum of risks facing a banking institution including, but not limited to, credit, market, liquidity, operational, legal, and reputational risk. In particular, recent regulatory pronouncements have focused on operational risk, which arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses. New products and services, third-party risk management and cybersecurity are critical sources of operational risk that FDIC-insured institutions are expected to address in the current environment. The Banks are expected to have active board and senior management oversight; adequate policies, procedures, and limits; adequate risk measurement, monitoring, and management information systems; and comprehensive internal controls.

Branching Authority. Iowa and Minnesota banks have the authority under applicable state law to establish branches anywhere in their respective states, subject to receipt of all required regulatory approvals. Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger. The establishment of new interstate branches has historically been permitted only in those states the laws of which expressly authorize such expansion. The Dodd-Frank Act permits well-capitalized and well-managed banks to establish new interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) without impediments.

Transaction Account Reserves. Federal Reserve regulations require FDIC-insured institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2016: the first $15.2 million of otherwise reservable balances are exempt from reserves and have a zero percent reserve requirement; for transaction accounts aggregating more than $15.2 million to $110.2 million, the reserve requirement is 3% of total transaction accounts; and for net transaction accounts in excess of $110.2 million, the reserve requirement is 3% up to $110.2 million plus 10% of the aggregate amount of total transaction accounts in excess of $110.2 million. These reserve requirements are subject to annual adjustment by the Federal Reserve.

Community Reinvestment Act Requirements. The Community Reinvestment Act requires the Banks to have a continuing and affirmative obligation in a safe and sound manner to help meet the credit needs of its entire

community, including low- and moderate-income neighborhoods. Federal regulators regularly assess each Bank's respective record of meeting the credit needs of its communities. Applications for additional acquisitions would be affected by the evaluation of the Banks' effectiveness in meeting its Community Reinvestment Act requirements.
Anti-Money Laundering. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act"), along with anti-money laundering and bank secrecy laws ("AML-BSA"), are designed to deny terrorists and criminals the ability to obtain access to the U.S. financial system and has significant implications for FDIC-insured institutions, brokers, dealers and other businesses involved in the transfer of money. The laws

Table of Contents

mandate financial services companies to have policies and procedures with respect to measures designed to address any or all of the following matters: (i) customer identification and ongoing due diligence programs; (ii) money laundering; (iii) terrorist financing; (iv) identifying and reporting suspicious activities and currency transactions; (v) currency crimes; and (vi) cooperation among FDIC-insured institutions and law enforcement authorities.
Concentrations in Commercial Real Estate. Concentration risk exists when FDIC-insured institutions deploy too many assets to any one industry or segment. A concentration in commercial real estate is one example of regulatory concern. The interagency Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices guidance ("CRE Guidance") provides supervisory criteria, including the following numerical indicators, to assist bank examiners in identifying banks with potentially significant commercial real estate loan concentrations that may warrant greater supervisory scrutiny: (i) commercial real estate loans exceeding 300% of capital and increasing 50% or more in the preceding three years; or (ii) construction and land development loans exceeding 100% of capital. The CRE Guidance does not limit banks' levels of commercial real estate lending activities, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. On December 18, 2015, the federal banking agencies issued a statement to reinforce prudent risk-management practices related to CRE lending, having observed substantial growth in many CRE asset and lending markets, increased competitive pressures, rising CRE concentrations in banks, and an easing of CRE underwriting standards. The federal bank agencies reminded FDIC-insured institutions to maintain underwriting discipline and exercise prudent risk-management practices to identify, measure, monitor, and manage the risks arising from CRE lending. In addition, FDIC-insured institutions must maintain capital commensurate with the level and nature of their CRE concentration risk.
Based on their respective loan portfolios as of December 31, 2015, neither of the Banks currently exceeds these guidelines.
Consumer Financial Services. The historical structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly on July 21, 2011, when the CFPB commenced operations to supervise and enforce consumer protection laws. The CFPB has broad rulemaking authority for a wide range of consumer protection laws that apply to all providers of consumer products and services, including the Banks, as well as the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over providers with more than $10 billion in assets. FDIC-insured institutions with $10 billion or less in assets, like the Banks, continue to be examined by their applicable bank regulators.
Because abuses in connection with residential mortgages were a significant factor contributing to the global financial crisis, many new rules issued by the CFPB and required by the Dodd-Frank Act address mortgage and mortgage-related products, their underwriting, origination, servicing and sales. The Dodd-Frank Act significantly expanded underwriting requirements applicable to loans secured by 1-4 family residential real property and augmented federal law combating predatory lending practices. In addition to numerous disclosure requirements, the Dodd Frank Act imposed new standards for mortgage loan originations on all lenders, including all FDIC-insured institutions, in an effort to strongly encourage lenders to verify a borrower's "ability to repay," while also establishing a presumption of compliance for certain "qualified mortgages." In addition, the Dodd-Frank Act generally required lenders or securitizers to retain an economic interest in the credit risk relating to loans that the lender sells, and other asset backed securities that the securitizer issues, if the loans have not complied with the ability-to-repay standards. The Banks do not currently expect the CFPB's rules to have a significant impact on the Company's operations, except for higher compliance costs.
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”, “intend”, “project”, “estimate”, “forecast”, “may” or similar expre 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.

Table of Contents

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 could 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, 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;
- cyber-attacks; and
- other factors and risks described under "Risk Factors" herein.

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

ITEM 1A. RISK FACTORS.

An investment in our securities is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included in this report. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our

business, financial condition and results of operations. The value or market price of our securities could decline due to any of these identified or other risks, and you could lose all or part of your investment.

Table of Contents

Risks Related to Our Business

Interest rates and other conditions impact our results of operations.

Our profitability is in large part a function of the spread between the interest rates earned on investments and loans and the interest rates paid on deposits and other interest-bearing liabilities. Like most banking institutions, our net interest spread and margin is affected by general economic conditions and other factors, including fiscal and monetary policies of the federal government, that influence market interest rates and our ability to respond to changes in such rates. At any given time, our assets and liabilities will be such that they are affected differently by a given change in interest rates. As a result, an increase or decrease in rates, the length of loan terms or the mix of adjustable and fixed rate loans in our portfolio could have a positive or negative effect on our net income, capital and liquidity. The competition for loans in the marketplace and the overall interest rate environment has kept interest rates on loans low. Interest rates paid on deposit products have declined steadily in recent years, but further significant decline is unlikely as interest rates on deposits have approached zero. We expect to continue battling net interest margin compression in 2016, with interest rates at generational lows.

We measure interest rate risk under various rate scenarios and using specific criteria and assumptions. A summary of this process, along with the results of our net interest income simulations, is presented at "Quantitative and Qualitative Disclosures about Market Risk" included under Item 7A of Part II of this Annual Report on Form 10-K. Although we believe our current level of interest rate sensitivity is reasonable and effectively managed, significant fluctuations in interest rates may have an adverse effect on our business, financial condition and results of operations.

Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. Subsequently, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets would have an adverse impact on net interest income.

Rising interest rates will likely result in a decline in value of our fixed-rate debt securities. The unrealized losses resulting from holding these securities would be recognized in other comprehensive income (or net income, if the decline is other-than-temporary), and reduce total shareholders' equity. Unrealized losses do not negatively impact our regulatory capital ratios; however, tangible common equity and the associated ratios used by many investors would be reduced. If debt securities in an unrealized loss position are sold, such losses become realized and will reduce our regulatory capital ratios.

Our business is concentrated in and largely dependent upon the continued growth and welfare of the Iowa City and Minneapolis/St. Paul markets.

We operate primarily in the Iowa City, Iowa and Minneapolis/St. Paul, Minnesota markets and their surrounding communities in the upper midwest. As a result, our financial condition, results of operations and cash flows are significantly impacted by changes in the economic conditions in those areas. Our success depends to a significant extent upon the business activity, population, income levels, deposits and real estate activity in these markets. Although our customers' business and financial interests may extend well beyond these market areas, adverse economic conditions that affect these market areas could reduce our growth rate, affect the ability of our customers to repay their loans to us, affect the value of collateral underlying loans and generally affect our financial condition and results of operations. Because of our geographic concentration, we are less able than other regional or national financial institutions to diversify our credit risks across multiple markets. Although, in general, the upper midwest economy and real estate market were not affected as severely as some other areas of the United States in recent years, they are not immune to challenging economic conditions that affect the United States and world economies.

Adverse weather affecting the markets we serve could hurt our business and prospects for growth.

Substantially all of our business is conducted in the states of Iowa and Minnesota, and a significant portion is conducted in rural communities. The upper Midwest economy, in general, is heavily dependent on agriculture and therefore the economy, and particularly the economies of the rural communities that we serve, can be greatly affected by severe weather conditions, including droughts, storms, tornadoes and flooding. Unfavorable weather conditions

may decrease agricultural productivity or could result in damage to our branch locations or the property of our customers, all of which could adversely affect the local economy. An adverse effect on the economies of Iowa or Minnesota would negatively affect our profitability.

Table of Contents

We must manage our credit risk effectively.

There are risks inherent in making any loan, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and risks resulting from changes in economic and industry conditions. We attempt to minimize our credit risk through prudent loan application approval procedures, careful monitoring of the concentration of our loans within specific industries and periodic independent reviews of outstanding loans by our credit review department. However, we cannot assure you that such approval and monitoring procedures will reduce these credit risks.

If the overall economic climate in the United States, generally, or our market areas, specifically, declines, or even if it does not, our borrowers may experience difficulties in repaying their loans, and the level of nonperforming loans, charge-offs and delinquencies could rise and require increases in the provision for loan losses, which would cause our net income and return on equity to decrease.

A significant portion of the Banks' loan portfolios consist of commercial loans, and we focus on lending to small to medium-sized businesses. The size of the loans we can offer to commercial customers is less than the size of the loans that our competitors with larger lending limits can offer. This may limit our ability to establish relationships with the area's largest businesses. As a result, we 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. In addition to commercial loans and commercial real estate loans, the Banks are also active in residential mortgage and consumer lending. Should the economic climate worsen, or even if it does not, our borrowers may experience financial difficulties, and the level of nonperforming loans, charge-offs and delinquencies could rise, which could negatively impact our business.

Commercial, industrial and agricultural loans make up a significant portion of our loan portfolio.

Commercial, industrial and agricultural loans (including credit cards and commercially related overdrafts), were $591.7 million, or approximately 27.5% of our total loan portfolio, as of December 31, 2015. Our commercial loans are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral is accounts receivable, inventory and equipment. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation value of the pledged collateral and enforcement of a personal guarantee, if any exists. As a result, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. 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, if the U.S. economy declines, this could harm the businesses of our commercial and industrial customers and reduce the value of the collateral securing these loans.

Payments on agricultural loans are dependent on the successful operation or management of the farm property. The success of the farm may be affected by many factors outside the control of the borrower, including adverse weather conditions that prevent the planting of a crop or limit crop yields (such as hail, drought and floods), loss of livestock due to disease or other factors, declines in market prices for agricultural products (both domestically and internationally) and the impact of government regulations (including changes in price supports, subsidies and environmental regulations). In addition, many farms are dependent on a limited number of key individuals whose injury or death may significantly affect the successful operation of the farm. If the cash flow from a farming operation is diminished, the borrower's ability to repay the loan may be impaired. The primary crops in our market areas are corn and soybeans. Accordingly, adverse circumstances affecting these crops could have an adverse effect on our agricultural real estate loan portfolio. Likewise, agricultural operating loans involve a greater degree of risk than lending on residential properties, particularly in the case of loans that are unsecured or secured by rapidly depreciating assets such as farm equipment or assets such as livestock or crops. In these cases, any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation.

Our loan portfolio has a significant concentration of commercial real estate loans, which involve risks specific to real estate value.

Commercial real estate lending comprises a significant portion of our lending business. Specifically, commercial real estate loans were $991.9 million, or approximately 46.1% of our total loan portfolio, as of December 31, 2015. Of this amount, $298.0 million, or approximately 13.8% of our total loan portfolio, are loans secured by owner-occupied property. The market value of real estate securing our 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. Although a significant portion of such loans is secured by real estate as a secondary form of repayment, adverse developments affecting real estate values in one or more of our markets

could increase the credit risk associated with our loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts 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 control of the borrower or lender could negatively impact the future cash flow and market values of the affected properties.

If problems develop in the commercial real estate market, particularly within one or more of our markets, the value of collateral securing our commercial real estate loans could decline. In such case, we may not be able to realize the amount of security that we anticipated at the time of originating the loan, which could cause us to increase our provision for loan losses and adversely affect our operating results, financial condition and/or capital. We generally have not experienced a downturn in credit performance by our commercial real estate loan customers in recent years, but, in light of the continued general uncertainty that exists in the economy and credit markets nationally, there can be no guarantee that we will not experience any deterioration in such performance.

Our allowance for loan losses may prove to be insufficient to absorb losses in our loan portfolio.

We established our allowances for loan losses in consultation with the credit officers of the Banks and maintain them at a level considered appropriate by management to absorb probable loan losses that are inherent in the portfolio. The amount of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates and the value of the underlying collateral, which are beyond our control, and such losses may exceed current estimates. At December 31, 2015, our allowance for loan losses as a percentage of total gross loans was 0.90% and as a percentage of total nonperforming loans was approximately 168.5%. Although management believes that the allowance for loan losses is appropriate to absorb probable loan losses on any existing loans that may become uncollectible, we cannot predict loan losses with certainty, and we cannot assure you that our allowance for loan losses will prove sufficient to cover actual loan losses in the future. Loan losses in excess of our reserves may adversely affect our business, financial condition and results of operations.

Nonperforming assets take significant time to resolve and adversely affect our results of operations and financial condition, and could result in further losses in the future.

As of December 31, 2015, our nonperforming loans (which consist of nonaccrual loans, loans past due 90 days or more and still accruing interest and loans modified under troubled debt restructurings, and excluded purchased credit impaired loans) totaled $11.5 million, or 0.54% of our loan portfolio, and our nonperforming assets (which include nonperforming loans plus other real estate owned) totaled $20.4 million, or 0.95% of loans. In addition, we had $8.5 million in accruing loans that were 31-89 days delinquent as of December 31, 2015.

Our nonperforming assets adversely affect our net income in various ways. We do not record interest income on nonaccrual loans or other real estate owned, thereby adversely affecting our net income and returns on assets and equity, increasing our loan administration costs and adversely affecting our efficiency ratio. When we take collateral in foreclosure and similar proceedings, we are required to mark the collateral to its then-fair market value, which may result in a loss. These nonperforming loans and other real estate owned also increase our risk profile and the capital our regulators believe is appropriate in light of such risks. The resolution of nonperforming assets requires significant time commitments from management and can be detrimental to the performance of their other responsibilities. If we experience increases in nonperforming loans and nonperforming assets, our net interest income may be negatively impacted and our loan administration costs could increase, each of which could have an adverse effect on our net income and related ratios, such as return on assets and equity.

We may encounter issues with environmental law compliance if we take possession, through foreclosure or otherwise, of the real property that secures a commercial real estate loan.

A significant portion of our loan portfolio is secured by real property. In the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. The remediation costs and any other financial

liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

Table of Contents

We may desire or be required to raise additional capital in the future, but that capital may not be available.
We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. We intend to grow our business organically and to explore opportunities to grow our business by taking advantage of attractive acquisition opportunities, and such growth plans may require us to raise additional capital to ensure that we have adequate levels of capital to support such growth on top of our current operations. We may at some point need to raise additional capital to support our growth plans and in this regard, in early 2013, we renewed our universal shelf-registration statement registering for future sale up to $25 million of securities. That filing should allow us to be in a better position to raise capital if the need were to arise or if an attractive opportunity were presented. Our ability to raise additional capital will depend on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and on our financial condition and performance. Accordingly, we cannot assure you of our ability to raise additional capital, if needed or desired, on terms acceptable to us. If we cannot raise additional capital when needed or desired, our ability to further expand our operations through internal growth or acquisitions could be materially impaired.
We face the risk of possible future goodwill impairment.
We performed a valuation analysis of our goodwill, $64.5 million related to Central Bank, as of October 1, 2015, and the analysis indicated no impairment existed. We will be required to perform additional goodwill impairment assessments on at least an annual basis, and perhaps more frequently, which could result in goodwill impairment charges. Any future goodwill impairment charge, on the current goodwill balance or future goodwill arising out of acquisitions, that we are required to take could have a material adverse effect on our results of operations by reducing our net income or increasing our net losses.
Liquidity risks could affect operations and jeopardize our business, financial condition and results of operations.
Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our primary sources of funds consist of cash from operations, investment maturities and sales, deposits and funds from sales of capital securities. Additional liquidity is provided by brokered deposits, bank lines of credit, repurchase agreements and the ability to borrow from the Federal Reserve Bank and the FHLB. Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry.
During periods of economic turmoil, the financial services industry and the credit markets generally may be materially and adversely affected by significant declines in asset values and by historically depressed levels of liquidity. As demonstrated by the recent financial crisis, under such circumstances, the liquidity issues are often particularly acute for regional and community banks, as larger financial institutions may curtail their lending to regional and community banks to reduce their exposure to the risks of other banks. Correspondent lenders may also reduce or even eliminate federal funds lines for their correspondent customers in difficult economic times. Furthermore, regional and community banks generally have less access to the capital markets than do the national and super-regional banks because of their smaller size and limited analyst coverage.
As a result, we rely more on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans and investment securities, respectively, to ensure that we have adequate liquidity to fund our operations. Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, pay dividends to our shareholders, or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.
We operate in a highly regulated industry and the laws and regulations to which we are subject, or changes in them, or our failure to comply with them, may adversely affect us.
The Company and the Banks are subject to extensive regulation by multiple regulatory agencies. These regulations may affect the manner and terms of delivery of our services. If we do not comply with governmental regulations, we may be subject to fines, penalties, lawsuits or material restrictions on our businesses in the jurisdiction where the

violation occurred, which may adversely affect our business operations. Changes in these regulations can significantly affect the services that we provide, as well as our costs of compliance with such regulations. In addition, adverse publicity and damage to our reputation arising from the failure or perceived failure to comply with legal, regulatory or contractual requirements could affect our ability to attract and retain customers.
Economic conditions since 2008, particularly in the financial markets, have resulted in government regulatory agencies and political bodies placing increased focus and scrutiny on the financial services industry. This environment has subjected financial

Table of Contents

institutions to additional restrictions, oversight and costs. In addition, new legislative and regulatory proposals, and modifications of existing regulations, continue to be introduced that could further increase the oversight of the financial services industry and impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices, including in the areas of compensation, interest rates, financial product offerings and disclosures. If these regulatory trends continue, they could adversely affect our business and, in turn, our consolidated results of operations.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market operations in U.S. government securities, adjustments of the discount rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted.

The repeal of federal prohibitions on payment of interest on business demand deposits could increase our interest expense.

All federal prohibitions on the ability of financial institutions to pay interest on business demand deposit accounts were repealed as part of the Dodd-Frank Act. As a result, some financial institutions have commenced offering interest on these demand deposits to compete for customers. Although this development has not meaningfully impacted our interest expense in the current low-rate, high-liquidity environment in which competition among financial institutions for deposits is generally low, competitive pressures in the future could require us to pay interest on these demand deposits to attract and retain business customers, in which case our interest expense would increase and our net interest margin would decrease. This could have a material adverse effect on our business, financial condition and results of operations.

We could recognize losses on securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.

As of December 31, 2015, the fair value of our securities portfolio was approximately $545.5 million. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. For example, fixed-rate securities acquired by us are generally subject to decreases in market value when interest rates rise. Additional factors include, but are not limited to, rating agency downgrades of the securities, defaults by the issuer or individual mortgagors with respect to the underlying securities, and instability in the credit markets. Any of the foregoing factors could cause an other-than-temporary impairment in future periods and result in realized losses. The process for determining whether impairment is other-than-temporary usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, we may recognize realized and/or unrealized losses in future periods, which could have an adverse effect on our financial condition and results of operations.

Our business has been and may continue to be adversely affected by conditions in the financial markets and economic conditions generally.

Although it has shown signs of improvement over the last several years, since late 2007, the U.S. economy has generally experienced challenging economic conditions. Business activity across a range of industries and regions remains reduced from historical levels under more favorable economic conditions. Likewise, many local governments have been experiencing certain difficulties, including lower tax revenues, which have impacted their ability to cover costs. Under such conditions, the financial services industry has historically been affected by declines in the values of

various significant asset classes, reduced levels of liquidity and the lack of opportunities to originate new loans. While these challenges are generally less severe today than during certain periods in the recent past, we continue to feel their impact, particularly with respect to loan originations.

As a result, competition among depository institutions, particularly for quality loans, has increased significantly. There have been significant new laws and regulations regarding lending and funding practices and liquidity standards, with a potential for further regulation in the future, and bank regulatory agencies in general have been very aggressive in responding to concerns

and trends identified in examinations, including through formal or informal enforcement actions or orders. The impact of new legislation in response to these developments may negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance or our stock price.

In addition, if the overall economic climate in the United States, generally, or our market areas, specifically, declines, this may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates, which may impact our charge-offs and provisions for credit losses. A worsening of these conditions likely would exacerbate the adverse effects on us and others in the financial services industry noted above.

Downgrades in the credit rating of one or more insurers that provide credit enhancement for our state and municipal securities portfolio may have an adverse impact on the market for, and valuation of, these types of securities.

We invest in tax-exempt and taxable state and local municipal securities, some of which are insured by monoline insurers. As of December 31, 2015, we had $249.8 million of municipal securities, which represented 45.8% of our total securities portfolio. Following the onset of the financial crisis in recent years, several of these insurers came under scrutiny by rating agencies. Even though management generally purchases municipal securities on the overall credit strength of the issuer, the reduction in the credit rating of an insurer may negatively impact the market for and valuation of our investment securities. Such a downgrade could adversely affect our liquidity, financial condition and results of operations.

Recent legislative and regulatory reforms applicable to the financial services industry may have a significant impact on our business, financial condition and results of operations.

The laws, regulations, rules, policies and regulatory interpretations governing us are constantly evolving and may change significantly over time as Congress and various regulatory agencies react to adverse economic conditions or other matters. The global financial crisis of 2008-09 served as a catalyst for a number of significant changes in the financial services industry, including the Dodd-Frank Act, which reformed the regulation of financial institutions in a comprehensive manner, and the Basel III regulatory capital reforms, which will increase both the amount and quality of capital that financial institutions must hold.

The Dodd-Frank Act, together with the regulations developed and to be developed thereunder, affects large and small financial institutions alike, including several provisions that impact how community banks, thrifts and small bank and thrift holding companies will operate in the future. Among other things, the Dodd-Frank Act changes the base for FDIC insurance assessments to a bank's average consolidated total assets minus average tangible equity, rather than its deposit base, permanently raises the current standard deposit insurance limit to $250,000, and expands the FDIC's authority to raise the premiums we pay for deposit insurance. The legislation allows financial institutions to pay interest on business checking accounts, contains provisions on mortgage-related matters (such as steering incentives, determinations as to a borrower's ability to repay and prepayment penalties) and establishes the CFPB as an independent entity within the Federal Reserve. This entity has broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards. Moreover, the Dodd-Frank Act includes provisions that affect corporate governance and executive compensation at all publicly traded companies.

In addition, in July 2013, the U.S. federal banking authorities approved the implementation of the Basel III Rule. The Basel III Rule is applicable to all U.S. banks that are subject to minimum capital requirements as well as to bank and saving and loan holding companies, other than "small bank holding companies" (generally bank holding companies with consolidated assets of less than $1 billion). The Basel III Rule became effective on January 1, 2015 with a phase-in period through 2019 for many of the new rules.

The Basel III Rule not only increases most of the required minimum regulatory capital ratios, it introduces a new Common Equity Tier 1 Capital ratio and the concept of a capital conservation buffer. The Basel III Rule also expands the current definition of capital by establishing additional criteria that capital instruments must meet to be considered Additional Tier 1 Capital (i.e., Tier 1 Capital in addition to Common Equity) and Tier 2 Capital. A number of instruments that previously generally qualified as Tier 1 Capital do not qualify or their qualifications changed upon the effectiveness of the Basel III Rule. However, the Basel III Rule permits banking organizations with less than

$250 billion in assets to retain, through a one-time election, the prior treatment for accumulated other comprehensive income, which previously did not affect regulatory capital. The Basel III Rule has maintained the general structure of the current prompt corrective action thresholds while incorporating the increased requirements, including the Common Equity Tier 1 Capital ratio. In order to be a “well-capitalized” depository institution under the new regime, an institution 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. Institutions must also maintain a capital conservation buffer consisting of Common Equity Tier 1 Capital.

Table of Contents

These provisions, as well as any other aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, will impact the profitability of our business activities and may change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans, and achieve satisfactory interest spreads, and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations in order to comply, and could therefore also materially and adversely affect our business, financial condition and results of operations. Our management has reviewed the provisions of the Dodd-Frank Act and the Basel III Rule, and has determined that our institution is in compliance with the new rules. However, the ultimate effect of these changes on the financial services industry in general, and us in particular, will not be known for some time.

Increases in FDIC insurance premiums may adversely affect our earnings.

The Banks' deposits are insured by the FDIC up to legal limits and, accordingly, the Banks are subject to FDIC deposit insurance assessments. We generally cannot control the amount of premiums the Banks will be required to pay for FDIC insurance. The FDIC recently increased the deposit insurance fund's target reserve ratio to 2.0% of insured deposits following the Dodd-Frank Act's elimination of the 1.5% cap on the insurance fund's reserve ratio and has put in place a restoration plan to restore the deposit insurance fund to its 1.35% minimum reserve ratio mandated by the Dodd-Frank Act by September 30, 2020. Additional increases in assessment rates may be required in the future to achieve this targeted reserve ratio. In addition, higher levels of bank failures in recent years and increases in the statutory deposit insurance limits have increased resolution costs to the FDIC and put pressure on the deposit insurance fund. The Banks may be required to pay even higher FDIC insurance premiums than the recently increased levels, or the FDIC may charge additional special assessments. Future increases of FDIC insurance premiums or special assessments could have a material adverse effect on our business, financial condition or results of operations.

Our ability to pay dividends is subject to certain limitations and restrictions, and there is no guarantee that we will be able to continue paying the same level of dividends in the future that we have paid in the past or that we will be able to pay future dividends at all.

Our ability to pay dividends is limited by regulatory restrictions and the need to maintain sufficient consolidated capital. The ability of the Banks to pay dividends to us is limited by their obligations to maintain sufficient capital and liquidity and by other general restrictions on dividends that are applicable to the Banks, including the requirement under the Iowa Banking Act that MidWestOne Bank may not pay dividends in excess of its accumulated net profits, and the requirement under Minnesota Statutes that requires Central Bank to establish a surplus fund equal to at least 50% of its capital stock prior to declaring dividends out of net profits. If these regulatory requirements are not met, the Banks will not be able to pay dividends to us, and we may be unable to pay dividends on our common stock.

In addition, as a bank holding company, our ability to declare and pay dividends is subject to the guidelines of the Federal Reserve regarding capital adequacy and dividends. The Federal Reserve guidelines generally require us to review the effects of the cash payment of dividends on common stock and other Tier 1 capital instruments (i.e., perpetual preferred stock and trust preferred debt) in light of our earnings, capital adequacy and financial condition. As a general matter, the Federal Reserve indicates that the board of directors of a bank holding company (including a financial holding company) should eliminate, defer or significantly reduce the Company's dividends if:

- the company's net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends;
- the prospective rate of earnings retention is inconsistent with the company's capital needs and overall current and prospective financial condition; or
- the company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

As of December 31, 2015, we had $22.5 million of junior subordinated debentures held by three statutory business trusts that we control. Interest payments on the debentures, which totaled $0.4 million for the year ended December 31, 2015, must be paid before we pay dividends on our capital stock, including our common stock. We have the right to defer interest payments on the debentures for up to 20 consecutive quarters. However, if we elect to defer interest payments, all deferred interest must be paid before we may pay dividends on our capital stock.

Our ability to attract and retain management and key personnel may affect future growth and earnings.

Much of our success and growth has been influenced by our ability to attract and retain management experienced in banking and financial services and familiar with the communities in our market areas. Our ability to retain our executive officers, current management teams, branch managers and loan officers will continue to be important to the successful implementation of

---

Table of Contents

our strategy. It is also critical, as we grow, to be able to attract and retain qualified additional management and loan officers with the appropriate level of experience and knowledge about our market areas to implement our community based operating strategy. The Dodd-Frank Act also directs the Federal Reserve to promulgate rules prohibiting excessive compensation paid to bank holding company executives. These rules, when adopted, may make it more difficult to attract and retain the people we need to operate our businesses and limit our ability to promote our objectives through our compensation and incentive programs. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, results of operations and financial condition.

We face intense competition in all phases of our business from banks and other financial institutions.

The banking and financial services businesses in our markets are highly competitive. Our competitors include large regional banks, local community banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market mutual funds, small local credit unions as well as large aggressive and expansion-minded credit unions, and other nonbank financial services providers. Many of these competitors are not subject to the same regulatory restrictions as we are. Many of our unregulated competitors compete across geographic boundaries and are able to provide customers with a competitive alternative to traditional banking services.

Increased competition in our markets may result in a decrease in the amounts of our loans and deposits, reduced spreads between loan rates and deposit rates or loan terms that are more favorable to the borrower. Any of these results could have a material adverse effect on our ability to grow and remain profitable. If increased competition causes us to significantly discount the interest rates we offer on loans or increase the amount we pay on deposits, our net interest income could be adversely impacted. If increased competition causes us to modify our underwriting standards, we could be exposed to higher losses from lending activities. Additionally, many of our competitors are much larger in total assets and capitalization, have greater access to capital markets, have larger lending limits and offer a broader range of financial services than we can offer.

We have a continuing need for technological change, and we may not have the resources to effectively implement new technology.

The financial services industry continues to undergo rapid technological changes with frequent introductions of new technology-driven products and services. In addition to enabling us to better serve our customers, the effective use of technology increases efficiency and the potential for cost reduction. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow our market share. Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which could put us at a competitive disadvantage. Accordingly, we cannot provide you with assurance that we will be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

The Company’s information systems may experience an interruption or breach in security and cyber-attacks, all if which could have a material adverse effect on the Company’s business.

The Company relies heavily on internal and outsourced technologies, communications, and information systems to conduct its business. Additionally, in the normal course of business, the Company collects, processes and retains sensitive and confidential information regarding our customers. As the Company’s reliance on technology has increased, so have the potential risks of a technology-related operation interruption (such as disruptions in the Company’s customer relationship management, general ledger, deposit, loan, or other systems) or the occurrence of a cyber-attacks (such as unauthorized access to the Company’s systems). These risks have increased for all financial institutions due to new technologies, the use of the Internet and telecommunications technologies (including mobile devices) to conduct financial and other business transactions, and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others. In addition to cyber-attacks or other security breaches involving the theft of sensitive and confidential information, hackers have engaged in attacks against large financial institutions, particularly denial of service attacks, that are designed to disrupt key business services, such as

customer-facing web sites. In addition, it is possible that we may not be able to detect security breaches on a timely basis, or at all, which could increase the costs and risks associated with any such breach. The Company is not able to anticipate or implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently and because attacks can originate from a wide variety of sources. However, applying guidance from the Federal Financial Institutions Examination Council, the Company has analyzed and will continue to analyze security related to device specific considerations, user access topics, transaction-processing and network integrity.

Table of Contents

The Company also faces risks related to cyber-attacks and other security breaches in connection with credit card and debit card transactions that typically involve the transmission of sensitive information regarding the Company's customers through various third parties, including merchant acquiring banks, payment processors, payment card networks and its processors. Some of these parties have in the past been the target of security breaches and cyber-attacks, and because the transactions involve third parties and environments such as the point of sale that the Company does not control or secure, future security breaches or cyber-attacks affecting any of these third parties could impact the Company through no fault of its own, and in some cases it may have exposure and suffer losses for breaches or attacks relating to them. In addition, we offer our customers protection against fraud and certain losses for unauthorized use of debit cards in order to stay competitive with other financial institutions. Offering such protection exposes us to possible losses. Further cyber-attacks or other breaches in the future, whether affecting the Company or others, could intensify consumer concern and regulatory focus and result in reduced use of payment cards and increased costs, all of which could have a material adverse effect on the Company's business. To the extent we are involved in any future cyber-attacks or other breaches, the Company's reputation could be affected, would could also have a material adverse effect on the Company's business, financial condition or results of operations.

We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

Employee errors and employee and customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence.

We maintain a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. Should our internal controls fail to prevent or detect an occurrence, and if any resulting loss is not insured or exceeds applicable insurance limits, such failure could have a material adverse effect on our business, financial condition and results of operations.

We are subject to changes in accounting principles, policies or guidelines.

Our financial performance is impacted by accounting principles, policies and guidelines. Some of these policies require the use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. Some of our accounting policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. If such estimates or assumptions underlying our financial statements are incorrect, we may experience material losses.

From time to time, the FASB and the SEC change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our financial statements. These changes are beyond our control, can be difficult to predict and could materially impact how we report our financial condition and results of operations. Changes in these standards are continuously occurring, and given recent economic conditions, more drastic changes may occur. The implementation of such changes could have a material adverse effect on our financial condition and results of operations.

Our framework for managing risks may not be effective in mitigating risk and loss to us.

Our risk management framework seeks to mitigate risk and loss to us. We have established processes and procedures intended to identify, measure, monitor, report and analyze the types of risk to which we are subject, including liquidity risk, credit risk, market risk, interest rate risk, operational risk, compensation risk, legal and compliance risk, and reputational risk, among others. However, as with any risk management framework, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. Our ability to successfully identify and manage risks facing us is an important factor that can significantly impact our results. If our risk management framework proves ineffective, we could suffer unexpected losses and could be materially adversely affected.

Our internal controls may be ineffective

Management regularly reviews and updates our internal controls, disclosure controls and procedures and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or

---

Table of Contents

circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on its financial condition and results of operations.

Our reputation could be damaged by negative publicity.

Reputational risk, or the risk to our business, financial condition or results of operations from negative publicity, is inherent in our business. Negative publicity can result from actual or alleged conduct in a number of areas, including legal and regulatory compliance, lending practices, corporate governance, litigation, inadequate protection of customer data, ethical behavior of our employees, and from actions taken by regulators, ratings agencies and others as a result of that conduct. Damage to our reputation could impact our ability to attract new or maintain existing loan and deposit customers, employees and business relationships.

We have counterparty risk and therefore we may be adversely affected by the soundness of other financial institutions.

Our ability to engage in routine funding and other transactions could be negatively affected by the actions and the soundness of other financial institutions. Financial services institutions are generally interrelated as a result of trading, clearing, counterparty, credit or other relationships. We have exposure to many different industries and counterparties and regularly engage in transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks and other institutional customers. Many of these transactions may expose us to credit or other risks if another financial institution experiences adverse circumstances. In certain circumstances, the collateral that we hold may be insufficient to fully cover the risk that a counterparty defaults on its obligations, which may cause us to experience losses that could have a material adverse effect on our business, financial condition and results of operations.

There is a limited trading market for our common shares, and you may not be able to resell your shares at or above the price you paid for them.

Although our common shares are listed for quotation on the NASDAQ Global Select Market, the trading in our common shares has substantially less liquidity than many other companies listed on NASDAQ. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the market of willing buyers and sellers of our common shares at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. We cannot assure you that the volume of trading in our common shares will increase in the future.

Certain shareholders own a significant interest in the company and may exercise their control in a manner detrimental to your interests.

Certain MidWestOne shareholders who are descendants of our founder collectively control approximately 24.6% of our outstanding common stock and the former single shareholder of Central controls approximately 21.6% of our outstanding common stock. The shareholders may have the opportunity to exert influence on the outcome of matters required to be submitted to shareholders for approval. In addition, the significant level of ownership by these shareholders may contribute to the rather limited liquidity of our common stock on the NASDAQ Global Select Market.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Our headquarters and MidWestOne Bank's main office are located at 102 South Clinton Street, Iowa City, Iowa, and consist of approximately 63,800 square feet. Central Bank's main office is located at 945 Winnetka Avenue North, Golden Valley, Minnesota, and consists of approximately 18,100 square feet. Both of these properties are owned by the Company. The Company also owns or leases other facilities, such as branches of both MidWestOne Bank and Central Bank and as offices of MidWestOne Insurance Services, Inc., within its primary market areas of central and east-central Iowa, Twin Cities metropolitan area, west Wisconsin, and southwest Florida.

MidWestOne and its subsidiaries own or lease all of the real property and/or buildings on which each respective entity is located. The Company considers its properties to be suitable and adequate for its present needs.

In December 2013 we entered into a contract for the construction of a new Home Mortgage Center and operations center in Iowa City. The estimated cost of design and construction of the building is $16.0 million, and the project was completed in December 2015.

Table of Contents

In August 2013 we entered into a contract for the restoration and remodeling of the building which serves as the main office of the Bank and headquarters of the Company. The estimated cost of the restoration and remodeling is $13.8 million, and it is anticipated that construction will be completed in April 2016.

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is listed on the NASDAQ Global Select Market under the symbol "MOFG." The following table presents for the periods indicated the high and low sale price for our common stock as reported on the NASDAQ Global Select Market:

	High	Low	Cash Dividend Declared
2014			
First Quarter	$27.67	$23.53	$0.145
Second Quarter	26.18	22.50	0.145
Third Quarter	24.95	23.00	0.145
Fourth Quarter	29.10	22.73	0.145
2015			
First Quarter	$29.82	$27.74	$0.150
Second Quarter	33.88	28.33	0.150
Third Quarter	34.04	28.43	0.150
Fourth Quarter	32.52	28.06	0.150

As of March 1, 2016, there were 11,425,035 shares of common stock outstanding held by approximately 462 holders of record. Additionally, there are an estimated 2,021 beneficial holders whose stock was held in street name by brokerage houses and other nominees as of that date.

Dividends

We may pay dividends on our common stock as and when declared by our Board of Directors out of any funds legally available for the payment of such dividends, subject to any and all preferences and rights of any preferred stock or a series thereof and subject to the payment of interest on our junior subordinated debentures. The amount of dividend payable will depend upon our earnings and financial condition and other factors, including applicable governmental regulations and policies. See "Supervision and Regulation - Regulation and Supervision of the Company - Dividend Payments."

Repurchases of Company Equity Securities

On July 17, 2014, 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, 2016. The new repurchase program replaced the Company's prior repurchase program, pursuant to which the Company had repurchased approximately $3.7 million of common stock since January 15, 2013. Pursuant to the new 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

Table of Contents

alternative uses for cash available. During 2014 under the July 17, 2014 repurchase program the Company repurchased $1.2 million of common stock. Of the $5.0 million of stock authorized under the repurchase plan, $3.8 million remained available for possible future repurchases as of December 31, 2015. There were no repurchases of stock in 2015.

Performance Graph

The following table compares MidWestOne's performance, as measured by the change in price of its common stock plus reinvested dividends, with the NASDAQ Composite Index and the SNL-Midwestern Banks Index for the five years ended December 31, 2015.

MidWestOne Financial Group, Inc.

	At					
Index	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
MidWestOne Financial Group, Inc.	$ 100.00	$ 98.24	$ 140.38	$ 190.05	$ 205.97	$ 221.81
NASDAQ Composite Index	100.00	99.21	116.82	163.75	188.03	201.40
SNL-Midwestern Banks Index	100.00	94.46	113.69	155.65	169.21	171.78

The banks in the custom peer group - SNL-Midwestern Banks Index - represent all publicly traded banks, thrifts or financial service companies located in Iowa, Illinois, Indiana, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA.

The following selected financial data for each of the five years in the period ended December 31, 2015, have been derived from our audited consolidated financial statements and the results of operations for each of the five years in the period ended December 31, 2015. This financial data should be read in conjunction with the financial statements and the related notes thereto.

	Year Ended December 31,				
(In thousands, except per share data)	2015	2014	2013	2012	2011
Summary of Income Data:					
Total interest income excluding loan pool participations	$99,902	$62,888	$64,048	$67,324	$67,473
Total interest and discount on loan pool participations	798	1,516	2,046	1,978	1,108
Total interest income including loan pool participations	100,700	64,404	66,094	69,302	68,581
Total interest expense	10,648	9,551	12,132	15,952	19,783
Net interest income	90,052	54,853	53,962	53,350	48,798
Provision for loan losses	5,132	1,200	1,350	2,379	3,350
Noninterest income	21,193	15,313	14,728	19,737	14,707
Noninterest expense	73,176	43,413	42,087	48,960	42,235
Income before income tax	32,937	25,553	25,253	21,748	17,920
Income tax expense	7,819	7,031	6,646	5,214	4,609
Net income	$25,118	$18,522	$18,607	$16,534	$13,311
Less: Preferred stock dividends and discount accretion	—	—	—	—	645
Net income available to common shareholders	$25,118	$18,522	$18,607	$16,534	$12,666
Per share data:					
Net income - basic	$2.42	$2.20	$2.19	$1.95	$1.47
Net income - diluted	2.42	2.19	2.18	1.94	1.47
Net income, exclusive of loss on termination of pension and gain on sale of Home Mortgage Center - diluted	2.42	2.19	2.18	2.10	1.47
Net income, exclusive of merger-related expenses - diluted	2.70	2.31	2.18	2.10	1.47
Cash dividends declared	0.60	0.58	0.50	0.36	0.22
Book value	25.96	23.07	20.99	20.51	18.35
Net tangible book value	19.10	22.08	19.95	19.39	17.15
Selected financial ratios:					
Return on average assets	0.91 %	1.05 %	1.06 %	0.96 %	0.82 %
Return on average assets, exclusive of loss on termination of pension and gain on sale of Home Mortgage Center	0.91	1.05	1.06	1.03	0.82
Return on average shareholders' total equity	9.84	9.94	10.59	9.99	8.42
Return on average shareholders' total equity, exclusive of loss on termination of pension and gain on sale of Home Mortgage Center	9.84	9.94	10.59	10.77	8.42

Return on average common equity	9.84	9.94	10.59	10.13	8.87
Return on average tangible common equity	14.70	10.61	11.43	10.95	9.50
Return on average tangible common equity, exclusive of loss on termination of pension and gain on sale of Home Mortgage Center	14.70	10.61	11.43	11.78	9.50
Dividend payout ratio	24.79	26.36	22.83	18.46	14.97
Total shareholders' equity to total assets	9.94	10.71	10.14	9.70	9.23
Tangible common equity to tangible assets	7.51	10.29	9.69	9.22	8.68
Tier 1 capital to average assets	8.34	10.85	10.55	9.65	9.44
Tier 1 capital to risk-weighted assets	10.63	13.47	13.36	12.56	12.19
Net interest margin	3.71	3.53	3.46	3.46	3.34
Efficiency ratio	61.08	58.74	57.23	67.32	62.94
Efficiency ratio, exclusive of loss on termination of pension	61.08	58.74	57.23	58.82	62.94
Gross revenue of loan pools to total gross revenue	0.72	2.16	2.98	2.71	1.74
Allowance for bank loan losses to total bank loans	0.90	1.44	1.49	1.54	1.59
Allowance for loan pool losses to total loan pools	—	9.94	7.71	5.65	4.09
Non-performing loans to total loans	0.54	1.15	1.27	1.03	1.84
Net loans charged off to average loans	0.11	0.09	0.11	0.21	0.30

Table of Contents

(In thousands)	Year Ended December 31, 2015	2014	2013	2012	2011
Selected balance sheet data:					
Total assets	$2,979,975	$1,800,302	$1,755,218	$1,792,819	$1,695,244
Total loans net of purchase accounting and unearned discounts	2,151,942	1,132,519	1,088,412	1,035,284	986,173
Allowance for loan losses	19,427	16,363	16,179	15,957	15,676
Loan pool participations, net	—	19,332	25,533	35,650	50,052
Total deposits	2,463,521	1,408,542	1,374,942	1,399,733	1,306,642
Federal funds purchased and repurchase agreements	68,963	78,229	66,665	68,823	57,207
Federal Home Loan Bank advances	87,000	93,000	106,900	120,120	140,014
Junior subordinated notes issued to capital trusts	23,587	15,464	15,464	15,464	15,464
Long-term debt	22,500	—	—	—	—
Total shareholders' equity	296,178	192,731	178,016	173,932	156,494

Non-GAAP Presentations:

Certain ratios and amounts not in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") are provided to evaluate and measure the Company's operating performance and financial condition, including return on average tangible common equity, tangible common equity to tangible assets, Tier 1 capital to average assets, Tier 1 capital to risk-weighted assets, and efficiency ratio, as well as certain of these and other financial metrics excluding the effects of a loss on termination of pension and gain on sale of Home Mortgage Center, both of which occurred in 2012, and earnings per diluted share - excluding merger-related expenses, as further discussed under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. Management believes these ratios and amounts provide investors with information regarding the Company's balance sheet, profitability, financial condition and capital adequacy and how management evaluates such metrics internally. The following tables provide a reconciliation of each non-GAAP measure to the most comparable GAAP equivalent.

(dollars in thousands)	For the Year Ended December 31, 2015	2014	2013	2012	2011
Average Tangible Common Equity					
Average total shareholders' equity	$255,307	$186,375	$175,666	$165,429	$158,146
Less: Average preferred stock	—	—	—	—	(8,032)
Average goodwill and intangibles	(69,975)	(8,477)	(9,073)	(9,785)	(10,613)
Average tangible common equity	$185,332	$177,898	$166,593	$155,644	$139,501
Net Income					
Net income available to common shareholders	$25,118	$18,522	$18,607	$16,534	$12,666
Plus: Intangible amortization, net of tax[1]	2,126	356	431	513	591
Adjusted net income available to common shareholders	$27,244	$18,878	$19,038	$17,047	$13,257
Plus: Loss on termination of pension	—	—	—	6,088	—
Less: Gain on sale of Home Mortgage Center	—	—	—	(4,047)	—
Net tax effect of above items[2]	—	—	—	(755)	—
Adjusted net income available to common shareholders, exclusive of loss on termination of pension and gain on sale of	$27,244	$18,878	$19,038	$18,333	$13,257

Home Mortgage Center										
Return on Average Tangible Common Equity	14.70	%	10.61	%	11.43	%	10.95	%	9.50	%
Return on Average Tangible Common Equity, Exclusive of Loss on Termination of Pension and Gain on Sale of Home Mortgage Center	14.70	%	10.61	%	11.43	%	11.78	%	9.50	%

(1) Computed on a tax-equivalent basis, assuming a federal income tax rate of 34% for 2011 and 2012, and 35% for 2013, 2014 and 2015
(2) Computed assuming a combined state and federal tax rate of 37% for 2012.

28

Table of Contents

(dollars in thousands, except per share data)	As of or for the Year Ended December 31, 2015	2014	2013	2012	2011
Tangible Common Equity					
Total shareholders' equity	$296,179	$192,731	$178,016	$173,932	$156,494
Less: Preferred stock	—	—	—	—	—
Goodwill and intangibles	(78,323)	(8,259)	(8,806)	(9,469)	(10,247)
Tangible common equity	$217,856	$184,472	$169,210	$164,463	$146,247
Tangible Assets					
Total assets	$2,979,975	$1,800,302	$1,755,218	$1,792,819	$1,695,244
Less: Goodwill and intangibles	(78,323)	(8,259)	(8,806)	(9,469)	(10,247)
Tangible Assets	$2,901,652	$1,792,043	$1,746,412	$1,783,350	$1,684,997
Common shares outstanding	11,408,773	8,355,666	8,481,799	8,480,488	8,529,530
Tangible Book Value Per Share	$19.10	$22.08	$19.95	$19.39	$17.15
Tangible Common Equity to Tangible Assets	7.51%	10.29%	9.69%	9.22%	8.68%
Tier 1 Capital					
Total shareholders' equity	$296,179	$192,731	$178,016	$173,932	$156,494
Plus: Long term debt (qualifying restricted core capital)	23,587	15,464	15,464	15,464	15,464
Less: Net unrealized gains on securities available for sale, net of tax	(3,408)	(5,322)	(1,049)	(11,050)	(5,982)
Disallowed goodwill and intangibles	(72,203)	(8,511)	(9,036)	(9,617)	(10,374)
Tier 1 capital	$244,155	$194,362	$183,395	$168,729	$155,602
Average Assets					
Quarterly average assets	$3,000,284	$1,799,666	$1,746,313	$1,757,910	$1,658,738
Less: Disallowed goodwill and intangibles	(72,203)	(8,511)	(9,036)	(9,617)	(10,374)
Average assets	$2,928,081	$1,791,155	$1,737,277	$1,748,293	$1,648,364
Tier 1 Capital to Average Assets	8.34%	10.85%	10.56%	9.65%	9.44%
Risk-weighted assets	$2,296,478	$1,442,585	$1,372,648	$1,343,194	$1,276,512
Tier 1 Capital to Risk-Weighted Assets	10.63%	13.47%	13.36%	12.56%	12.19%
Operating Expense					
Total noninterest expense	$73,176	$43,413	$42,087	$48,960	$42,235
Less: Amortization of intangibles and goodwill impairment	(3,271)	(547)	(663)	(778)	(896)
Operating expense	$69,905	$42,866	$41,424	$48,182	$41,339
Less: Loss on termination of pension	—	—	—	(6,088)	—
Operating expense, exclusive of loss on termination of pension	$69,905	$42,866	$41,424	$42,094	$41,339
Operating Revenue					
Tax-equivalent net interest income[1]	$94,243	$58,890	$57,720	$56,481	$51,261
Plus: Noninterest income	21,193	15,313	14,728	19,737	14,707

	Impairment losses on investment securities	—		—		—		345		9	
Less:	Gain on sale or call of available for sale securities	1,011		1,227		65		805		490	
	Gain (loss) on sale of premises and equipment	(29	)	(1	)	(3	)	4,188		(195	)
Operating Revenue		$114,454		$72,977		$72,386		$71,570		$65,682	
Efficiency Ratio		61.08	%	58.74	%	57.23	%	67.32	%	62.94	%
Efficiency Ratio, Exclusive of Loss on Termination of Pension		61.08	%	58.74	%	57.23	%	58.82	%	62.94	%

(1) Computed on a tax-equivalent basis, assuming a federal income tax rate of 34% for 2011 and 2012, and 35% for 2013, 2014 and 2015

Table of Contents

(dollars in thousands, except per share data)	For the Year Ended December 31, 2015	2014	2013	2012	2011
Net Interest Margin Tax Equivalent Adjustment					
Net interest income	$90,052	$54,853	$53,962	$53,350	$48,798
Plus tax equivalent adjustment:(1)					
Loans	1,293	1,157	963	827	473
Securities	2,898	2,880	2,795	2,304	1,990
Tax equivalent net interest income(1)	$94,243	$58,890	$57,720	$56,481	$51,261
Average interest-earning assets	$2,541,681	$1,669,130	$1,667,251	$1,630,835	$1,536,596
Net Interest Margin	3.71 %	3.53 %	3.46 %	3.46 %	3.34 %
Net Income	$25,118	$18,522	$18,607	$16,534	$13,311
Net Income Available to Common Shareholders	$25,118	$18,522	$18,607	$16,534	$12,666
Plus: Loss on termination of pension	—	—	—	6,088	—
Merger-related expenses	3,512	1,061	—	—	—
Less: Gain on sale of Home Mortgage Center	—	—	—	(4,047)	—
Net tax effect of above items(2)	(539)	(111)	—	(755)	—
Net income, exclusive of loss on termination of pension and gain on sale of Home Mortgage Center, and merger-related expenses	$28,091	$19,472	$18,607	$17,820	$13,311
Net income available to common shareholders, exclusive of loss on termination of pension and gain on sale of Home Mortgage Center, and merger-related expenses	$28,091	$19,472	$18,607	$17,820	$12,666
Average Assets	$2,773,095	$1,760,776	$1,756,344	$1,721,792	$1,628,253
Average Equity	$255,307	$186,375	$175,666	$165,429	$158,146
Diluted average number of shares	10,391,323	8,433,296	8,525,119	8,527,544	8,632,856
Return on Average Assets	0.91 %	1.05 %	1.06 %	0.96 %	0.82 %
Return on Average Assets, Exclusive of Loss on Termination of Pension and Gain on Sale of Home Mortgage Center, and merger-related expenses	1.01 %	1.11 %	1.06 %	1.03 %	0.82 %
Return on Average Equity	9.84 %	9.94 %	10.59 %	9.99 %	8.42 %
Return on Average Equity, Exclusive of Loss on Termination of Pension and Gain on Sale of Home Mortgage Center, and merger-related expenses	11.00 %	10.45 %	10.59 %	10.77 %	8.42 %
Earnings Per Common Share-Diluted	$2.41	$2.19	$2.18	$1.94	$1.47

Earnings Per Common Share-Diluted, Exclusive of Loss on Termination of Pension and Gain on Sale of Home Mortgage Center	$2.41	$2.19	$2.18	$2.10	$1.47
Earnings Per Common Share-Diluted, Exclusive of Merger-related Expenses	$2.70	$2.31	$2.18	$1.94	$1.47

(1) Computed on a tax-equivalent basis, assuming a federal income tax rate of 34% for 2011 and 2012, and 35% for 2013, 2014 and 2015
(2) Computed assuming a combined state and federal tax rate of 37% for 2012, and 38% on eligible tax-deductible expenses for 2014 and 2015.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

We are the holding company for MidWestOne Bank, an Iowa state non-member bank with its main office in Iowa City, Iowa, and Central Bank, a Minnesota state non-member bank with its main office in Golden Valley, Minnesota. We are headquartered in Iowa City, Iowa, and are a bank holding company under the Bank Holding Company Act of 1956 that has elected to be a financial holding company. We also are the holding company for MidWestOne Insurance Services, Inc., which operates an insurance business through three agencies located in central and east-central Iowa.

Table of Contents

MidWestOne Bank operates a total of 24 branch locations, plus its specialized Home Mortgage Center, in 15 counties throughout central and east-central Iowa. It provides full service retail banking in the communities in which its branch offices are located and also offers trust and investment management services.

On May 1, 2015, we consummated a merger with Central Bancshares, Inc., a Minnesota corporation. In connection with the merger, Central Bank, a Minnesota-chartered commercial bank and wholly-owned subsidiary of Central, became a wholly-owned subsidiary of MidWestOne. Central Bank has operated, since 1988, as a community bank and has strong roots in the communities it serves. Central Bank has 22 offices, primarily in the Twin Cities metro area with offices in Minnesota and Western Wisconsin. Additionally, Central Bank operates two Florida offices in Naples and Fort Myers. We expect Central Bank to merge into MidWestOne Bank in the 2nd quarter of 2016. See Note 2. “Business Combination” to our consolidated financial statements.

We continue to make significant progress with our merger integration. Net income for the year ended December 31, 2015 was $25.1 million, an increase of $6.6 million, or 35.6%, compared to $18.5 million of net income for the same period in 2014, with diluted earnings per share of $2.42 and $2.19 for the comparative annual periods, respectively. The increase in net income was due primarily to the merger with Central, with higher net interest income and increased noninterest income, partially offset by increased noninterest expense and income tax expense. Increased income tax expense due to higher income was somewhat offset by the recognition of the estimated income tax benefit of rehabilitation and historic tax credits on the Company’s headquarters building in the amount $2.3 million for the year 2015. After excluding the effects of $3.5 million ($3.0 million after tax) of expenses related to the merger, adjusted diluted earnings per share for the year ended December 31, 2015 were $2.70, compared to $2.31 for the same period last year, reflecting growth of 16.9%. Return on average assets (“ROAA”) and return on average tangible equity (“ROATE”) for the full year of 2015, including merger expenses, of 0.91% and 14.70%, respectively, decreased from 1.05% and increased from 10.61%, respectively, for 2014.

Due primarily to the merger, total assets increased to $2.98 billion at December 31, 2015 from $1.80 billion at December 31, 2014. Total deposits at December 31, 2015, were $2.46 billion, an increase of $1.05 billion from December 31, 2014, due primarily to the merger. The deposit increase was concentrated in interest-bearing checking deposits, which increased $445.8 million, or 72.1%, to $1.06 billion at December 31, 2015, from $618.5 million at December 31, 2014, and non-interest-bearing demand deposits, which increased $345.1 million, or 160.9%, between these two dates. Deposit generation throughout the Company is one of our most important goals for 2016. Total loans (excluding loan pool participations and loans held for sale) increased $1.02 billion, or 90.0%, from December 31, 2014, to $2.15 billion at December 31, 2015, primarily as a result of the merger. While all loan categories saw increased balances, the increases were primarily concentrated in commercial real estate-other, one-to-four-family first liens, and commercial and industrial loans.

For the year ended December 31, 2015, noninterest income rose to $21.2 million, an increase of $5.9 million, or 38.4%, from $15.3 million during 2014. While all but two of the major noninterest income categories improved, primarily due to the merger, the greatest increase for the year ended December 31, 2015, was in other service charges, commissions and fees, which rose from $2.4 million for the year ended December 31, 2014, to $5.7 million for the year ended December 31, 2015, an increase of $3.3 million, or 141.2%. While the majority of this increase was due to the merger, $0.7 million represents the gain on sale of our Ottumwa, Iowa branch, which was completed in early December 2015. Mortgage origination and loan servicing fees in the year ended December 31, 2015 increased $1.2 million, or 77.3%, to $2.8 million from $1.6 million for the year ended December 31, 2014.

Noninterest expense increased to $73.2 million for the year ended December 31, 2015 compared with $43.4 million for the year ended December 31, 2014, an increase of $29.8 million, or 68.6%. The increase was mainly due to the inclusion of expenses related to the closing of the merger and eight months of post-merger expenses of a much larger company. Salaries and employee benefits increased $16.9 million, or 68.0%, from the year ended December 31, 2014 to the year ended December 31, 2015. Merger-related expenses paid were $3.5 million ($3.0 million after tax) for the year ended December 31, 2015. These expenses are reflected mainly in professional fees expense of $4.9 million during the year ended December 31, 2015 and an increase of $3.6 million, or 64.5%, in other operating expense for the year of 2015 compared to the same period a year ago. We have identified several areas in which we expect a reduction in noninterest expense in future periods from the merger, and our goal is to complete the identification of

noninterest expenses that can be reduced during 2016, and implement these reductions in expense in 2016 and 2017. Asset quality continues to be strong, with nonperforming loans declining from $13.0 million, or 1.15% of total bank loans, at December 31, 2014, to $11.5 million, or 0.54% of total bank loans, at December 31, 2015. The decline was due primarily to a reduction in troubled debt restructures. As of December 31, 2015, the allowance for bank loan losses was $19.4 million, or 0.90% of total loans, compared with $16.4 million, or 1.44% of total bank loans at December 31, 2014. The decrease in the ratio of the allowance for loan losses to total loans was due to the purchased loans acquired in the merger being recorded at estimated fair value on their purchase date without a carryover of the related allowance for loan losses. The allowance for loan losses

Table of Contents

represented 168.52% of nonperforming loans at December 31, 2015, compared with 125.67% of nonperforming loans at December 31, 2014. The Company had net loan charge-offs of $2.1 million in the year ended December 31, 2015, or an annualized 0.11% of average loans outstanding, compared to net charge-offs of $1.0 million, or an annualized 0.09% of average loans outstanding, for the same period of 2014. The post-merger Company continues to exhibit strong asset quality metrics.

We had been in the loan pool participations business since the merger with the Former MidWestOne, although we decided to exit this business line in 2010. Loan pool participations were participation interests in performing, subperforming and nonperforming loans that were purchased from various non-affiliated banking organizations and were serviced by a third party. We completed the sale of our remaining loan pool participations in June 2015, and have now completely exited this line of business.

The Company’s capital position was reduced somewhat due to the merger, with our tangible equity to tangible assets (both net of associated deferred tax liability on intangibles) ratio of 7.51%, below our target range of 8.00% to 8.50%. Reflecting our strong past financial results and our confidence in the future prospects for the Company, on January 19, 2016, our Board of Directors declared a dividend of $0.16, payable March 15, 2016 to shareholders of record as of March 1, 2016, representing a 7% increase from dividends declared in recent quarters.

Critical Accounting Policies

We have identified the following critical accounting policies and practices relative to the reporting of our results of operations and financial condition. These accounting policies relate to the allowance for loan losses, application of purchase accounting, goodwill and intangible assets, and fair value of available for sale investment securities.

Allowance for Loan Losses

The allowance for loan losses is based on our estimate of probable incurred credit losses in our loan portfolio. In evaluating our loan portfolio, we take into consideration numerous factors, including current economic conditions, prior loan loss experience, the composition of the loan portfolio, and management’s estimate of probable credit losses. The allowance for loan losses is established through a provision for loss based on our evaluation of the risk inherent in the loan portfolio, the composition of the portfolio, specific impaired loans, and current economic conditions. Such evaluation, which includes a review of all loans on which full collectability may not be reasonably assured, considers, among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, historical loss experience, and other factors that warrant recognition in providing for an appropriate allowance for loan losses. In the event that our evaluation of the level of the allowance for loan losses indicates that it is inadequate, we would need to increase our provision for loan losses. We believe the allowance for loan losses as of December 31, 2015, was adequate to absorb probable losses in the existing portfolio.

Application of Purchase Accounting

In May 2015, we completed the acquisition of Central, which generated significant amounts of fair value adjustments to assets and liabilities. The fair value adjustments assigned to assets and liabilities, as well as their related useful lives, are subject to judgment and estimation by our management. Valuation of intangible assets is generally based on the estimated cash flows related to those assets, while the initial value assigned to goodwill is the residual of the purchase price over the fair value of all identifiable assets acquired and liabilities assumed. Useful lives are determined based on the expected future period of the benefit of the asset or liability, the assessment of which considers various characteristics of the asset or liability, including the historical cash flows. Due to the number of estimates involved related to the allocation of purchase price and determining the appropriate useful lives, we have identified purchase accounting as a critical accounting policy.

Goodwill and Intangible Assets

Goodwill and intangible assets arise from business combinations accounted for as a purchase. In May 2015, we completed our merger with Central. We were deemed to be the purchaser for accounting purposes and thus recognized goodwill and other intangible assets in connection with the merger. The goodwill was assigned to our Central Bank

reporting unit. As a general matter, goodwill and other intangible assets generated from purchase business combinations and deemed to have indefinite lives are not subject to amortization and are instead tested for impairment at least annually. The other intangible assets reflected on our financial statements are core deposit premium, insurance agency, trade name, and customer list intangibles. The establishment and subsequent amortization, when required by the accounting standards, of these intangible assets involve the use of significant estimates and assumptions. These estimates and assumptions include, among other things, the estimated cost to service deposits acquired, discount rates, estimated attrition rates and useful lives, future economic and market conditions, comparison of our market value to book value and determination of appropriate market comparables. Actual future results may differ from those estimates. We assess these intangible assets for impairment annually or more often if conditions indicate a possible impairment. Periodically we evaluate the

Table of Contents

estimated useful lives of intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization. Recoverability of these assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. See Note 6. “Goodwill and Intangible Assets” to our consolidated financial statements for additional information related to our intangible assets.

Fair Value of Available for Sale Securities

Securities available for sale are reported at fair value, with unrealized gains and losses reported as a separate component of accumulated other comprehensive income, net of deferred income taxes. Declines in fair value of individual securities, below their amortized cost, are evaluated by management to determine whether the decline is temporary or “other-than-temporary.’’ Declines in the fair value of available for sale securities below their cost that are deemed “other-than-temporary” are reflected in earnings as impairment losses. In determining whether other-than-temporary impairment (“OTTI”) exists, management considers whether: (1) we have the intent to sell the security, (2) it is more likely than not that we will be required to sell the security before recovery of the amortized cost basis, and (3) we do not expect to recover the entire amortized cost basis of the security. When we determine that OTTI has occurred, the amount of the OTTI recognized in earnings depends on whether we intend to sell the security or whether it is more likely than not we will be required to sell the security before recovery of its amortized cost basis. If we intend to sell, or it is more likely than not we will be required to sell, the security before recovery of its amortized cost basis, the OTTI recognized in earnings is equal to the entire difference between the investment’s amortized cost basis and its fair value at the balance sheet date. If we do not intend to sell the security, and it is not more likely than not that we will be required to sell before recovery of its amortized cost basis, the OTTI is separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected, using the original yield as the discount rate, and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in accumulated other comprehensive income (loss), net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment. The assessment of whether an OTTI exists involves a high degree of subjectivity and judgment and is based on the information available to management at the time.

Results of Operations - Three-Year Period Ended December 31, 2015

Summary

Our consolidated net income for the year ended December 31, 2015 was $25.1 million, or $2.42 per fully-diluted share, compared to net income of $18.5 million, or $2.19 per fully-diluted share, for the year ended December 31, 2014. The increase in consolidated net income was due primarily to a $31.3 million, or 58.3%, increase in net interest income after provision for loan losses, mainly related to the merger with Central. We also experienced a mainly merger-related increase in noninterest income to $21.2 million for the year ended December 31, 2015 from $15.3 million for 2014, which was primarily due to a $3.3 million increase in other service charges, commissions and fees to $5.7 million, compared with $2.4 million in 2014. This increase was partially offset by a $29.8 million, or 68.6%, increase in noninterest expense from 2014 to 2015, which was mainly due to the inclusion of expenses related to the closing of the merger and eight months of post-merger expenses. Salaries and employee benefits increased $16.9 million, or 68.0%, from the year ended December 31, 2014 to the year ended December 31, 2015. Merger-related expenses paid were $3.5 million ($3.0 million after tax), for the year ended December 31, 2015. After excluding the effects of $3.5 million of expenses related to the merger with Central, adjusted diluted earning per share for the year ended December 31, 2015 were $2.70.

Our consolidated net income for the year ended December 31, 2014 was $18.5 million, or $2.19 per fully-diluted share, compared to net income of $18.6 million, or $2.18 per fully-diluted share, for the year ended December 31,

2013. The decrease in consolidated net income was due primarily to a $1.3 million, or 3.2%, increase in noninterest expense, primarily due to a 37.5% increase in professional fees, which was comprised of fees related to the merger with Central of $1.0 million ($0.9 million after tax). This increase in expense was partially offset by a $1.0 million, or 2.0%, increase in net interest income after provision for loan losses. After excluding the effects of $1.1 million of expenses related to the merger with Central, adjusted diluted earning per share for the year ended December 31, 2014 were $2.31. We also experienced an increase in noninterest income to $15.3 million for the year ended December 31, 2014 from $14.7 million for 2013, which was primarily due to a $1.1 million increase in gain on sale of available for sale securities to $1.2 million, compared with $0.1 million in 2013.

We ended 2015 with an allowance for loan losses of $19.4 million, which represented 168.5% coverage of our nonperforming loans at December 31, 2015 as compared to 125.7% coverage of our nonperforming loans (excluding loan pool participations) at December 31, 2014 and 117.4% at December 31, 2013. Nonperforming loans totaled $11.5 million as of December 31, 2015 compared with $13.0 million and $13.8 million at December 31, 2014 and December 31, 2013, respectively.

Table of Contents

For the year ended December 31, 2015, the provision for loan losses increased to $5.1 million from $1.2 million for 2014, which had decreased from $1.4 million for 2013. The increased provision primarily reflects the increase in outstanding loan balances due to both the merger and organic loan growth

Various operating and equity ratios for the Company are presented in the table below for the years indicated. The dividend payout ratio represents the percentage of our prior year's net income that is paid to shareholders in the form of cash dividends. Average equity to average assets is a measure of capital adequacy that presents the percentage of average total shareholders' equity compared to our average assets. The equity to assets ratio is expressed using the period-end amounts instead of an average amount. As of December 31, 2015, under regulatory standards, MidWestOne Bank and Central Bank each had capital levels in excess of the minimums necessary to be considered "well capitalized," which is the highest regulatory designation.

	As of the Years Ended December 31,					
	2015		2014		2013	
Return on average assets	0.91	%	1.05	%	1.06	%
Return on average shareholders' total equity	9.84		9.94		10.59	
Return on average tangible common equity	14.70		10.61		11.43	
Dividend payout ratio	24.79		26.36		22.83	
Average equity to average assets	9.21		10.58		10.00	
Equity to assets ratio (at period end)	9.94		10.71		10.14	

For information on the calculation of certain non-GAAP measures please see pages 28 to 30.

Net Interest Income

Net interest income is the difference between interest income and fees earned on earning assets, less 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 tax-equivalent net interest income as a percent 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 pre-tax 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.

Table of Contents

The following table shows the consolidated average balance sheets, detailing the major categories of assets and liabilities, the interest income earned on interest-earning assets, the interest expense paid for interest-bearing liabilities, and the related interest rates/yields for the periods shown. Average information is provided on a daily average basis.

	Year ended December 31,								
	2015			2014			2013		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Average Rate/Yield	Average Balance	Interest Income/ Expense	Average Rate/Yield	Average Balance	Interest Income/ Expense	Average Rate/Yield
Average earning assets:									
Loans [1][2][3]	$1,962,846	$87,837	4.47 %	$1,092,280	$49,623	4.54 %	$1,059,356	$49,791	4.70 %
Loan pool participations [4]	10,032	798	7.95	24,321	1,516	6.23	32,648	2,046	6.27
Investment securities:									
Taxable investments	362,217	7,734	2.14	364,153	8,921	2.45	407,739	9,905	2.43
Tax exempt investments [2]	180,298	8,451	4.69	170,218	8,335	4.90	160,779	8,093	5.03
Total investment securities	542,515	16,185	2.98	534,371	17,256	3.23	568,518	17,998	3.17
Federal funds sold and interest-bearing balances	26,288	71	0.27	18,158	46	0.25	6,729	17	0.25
Total earning assets	$2,541,681	$104,891	4.13 %	$1,669,130	$68,441	4.10 %	$1,667,251	$69,852	4.19 %
Noninterest-earning assets:									
Cash and due from banks	39,474			19,295			20,790		
Premises and equipment	66,842			32,336			26,226		
Allowance for loan losses	(18,866)			(18,575)			(18,598)		
Other assets	143,964			58,590			60,675		
Total assets	$2,773,095			$1,760,776			$1,756,344		
Average interest-bearing liabilities:									
Savings and interest-bearing demand deposits	$1,139,175	$2,987	0.26 %	$706,662	$2,313	0.33 %	$677,757	$2,502	0.37 %
Certificates of deposit	648,516	4,851	0.75	469,351	4,714	1.00	477,537	6,453	1.35
Total deposits	1,787,691	7,838	0.44	1,176,013	7,027	0.60	1,155,294	8,955	0.78
Federal funds purchased and repurchase agreements	69,498	210	0.30	59,012	127	0.22	63,604	166	0.26
Federal Home Loan Bank borrowings	86,614	1,451	1.68	103,515	2,092	2.02	128,567	2,686	2.09

Long-term debt and other	40,603	1,149	2.83	15,904	305	1.92	16,002	325	2.03
Total borrowed funds	196,715	2,810	1.43	178,431	2,524	1.41	208,173	3,177	1.53
Total interest-bearing liabilities	$1,984,406	$10,648	0.54 %	$1,354,444	$9,551	0.71 %	$1,363,467	$12,132	0.89 %
Net interest spread (2)			3.59 %			3.39 %			3.30 %
Noninterest-bearing liabilities									
Demand deposits	$488,312			$208,071			$204,185		
Other liabilities	45,070			11,886			13,026		
Shareholders’ equity	255,307			186,375			175,666		
Total liabilities and shareholders’ equity	$2,773,095			$1,760,776			$1,756,344		
Interest income/earning assets (2)	$2,541,681	$104,891	4.13 %	$1,669,130	$68,441	4.10 %	$1,667,251	$69,852	4.19 %
Interest expense/earning assets	$2,541,681	$10,648	0.42 %	$1,669,130	$9,551	0.57 %	$1,667,251	$12,132	0.73 %
Net interest income/margin (2)(5)		$94,243	3.71 %		$58,890	3.53 %		$57,720	3.46 %
Non-GAAP to GAAP Reconciliation:									
Tax Equivalent Adjustment:									
Loans		$1,293			$1,157			$963	
Securities		2,898			2,880			2,795	
Total tax equivalent adjustment		4,191			4,037			3,758	
Net Interest Income		$90,052			$54,853			$53,962	

(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.

Table of Contents

The following schedule presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the difference related to changes in average outstanding balances and the increase or decrease due to the levels and volatility of interest rates. For each category of interest-earning assets and interest-bearing liabilities information is provided on changes attributable to (i) changes in volume (i.e. changes in volume multiplied by old rate) and (ii) changes in rate (i.e. changes in rate multiplied by old volume). For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

	Years Ended December 31, 2015, 2014, and 2013					
	Year 2015 to 2014 Change due to			Year 2014 to 2013 Change due to		
	Volume	Rate/Yield	Net	Volume	Rate/Yield	Net
(dollars in thousands)						
Increase (decrease) in interest income						
Loans (tax equivalent)	$38,969	$(755)	$38,214	$1,523	$(1,691)	$(168)
Loan pool participations	(1,058)	340	(718)	(519)	(11)	(530)
Investment securities:						
Taxable investments	(47)	(1,140)	(1,187)	(1,067)	83	(984)
Tax exempt investments (tax equivalent)	481	(365)	116	466	(224)	242
Total investment securities	434	(1,505)	(1,071)	(601)	(141)	(742)
Federal funds sold and interest-bearing balances	22	3	25	29	—	29
Change in interest income	38,367	(1,917)	36,450	432	(1,843)	(1,411)
Increase (decrease) in interest expense						
Savings and interest-bearing demand deposits	1,203	(529)	674	103	(292)	(189)
Certificates of deposit	1,524	(1,387)	137	(109)	(1,630)	(1,739)
Total deposits	2,727	(1,916)	811	(6)	(1,922)	(1,928)
Federal funds purchased and repurchase agreements	25	58	83	(11)	(28)	(39)
Federal Home Loan Bank borrowings	(313)	(328)	(641)	(509)	(85)	(594)
Other long-term debt	646	198	844	(2)	(18)	(20)
Total borrowed funds	358	(72)	286	(522)	(131)	(653)
Change in interest expense	3,085	(1,988)	1,097	(528)	(2,053)	(2,581)
Increase in net interest income	$35,282	$71	$35,353	$960	$210	$1,170
Percentage increase in net interest income over prior period			60.0 %			2.0 %

Earning Assets, Sources of Funds, and Net Interest Margin

Average earning assets were $2.54 billion in 2015, an increase of $872.6 million, or 52.3%, from $1.67 billion in 2014. The growth in the average balance of earning assets in 2015 compared to 2014 was due primarily to an increase in average loans outstanding of $870.6 million, or 79.7%, primarily due to the merger, partially offset by a decrease in loan pool participations of $14.3 million, or 58.8%, due to the sale of the complete portfolio during 2015. Average earning assets in 2014 increased by $1.9 million, or 0.1%, from 2013. The slight growth in the average balance of earning assets in 2014 compared to 2013 was due primarily to an increase in average loans outstanding of $32.9 million, or 3.1%, and an increase in federal funds sold and interest-bearing balances of $11.4 million, or 169.8%, mostly offset by a decrease in our portfolio of investment securities of $34.1 million, or 6.0%, and a $10.3 million decrease in loan pool participation balances. Interest-bearing liabilities averaged $1.98 billion for the year ended December 31, 2015, an increase of $630.0 million, or 46.5%, from the average balance for the year ended December 31, 2014. An increase in deposits of $611.7 million during 2015, mainly due to the merger, accounted for the majority of the increase in average interest-bearing liabilities. Borrowed funds increased $18.3 million during

2015, primarily due to the assumption of new long-term debt and junior subordinated notes related to the merger. Interest-bearing liabilities averaged $1.35 billion for the year ended December 31, 2014, a decrease of $9.0 million, or 0.7%, from the average balance for the year ended December 31, 2013. A decrease in borrowed funds of $29.7 million during 2014, partially offset by an increase in deposits of $20.7 million during 2014, accounted for the decrease in average interest-bearing liabilities.

Interest income, on a tax-equivalent basis, increased $36.5 million, or 53.3%, to $104.9 million in 2015 from $68.4 million in 2014. Tax equivalent interest income in 2014 decreased $1.4 million, or 2.0%, to $68.4 million in 2014 from $69.9 million in 2013. The higher interest income in 2015 was due primarily to the merger-related increase in the volume of loans and the inclusion in loan interest income of $4.4 million of merger-related loan discount accretion, which increased interest income, partially offset by a decrease in the yield on investment securities. In 2014, interest income decreased due primarily to lower yields in loans, despite higher volumes, and lower volume of investment securities. Our yield on average earning assets was 4.13% in 2015

Table of Contents

compared to 4.10% in 2014 and 4.19% in 2013. The slight increase in 2015 compared to 2014 was primarily due to the positive effect of purchase accounting accretion in loans, while the decline between 2013 and 2014 was primarily due to the historically lower rate environment resulting from the interest rate policy being pursued by the Federal Reserve in response to current economic conditions.

Interest expense increased during 2015 by $1.1 million, or 11.5%, to $10.6 million from $9.5 million in 2014. Interest expense in 2014 decreased by $2.6 million, or 21.3%, from 2013. The increase in interest expense during 2015 compared to 2014 was primarily due to the additional cost of merger-related assumptions of deposits and debt, partially offset by the lower expense on FHLB borrowings, and the inclusion of $1.1 million of merger-related premium amortization on certificate of deposits, which served to decrease deposit interest expense. The decline experienced during 2014 compared to 2013 was primarily due to the continued low interest rate environment and its effect on new liabilities and those repricing during the year. The average rate paid on interest-bearing liabilities was 0.54% in 2015 compared to 0.71% in 2014 and 0.89% in 2013.

Net interest income, on a tax-equivalent basis, increased 60.0% in 2015 to $94.2 million from $58.9 million in 2014. The slightly higher yield on earning assets during 2015 combined with lower rates paid on interest-bearing deposits, due primarily to the lower cost of deposit funds in the areas served by Central Bank, account for the majority of the increase. Tax-equivalent net interest income in 2014 increased by $1.2 million, or 2.0%, from 2013. Net interest margin, which is our net interest income expressed as a percentage of average earning assets stated on a tax-equivalent basis, was higher at 3.71% during 2015 compared to 3.53% in 2014 and 3.46% in 2013. The net interest spread, also on a tax-equivalent basis, was 3.59% in 2015 compared to 3.39% in 2014 and 3.30% in 2013.

Net interest income increased in 2015 as compared to 2014 due primarily to the increase in interest earned on interest-earning assets, partially offset by the increase in interest paid on interest-bearing liabilities. The increased interest income in 2015 included $4.4 million of merger-related discount accretion income for loans, combined with the inclusion of $1.1 million of merger-related amortization of the purchase accounting premium on certificates of deposit. The increased net interest income for 2014 as compared to 2013 was due primarily to the decrease in interest paid on interest-bearing liabilities which more than offset the decrease in interest earned on interest-earning assets. This is partially due to the presence of interest rate floors in portions of our loan portfolio, and the higher volume of loans. The average balance sheets reflect a competitive marketplace on both the interest-earning assets and interest-bearing deposits. The competition for loans in the marketplace and the overall interest rate environment has kept interest rates on loans low. Interest rates paid on deposit products have declined steadily since 2008, but further significant decline is unlikely as interest rates on deposits have approached zero.

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 assessing the adequacy of the allowance for loan losses, management considers the size, composition, and quality of the loan portfolio measured against prevailing economic conditions, regulatory guidelines, historical loan loss experience and credit quality of the portfolio. When a determination is made by management to write-off a loan balance, such write-off is charged against the allowance for loan losses.

Our provision for loan losses was $5.1 million during 2015 compared to $1.2 million in 2014 and $1.4 million in 2013. The increased provision reflects the increase in outstanding loan balances due to new originations since the merger, as purchased loans acquired in the merger were recorded at estimated fair value on their purchase date without a carryover of the related allowance for loan losses. The level of provision expense during 2013, 2014, and 2015 was reflective of management’s assessment of the then-current risk in the loan portfolio as compared to the allowance for loan losses. See further discussion of the nonperforming loans, under the Nonperforming Assets section.

Table of Contents

Noninterest Income

	For the Year Ended December 31,							
	2015	2014	$ Change	% Change	2014	2013	$ Change	% Change
(dollars in thousands)								
Trust, investment, and insurance fees	$6,005	$5,771	$234	4.1 %	$5,771	$5,345	$426	8.0 %
Service charges and fees on deposit accounts	4,401	3,279	1,122	34.2	3,279	2,980	299	10.0
Mortgage origination and loan servicing fees	2,756	1,554	1,202	77.3	1,554	3,209	(1,655)	(51.6)
Other service charges, commissions and fees	5,742	2,381	3,361	141.2	2,381	2,210	171	7.7
Bank-owned life insurance income	1,307	1,102	205	18.6	1,102	922	180	19.5
Gain on sale of available for sale securities	1,011	1,227	(216)	(17.6)	1,227	65	1,162	NM
Loss on sale of premises and equipment	(29)	(1)	(28)	NM	(1)	(3)	2	(66.7)
Total noninterest income	$21,193	$15,313	$5,880	38.4 %	$15,313	$14,728	$585	4.0 %
Noninterest income as a % of total revenue*	18.3 %	20.4 %			20.4 %	21.4 %		

NM - Percentage change not considered meaningful.
* Total revenue is net interest income plus noninterest income excluding gain/loss on sales of securities and premises and equipment and impairment of investment securities.

Total noninterest income for the year ended December 31, 2015 was $21.2 million, an increase of $5.9 million, or 38.4%, from $15.3 million in 2014. While all but two of the major noninterest income categories improved, primarily due to the merger, the greatest increase for the year ended December 31, 2015, was in other service charges, commissions and fees, which rose from $2.4 million for the year ended December 31, 2014, to $5.7 million for the year ended December 31, 2015, an increase of $3.3 million, or 141.2%. While the majority of this increase was due to the merger, $0.7 million represents the gain on sale of our Ottumwa, Iowa branch, which was completed in early December 2015. Mortgage origination and loan servicing fees in the year ended December 31, 2015 increased $1.2 million, or 77.3%, from $1.6 million for the same period in 2014. Another significant contributor to the overall increase in noninterest income was service charges and fees on deposit accounts, which increased $1.1 million to $4.4 million for the year of 2015 compared with $3.3 million for the same period of 2014. Trust, investment, and insurance fees also increased to $6.0 million for the year ended December 31, 2015, an improvement of $0.2 million, or 4.1%, from $5.8 million for the same period in 2014. These increases were partially offset by decreased gains on the sale of available for sale securities of $0.2 million between 2014 and 2015.
Management has set a strategic goal for the percentage that noninterest income represents of total revenues (net interest income plus noninterest income before gains or losses on sales of securities available for sale and premises and equipment and impairment of investment securities) at 25%. In 2015, noninterest income comprised 18.3% of total revenues, compared with 20.4% for 2014 and 21.4% for 2013. The decline between 2015 and 2014 was due to Central having lower level of noninterest income as a percentage of total revenues than the pre-merger Company. We expect that continued management focus on growing our insurance agency revenues and increasing the rate of growth in our trust and investment services revenues will gradually reverse this decline going forward, even as mortgage origination and loan servicing fees stabilize or decrease as a percentage of noninterest income.

The increase in noninterest income for 2014 compared to 2013 was primarily due to the gains on the sale of available for sale securities for the year ended December 31, 2014 of $1.2 million, an increase of $1.1 million from $0.1 million for the same period of 2013. Another significant contributor to the overall increase in noninterest income was improvement in trust, investment, and insurance fees, which increased to $5.8 million for the year ended December 31, 2014, an improvement of $0.4 million, or 8.0%, from $5.4 million for the same period in 2013. This increase was primarily attributable to increased trust department and investment center fee income. We also experienced an increase in service charges and fees on deposit accounts of $0.3 million in 2014 compared to 2013, primarily due to greater demand deposit service charge income as the result of a review and adjustment of deposit account service charges during the year ended December 31, 2014. These increases were partially offset by a decrease in mortgage origination and loan servicing fees which declined to $1.6 million in the year ended December 31, 2014, from $3.2 million in the year ended December 31, 2013, mainly due to a lower level of origination of loans sold on the secondary market, as refinancing activity slowed.

Table of Contents

Noninterest Expense

	For the Year Ended December 31,							
	2015	2014	$ Change	% Change	2014	2013	$ Change	% Change
(dollars in thousands)								
Salaries and employee benefits	$41,865	$24,918	$16,947	68.0 %	$24,918	$24,596	$322	1.3 %
Net occupancy and equipment expense	9,975	6,293	3,682	58.5	6,293	6,356	(63)	(1.0)
Professional fees	4,929	3,606	1,323	36.7	3,606	2,622	984	37.5
Data processing expense	2,659	1,565	1,094	69.9	1,565	1,452	113	7.8
FDIC insurance expense	1,397	964	433	44.9	964	1,066	(102)	(9.6)
Amortization of intangible assets	3,271	547	2,724	498.0	547	663	(116)	(17.5)
Other operating expense	9,080	5,520	3,560	64.5	5,520	5,332	188	3.5
Total noninterest expense	$73,176	$43,413	$29,763	68.6 %	$43,413	$42,087	$1,326	3.2 %

Noninterest expense increased to $73.2 million for the year ended December 31, 2015 compared with $43.4 million for the year ended December 31, 2014, an increase of $29.8 million, or 68.6%. The increase was mainly due to the inclusion of expenses related to the closing of the merger and eight months of post-merger expenses. Salaries and employee benefits increased $16.9 million, or 68.0%, from the year ended December 31, 2014 to the year ended December 31, 2015, primarily as a result of the increase in number of employees as a result of the merger. We expect salaries and employee benefits expense to increase in 2016 due to having a full year of the increased number of employees of the Company after the merger. Merger-related expenses paid were $3.5 million ($3.0 million after tax) for the year ended December 31, 2015, compared to $1.1 million ($1.0 million after tax) for the year ended December 31, 2014. These expenses are reflected mainly in professional fees expense of $4.9 million during the year ended December 31, 2015, compared to professional fees expense of $3.6 million for the year ended December 31, 2014, and an increase of $3.6 million, or 64.5%, in other operating expense for the year of 2015 compared to the same period a year ago. Amortization on intangible assets increased $2.7 million, to $3.3 million for the year ended December 31, 2015 compared with $0.5 million for the year ended December 31, 2014, due to eight months of amortization on the addition of $14.2 million of merger-related intangibles. See Note 6. “Goodwill and Intangible Assets” to our consolidated financial statements.

In 2014 noninterest expense increased to $43.4 million for the year ended December 31, 2014 compared with $42.1 million for the year ended December 31, 2013, an increase of $1.3 million, or 3.2%. The increase was mainly due to $1.1 million ($1.0 million after tax) of expenses related to the Central merger. These expenses are reflected mainly in increased professional fees expense of $1.0 million during the year ended December 31, 2014 compared to 2013. Salaries and employee benefits increased to $24.9 million for the year of 2014, compared with $24.6 million for the same period of 2013, an increase of $0.3 million, or 1.3%. Other operating expenses increased $0.2 million, or 3.5%, due primarily to increased loan and collection expenses. These increases were partially offset by decreases in both amortization expense and FDIC insurance expense for the year of 2014 compared with the year of 2013.

Full-time equivalent employee levels were 648, 374 and 376 at December 31, 2015, 2014 and 2013, respectively .

Income Tax Expense

Our effective tax rate, or income taxes divided by income before taxes, was 23.7% for 2015 compared with 27.5% for 2014. The lower effective rate in 2015 was primarily due to the recognition of the estimated income tax benefit of rehabilitation and historic tax credits on the Company’s headquarters building in the amount of $2.3 million for the year 2015, which was offset in part by a change in the level of taxable income between the comparable periods because of the merger. Income tax expense increased by $0.8 million to $7.8 million in 2015 compared to tax expense of $7.0 million for 2014 due primarily to increased taxable income.

Income taxes increased by $0.4 million for 2014 compared with 2013 due to increased taxable income. The effective income tax rate as a percentage of income before tax was 27.5% for 2014, compared with 26.3% for 2013.

Financial Condition - December 31, 2015 and 2014

Summary

Our total assets increased $1.18 billion, or 65.5%, to $2.98 billion as of December 31, 2015 from $1.80 billion as of December 31, 2014. This growth resulted primarily from merger-related increased loan balances of $1.02 billion, the addition of $78.7 million in goodwill and other intangible assets, a rise of $66.9 million in investment securities held to maturity, and a $38.4

Table of Contents

million increase in premises and equipment, net. These increases were somewhat offset by decreases in the balance of investment securities available for sale of $47.7 million, and a decline in loan pool participations, net, of $19.3 million, due to sale of the loan pool participations in June 2015. Our loan-to-deposit ratio, including loan pool participations, increased to 87.4% at year-end 2015 compared to 81.9% at year-end 2014, with our target range being between 80% and 90%. The rise in this ratio is reflective of not only the merger but also our success in obtaining quality loan growth in our local markets. Goodwill and other intangibles, net increased to $64.5 million and $19.1 million, respectively, as a result of the merger.

Total liabilities increased by $1.08 billion from December 31, 2014 to December 31, 2015. Our deposits increased $1.05 billion, or 74.9%, to $2.46 billion as of December 31, 2015 from $1.41 billion at December 31, 2014, primarily due to the merger. The increase in deposits was concentrated in non-interest bearing demand deposits and interest-bearing checking accounts, with increasess also seen in all other deposit categories. Brokered CDs obtained through participation in the Certificate of Deposit Account Registry Service (“CDARS”) program decreased by $3.2 million in 2015 to $2.9 million, while brokered business money market accounts obtained through participation in the Insured Cash Sweeps (“ICS”) program decreased by $7.4 million to $20.3 million. We have an internal policy limit on brokered deposits of not more than 10% of our total assets. At December 31, 2015 brokered deposits were 0.8% of our total assets. FHLB borrowings were $87.0 million at December 31, 2015 compared to $93.0 million at December 31, 2014, a decrease of $6.0 million, or 6.5%. Junior subordinated notes issued to capital trusts increased from $15.5 million at December 31, 2014 to $23.6 million at December 31, 2015 as a result of the merger. As a result of merger financing needs, we added long-term debt with a balance of $22.5 million at December 31, 2015. Federal funds purchased decreased by $15.9 million as a result of normal business cash need fluctuations.

Shareholders’ equity increased by $103.4 million primarily due to the merger, as well as 2015 net income of $25.1 million and a net increase of $0.6 million in treasury stock, partially offset by the payment of $6.3 million in cash dividends to common shareholders and a decrease in accumulated other comprehensive income of $1.9 million, reflecting the market value change of our portfolio of investment securities available for sale.

(dollars in thousands)	December 31, 2015	December 31, 2014	$ Change	% Change
Assets				
Investment securities available for sale	$427,241	$474,942	$(47,701)	(10.0)%
Investment securities held to maturity	118,423	51,524	66,899	129.8
Net loans	2,132,515	1,116,156	1,016,359	91.1
Loan pool participations, net	—	19,332	(19,332)	(100.0)
Premises and equipment	76,202	37,770	38,432	101.8
Goodwill	64,548	—	64,548	NM
Other intangible assets, net	19,141	8,259	10,882	131.8
Total Assets	$2,979,975	$1,800,302	$1,179,673	65.5%
Liabilities				
Deposits:				
Noninterest bearing	$559,586	$214,461	$345,125	160.9%
Interest bearing	1,903,935	1,194,081	709,854	59.4
Total deposits	2,463,521	1,408,542	1,054,979	74.9
Federal Home Loan Bank borrowings	87,000	93,000	(6,000)	(6.5)
Junior subordinated notes issued to capital trusts	23,587	15,464	8,123	52.5
Long-term debt	22,500	—	22,500	NM
Total liabilities	$2,683,797	$1,607,571	$1,076,226	66.9%
Shareholders’ equity	$296,178	$192,731	$103,447	53.7%

NM - Percentage change not considered meaningful.

Investment Securities

Our investment securities portfolio is managed to provide both a source of liquidity and earnings. Investment securities serve as a source of liquidity, and the size of the portfolio varies along with fluctuations in levels of deposits and loans. Our investment securities portfolio totaled $545.7 million at December 31, 2015 compared to $526.5 million at December 31, 2014. The increase was due primarily to the assumption of $160.8 million in investment securities in the merger, partially offset by the sale of investment securities to fund a portion of the merger consideration.

Table of Contents

Securities available for sale are carried at fair value. As of December 31, 2015, the fair value of our securities available for sale was $427.2 million and the amortized cost was $421.7 million. There were $7.8 million of gross unrealized gains and $2.3 million of gross unrealized losses in our investment securities available for sale portfolio for a net unrealized gain of $5.5 million. The after-tax effect of this unrealized gain has been included in shareholders' equity. The ratio of the fair value as a percentage of amortized cost decreased compared to December 31, 2014, due to an increase in interest rates, particularly in the market for long-term municipal securities, during 2015.
U.S. treasury and U.S. government agency securities as a percentage of total securities decreased to 6.2% at December 31, 2015, from 9.4% at December 31, 2014, while obligations of state and political subdivisions (primarily tax-exempt obligations) as a percentage of total securities increased to 45.8% at December 31, 2015, from 44.6% at December 31, 2014. Investments in mortgage-backed securities and collateralized mortgage obligations also increased to 36.3% of total securities at December 31, 2015, as compared to 35.6% of total securities at December 31, 2014. As of December 31, 2015 and 2014, the Company's mortgage-backed 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: 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 these 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 significant credit-related losses.
We consider many factors in determining the composition of our investment portfolio including tax-equivalent yield, credit quality, duration, expected cash flows and prepayment risk, as well as the liquidity position and the interest rate risk profile of the Company.
As of December 31, 2013, our investment portfolio included an investment in collateralized debt obligations that were backed by trust preferred securities issued by banks, thrifts and insurance companies. These six securities had an original cost of $9.8 million, but, due to several impairment charges recognized between 2008 and 2012, the book value of these securities at December 31, 2013, had been reduced to $2.1 million. Two of the securities were written down to a value of zero, and a third was being liquidated by the investment's trustee as of December 31, 2013, and we had established a receivable which reflected our expected cash payment. The remaining three securities had an average book value of 42.2% of their original face value. The market for these securities at December 31, 2013 was considered to be inactive and markets for similar securities were also not active. The valuation of these securities involved an assessment of the financial strength of the individual institutions that comprise the collateral for the bonds. Future default probabilities were assigned based on these measurements of financial strength. Other factors in the valuation included contractual terms of the cash flow waterfall (for both interest and principal), collateralization testing and events of default/liquidation. Based on our cash flow analysis, we had determined that not all contractual cash flows would be received; however, no additional other-than-temporary impairment charges were recorded during 2013. On January 27, 2014, we sold our remaining five collateralized debt obligation investment securities for a net gain on sale of $0.8 million.
The composition of securities available for sale was as follows:

	December 31,		
	2015	2014	2013
(dollars in thousands)			
Securities available for sale			
U.S. Treasury	$6,910	$—	$—
U.S. Government agency securities and corporations	26,653	49,375	44,939
States and political subdivisions	183,384	195,199	210,796
Mortgage-backed securities	57,062	32,463	39,285
Collateralized mortgage obligations	106,404	146,132	169,223
Collateralized debt obligations	—	—	1,317
Corporate debt securities	45,566	48,741	29,944
Other securities	1,262	3,032	3,057

Fair value of securities available for sale	$427,241	$474,942	$498,561
Amortized cost	$421,740	$466,387	$496,892
Fair value as a percentage of amortized cost	101.30 %	101.83 %	100.34 %

Securities held to maturity are carried at amortized cost. As of December 31, 2015, the amortized cost of these securities was $118.4 million and the fair value was $118.2 million.

Table of Contents

The composition of securities held to maturity was as follows:

	December 31, 2015	2014	2013
(dollars in thousands)			
Securities held to maturity			
States and political subdivisions	$66,454	$39,704	$19,888
Mortgage-backed securities	3,920	22	28
Collateralized mortgage obligations	30,505	8,531	9,447
Corporate debt securities	17,544	3,267	3,262
Amortized cost	$118,423	$51,524	$32,625
Fair value of securities held to maturity	$118,234	$51,253	$30,191
Fair value as a percentage of amortized cost	99.84 %	99.47 %	92.54 %

See Note 3. "Investment Securities,'' and Note 20. "Estimated Fair Value of Financial Instruments and Fair Value Measurements" to our consolidated financial statements for additional information related to the investment portfolio.

The maturities, carrying values and weighted average yields of debt securities as of December 31, 2015 were:

	Maturity							
	Within One Year		After One but Within Five Years		After Five but Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
(dollars in thousands)								
Securities available for sale: [1]								
U.S. Treasury	$—	— %	$6,910	1.61 %	$—	— %	$—	— %
U.S. Government agency securities and corporations	10,435	1.67	15,072	1.76	1,146	2.04	—	—
States and political subdivisions [2]	14,870	4.65	50,206	4.31	99,606	4.77	18,702	4.57
Mortgage-backed securities [3]	—	—	6,112	2.24	28,649	2.32	22,301	1.92
Collateralized mortgage obligations [3]	—	—	11,660	1.52	6,772	2.26	87,972	2.08
Corporate debt securities	10,050	1.82	29,931	1.87	5,585	1.67	—	—
Total debt securities available for sale	$35,355	2.97 %	$119,891	2.85 %	$141,758	4.01 %	$128,975	2.41 %
Securities held to maturity: [1]								
U.S. Government agency securities and corporations	$—	— %	$—	— %	$—	— %	$—	— %
States and political subdivisions [2]	417	8.90	3,254	4.13	36,191	4.00	26,592	4.94
Mortgage-backed securities [3]	—	—	—	—	20	6.00	3,900	2.74
Collateralized mortgage obligations [3]	—	—	—	—	—	—	30,505	1.99
Corporate debt securities	—	—	2,384	1.26	13,531	2.78	1,629	2.61
Total debt securities held to maturity	$417	8.90 %	$5,638	2.92 %	$49,742	3.67 %	$62,626	3.31 %
Total debt investment securities	$35,772	3.04 %	$125,529	2.85 %	$191,500	3.92 %	$191,601	2.70 %

[1] Excludes equity securities.

[2] Yield is on a tax-equivalent basis, assuming a federal income tax rate of 35% (the applicable federal income tax rate as of December 31, 2015)

[3] These securities are presented based upon contractual maturities.

As of December 31, 2015, no non-agency issuer's securities exceeded 10% of the Company's total shareholders' equity.

Table of Contents

Loans

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

	As of December 31,									
	2015		2014		2013		2012		2011	
(dollars in thousands)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Agricultural	$121,714	5.7 %	$104,809	9.3 %	$97,167	8.9 %	$84,726	8.2 %	$89,298	9.1 %
Commercial and industrial	467,412	21.7	303,108	26.7	262,368	24.1	237,193	22.9	239,990	24.3
Credit cards	1,377	0.1	1,246	0.1	1,028	0.1	1,001	0.1	934	0.1
Overdrafts	1,483	0.1	744	0.1	537	0.1	759	0.1	885	0.1
Commercial real estate:										
Construction & development	120,753	5.6	59,383	5.2	72,589	6.6	86,794	8.4	73,258	7.4
Farmland	89,084	4.1	83,700	7.4	85,475	7.9	81,063	7.8	74,454	7.6
Multifamily	121,763	5.7	54,886	4.8	55,443	5.1	47,758	4.6	34,719	3.5
Commercial real estate-other	660,341	30.7	228,552	20.2	220,917	20.3	224,369	21.7	213,608	21.7
Total commercial real estate	991,941	46.1	426,521	37.6	434,424	39.9	439,984	42.5	396,039	40.2
Residential real estate:										
One- to four-family first liens	428,233	19.9	219,314	19.4	220,668	20.3	197,742	19.1	175,429	17.8
One- to four-family junior liens	102,273	4.7	53,297	4.7	53,458	4.9	55,134	5.3	63,419	6.4
Total residential real estate	530,506	24.6	272,611	24.1	274,126	25.2	252,876	24.4	238,848	24.2
Consumer	37,509	1.7	23,480	2.1	18,762	1.7	18,745	1.8	20,179	2.0
Total loans	$2,151,942	100.0%	$1,132,519	100.0%	$1,088,412	100.0%	$1,035,284	100.0%	$986,173	100.0%
Total assets	$2,979,975		$1,800,302		$1,755,218		$1,792,819		$1,695,244	
Loans to total assets		72.2 %		62.9 %		62.0 %		57.7 %		58.2 %

Our loan portfolio, before allowance for loan losses, increased 90.0% to $2.15 billion as of December 31, 2015 from $1.13 billion at December 31, 2014, primarily as a result of the merger. While all loan categories saw merger-related increased balances, the increases were primarily concentrated in commercial real estate loans, which increased $565.4 million, or 132.6%, to $991.9 million as of December 31, 2015, from $426.5 million as of December 31, 2014. Within commercial real estate, other commercial real estate increased $431.8 million, or 188.9%, multifamily increased $66.9 million, or 121.8%, construction and development increased $61.4 million, or 103.3%, and farmland loans increased $5.4 million, or 6.4%, between December 31, 2015 and December 31, 2014. Residential real estate loans increased

$257.9 million, or 94.6%, and commercial and industrial loans increased $164.3 million, or 54.2%, to $467.4 million between the same dates. Agricultural loans increased $16.9 million, or 16.1%, to $121.7 million as of December 31, 2015, from $104.8 million at December 31, 2014. Commitments under standby letters of credit, unused lines of credit and other conditionally approved credit lines totaled approximately $437.3 million and $271.0 million as of December 31, 2015 and 2014, respectively.
Our loan to deposit ratio increased to 87.4% at year end 2015 from 81.9% at the end of 2014, with our target range for this ratio being between 80% and 90%. The increase in this ratio is reflective of the merger as well as increased demand for loans in our market areas.

Table of Contents

The following table sets forth remaining maturities and rate types of selected loans at December 31, 2015:

	Due Within One Year	Due In One to Five Years	Due After Five Years	Total	Total for Loans Due Within One Year Having Fixed Rates	Total for Loans Due Within One Year Having Variable Rates	Total for Loans Due After One Year Having Fixed Rates	Total for Loans Due After One Year Having Variable Rates
(in thousands)								
Agricultural	$98,926	$17,381	$5,407	$121,714	$8,114	$90,812	$17,023	$5,765
Commercial and industrial	194,385	172,427	100,600	467,412	101,665	92,720	194,428	78,599
Credit cards	1,377	—	—	1,377	—	1,377	—	—
Overdrafts	1,483	—	—	1,483	1,483	—	—	—
Commercial real estate:								
Construction & development	72,771	38,159	9,823	120,753	34,162	38,609	34,010	13,972
Farmland	18,451	39,982	30,651	89,084	17,463	988	46,654	23,979
Multifamily	12,773	45,076	63,914	121,763	12,122	651	74,392	34,598
Commercial real estate-other	102,797	333,721	223,823	660,341	93,816	8,981	352,749	204,795
Total commercial real estate	206,792	456,938	328,211	991,941	157,563	49,229	507,805	277,344
Residential real estate:								
One- to four- family first liens	52,915	148,197	227,121	428,233	50,426	2,489	221,406	153,912
One- to four- family junior liens	12,962	45,406	43,905	102,273	10,717	2,245	57,600	31,711
Total residential real estate	65,877	193,603	271,026	530,506	61,143	4,734	279,006	185,623
Consumer	17,066	18,875	1,568	37,509	16,395	671	20,415	28
Total loans	$585,906	$859,224	$706,812	$2,151,942	$346,363	$239,543	$1,018,677	$547,359

Of the $786.9 million of variable rate loans, approximately $539.4 million, or 68.6%, are subject to interest rate floors, with a weighted average floor rate of 4.52%.

Nonperforming Assets

It is management’s policy to place loans on nonaccrual status when interest or principal is 90 days or more past due. Such loans may continue on accrual status only if they are both well-secured with marketable collateral and in the process of collection.

The following table sets forth information concerning nonperforming assets at December 31 for each of the years indicated:

	December 31, 2015	2014	2013	2012	2011
(dollars in thousands)					
90 days or more past due and still accruing interest	$284	$848	$1,385	$572	$1,054
Troubled debt restructure	7,232	8,918	9,151	7,144	6,135
Nonaccrual	4,012	3,255	3,240	2,938	10,917
Total nonperforming loans	11,528	13,021	13,776	10,654	18,106
Other real estate owned	8,834	1,916	1,770	3,278	4,033

Total nonperforming loans and nonperforming other assets	$20,362		$14,937		$15,546		$13,932		$22,139	
Nonperforming loans to loans, before allowance for loan losses	0.54	%	1.15	%	1.27	%	1.03	%	1.84	%
Nonperforming loans and nonperforming other assets to loans, before allowance for loan losses	0.95	%	1.32	%	1.43	%	1.35	%	2.24	%

We experienced a merger-related increase in total nonperforming assets during 2015 as compared to 2014. Total nonperforming assets were $20.4 million at December 31, 2015, compared to $14.9 million at December 31, 2014, a $5.4 million, or 36.3%, increase. Nonperforming loans decreased $1.5 million during 2015, with a $6.9 million increase in nonperforming other assets (other real estate owned). The largest category of nonperforming loans was commercial real estate loans, with a balance of $4.1 million at December 31, 2015. The remaining nonperforming loans consisted of $3.1 million in agricultural, $2.6 million in residential real estate, and $1.7 million in commercial and industrial. The increase in other real estate owned ("OREO") was primarily attributable to the merger, with a portion of the increased other real estate owned being covered under loss-sharing or similar credit protection agreements with the FDIC. All of the OREO property was acquired through foreclosures and we are actively working to sell all properties held as of December 31, 2015. Other real estate is carried at the lower of cost or fair value

Table of Contents

less estimated costs of disposal. Additional discounts could be required to market and sell the properties, resulting in a write down through expense.

The following table sets forth information concerning nonperforming loans by portfolio class at December 31, 2015 and December 31, 2014:

	90 Days or More Past Due and Still Accruing Interest	Troubled Debt Restructure	Nonaccrual	Total
(in thousands)				
2015				
Agricultural	$—	$2,901	$172	$3,073
Commercial and industrial	—	1,122	575	1,697
Credit cards	—	—	—	—
Overdrafts	—	—	—	—
Commercial real estate:				
Construction & 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
2014				
Agricultural	$—	$3,027	$—	$3,027
Commercial and industrial	66	2,217	479	2,762
Credit cards	—	—	—	—
Overdrafts	—	—	—	—
Commercial real estate:				
Construction & development	—	—	83	83
Farmland	—	2,268	24	2,292
Multifamily	—	—	—	—
Commercial real estate-other	—	255	1,200	1,455
Total commercial real estate	—	2,523	1,307	3,830
Residential real estate:				
One- to four- family first liens	780	1,119	1,261	3,160
One- to four- family junior liens	—	14	192	206
Total residential real estate	780	1,133	1,453	3,366
Consumer	2	18	16	36
Total	$848	$8,918	$3,255	$13,021

Not included in the loans above as of December 31, 2015, were purchased credit impaired loans with an outstanding balance of $33.0 million, net of a discount of $7.4 million.

Nonperforming loans decreased from $13.0 million, or 1.15% of total bank loans, at December 31, 2014, to $11.5 million, or 0.54% of total bank loans, at December 31, 2015. At December 31, 2015, nonperforming loans consisted of $4.0 million in nonaccrual loans, $7.2 million in troubled debt restructures (“TDRs”) and $0.3 million in loans past

due 90 days or more and still accruing. This compares to nonaccrual loans of $3.3 million, TDRs of $8.9 million, and loans past due 90 days or more and still accruing of $0.8 million at December 31, 2014. The decrease in overall nonperforming loans was primarily due to payments collected from TDR-status borrowers. Loans 90 days past due and still accruing interest decreased $0.6 million between December 31, 2014 and December 31, 2015, while nonaccrual loans increased by $0.8 million between these dates due primarily to the addition of three commercial real estate loans totaling $1.7 million. Bank loans past due 30 to 89 days and still accruing interest (not included in the nonperforming loan totals) increased to $8.5 million at December 31, 2015, compared with $3.9

million at December 31, 2014, primarily due to the merger. At December 31, 2015, other real estate owned (not included in nonperforming loans) was $8.8 million, up from $1.9 million of other real estate owned at December 31, 2014, again, as a result of the merger. During the year of 2015, the Company had a net increase of 44 properties to other real estate owned, including 45 properties that were added as a result of the merger. As of December 31, 2015, the allowance for loan losses was $19.4 million, or 0.90% of total loans, compared with $16.4 million, or 1.44% of total loans, at December 31, 2014. The decrease in the ratio of the allowance for loan losses to total loans was due to the purchased loans acquired in the merger being recorded at estimated fair value on their purchase date without a carryover of the related allowance for loan losses. The allowance for loan losses represented 168.52% of nonperforming loans at December 31, 2015, compared with 125.67% of nonperforming loans at December 31, 2014.

A loan is considered to be impaired when, based on current information and events, it is probable that we will not be able to collect all amounts due. The accrual of interest income on impaired loans is discontinued when there is reasonable doubt as to the borrower's ability to meet contractual payments of interest or principal. Interest income on these loans is recognized to the extent interest payments are received and the principal is considered fully collectible. The gross interest income that would have been recorded in the years ended December 31, 2015, 2014 and 2013 if the nonaccrual and TDRs had been current in accordance with their original terms was $0.8 million, $0.9 million, and $0.6 million, respectively. The amount of interest collected on those loans that was included in interest income was $0.3 million, $0.5 million, and $0.4 million for the years ended December 31, 2015, 2014 and 2013, respectively.

In addition to the non-performing and past due loans mentioned above, the Company also has identified loans for which management has concerns about the ability of the borrowers to meet existing repayment terms. The loans are generally secured by either real estate or other borrower assets, reducing the potential for loss should they become non-performing. Although these loans are generally identified as potential problem loans, it is possible that they never become non-performing.

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

MidWestOne Bank maintains a loan review and classification process which involves multiple officers of MidWestOne 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. MidWestOne 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 the top 50 lending relationships by total exposure as well as all classified and Watch rated credits over $250,000 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 criticized (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 (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 board of

directors of MidWestOne Bank by the Executive Vice President, Chief Credit Officer (or a designee) of MidWestOne 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 loan officer, in conjunction with regional management, 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. As soon as practical, an updated value estimate of the collateral backing that impaired loan relationship is completed. After the updated value is determined, regional management, with assistance from the loan review department, reviews the valuation and updates the specific allowance analysis for each loan relationship accordingly. The board of directors of MidWestOne Bank on a quarterly basis reviews the Classified/Watch reports including changes in credit grades of 5 or higher as well as all impaired loans, the related allowances and OREO.

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

The review process also provides for the upgrade of loans that show improvement since the last review.

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

Central Bank has a loan classification process that starts with the relationship managers who are ultimately responsible for properly risk rating the loans in their portfolio. A 9-point scale is used with ratings 1-5 as Pass; 6 Watch (potential weakness); 7 Substandard (well defined weakness); 8 Doubtful; and 9 Loss. When a loan officer originates a new loan, renews an existing loan or performs an annual review, either a loan presentation or a summary comment is created which summarizes the current financial condition of that customer. A formal evaluation of its risk rating is done at this time. The lender is also responsible for monitoring their portfolio throughout the course of the year and proactively reacting to changing conditions by making any risk rating adjustments.

On a quarterly basis the Chief Credit Officer of MidWestOne Bank, Chief Credit Officer of Central Bank and Senior Vice President of Special Assets of Central Bank meet with each Market President and review their watch list, past due report and past due real estate taxes report. The action plans for watch list credits are reviewed at these meetings and adjustments are made as needed. Each watch list credit is labeled either “Retain” or “Exit” with those labeled “Exit” transferred to special assets. On a monthly basis the board of directors of Central Bank reviews: a watch list containing watch list credits greater than $500,000; a summary report of loans removed from the watch list; and a summary report of any additions to the list.

Central Bank engages an outside consultant to conduct independent credit reviews of relationships based on criteria established by policy, risk-focused sampling or random sampling. The individual loan reviews consider borrower and/or guarantor financial strength, most recently available financial information, current/anticipated performance of the loan, appropriateness of credit risk grading, compliance with loan approval requirements, and completeness of loan and collateral documentation. The results of credit reviews are presented to management.

Each 7 rated credit is reviewed for impairment. If the loan is determined to be impaired, an impairment worksheet is completed which focuses on updating the collateral values based on the current market conditions. These worksheets are updated on a quarterly basis by either the lender or analyst and reviewed and compiled by credit administration. Credit administration sends the compiled impairment information to the finance department for the allowance calculation.

After Central Bank merges into MidWestOne Bank, we anticipate that the loan review and classification process will be standardized across all branches.

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. All of the following factors are indicators that the Company has granted a concession (one or multiple items may be present):

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

- The borrower receives a deferral of required payments (principal and/or interest).
- The borrower receives a reduction of the accrued interest.

Table of Contents

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 in the previous table.
During the year ended December 31, 2015 one loan was added to reported TDRs, and two were removed due to payoff. The new addition was a residential real estate loan that was granted a rate concession due to financial difficulties being experienced by the borrower. Of the two that were paid off, one was a residential real estate first lien that had received a rate concession, and the other was a commercial and industrial credit which had been granted a rate concession.
During the year ended December 31, 2014 one loan was added to reported TDRs, and three were removed due to payoff. The new addition was a residential real estate loan that was granted a rate concession due to financial difficulties being experienced by the borrower. Of the three that were paid off, one was a home equity loan that had received a rate concession, and the other two were commercial real estate-other credits which had both been granted extensions to their maturity dates.
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 December 31, 2015 and December 31, 2014 is as follows:

	December 31,	
	2015	2014
(in thousands)		
Restructured Loans (TDRs):		
In compliance with modified terms	$7,232	$8,918
Not in compliance with modified terms - on nonaccrual status	458	522
Total restructured loans	$7,690	$9,440

Table of Contents

Allowance for Loan Losses

The following table shows activity affecting the allowance for loan losses:

	Year ended December 31,				
	2015	2014	2013	2012	2011
(dollars in thousands)					
Amount of loans outstanding at end of period (net of unearned interest) [1]	$2,151,942	$1,132,519	$1,088,412	$1,035,284	$986,173
Average amount of loans outstanding for the period (net of unearned interest)	$1,962,846	$1,092,280	$1,059,356	$1,001,259	$953,392
Allowance for loan losses at beginning of period [1]	$16,363	$16,179	$15,957	$15,676	$15,167
Charge-offs:					
Agricultural	$245	$26	$39	$—	$425
Commercial and industrial	639	673	695	2,323	1,434
Credit cards	53	12	95	22	6
Overdrafts	44	37	64	41	78
Commercial real estate:					
Construction & development	193	86	342	23	488
Farmland	—	—	—	—	—
Multifamily	—	—	—	—	58
Commercial real estate-other	660	79	203	106	734
Total commercial real estate	853	165	545	129	1,280
Residential real estate:					
One- to four- family first liens	653	349	170	438	447
One- to four- family junior liens	87	60	116	99	56
Total residential real estate	740	409	286	537	503
Consumer	48	39	83	49	75
Total charge-offs	$2,622	$1,361	$1,807	$3,101	$3,801
Recoveries:					
Agricultural	$1	$10	$36	$507	$67
Commercial and industrial	372	215	68	423	571
Credit cards	—	2	2	—	2
Overdrafts	11	13	6	8	19
Commercial real estate:					
Construction & development	—	38	—	10	113
Farmland	4	—	1	1	2
Multifamily	—	—	4	—	—
Commercial real estate-other	3	23	474	13	29
Total commercial real estate	7	61	479	24	144
Residential real estate:					
One- to four- family first liens	131	18	24	29	22
One- to four- family junior liens	12	4	43	2	11
Total residential real estate	143	22	67	31	33
Consumer	20	22	21	10	124
Total recoveries	$554	$345	$679	$1,003	$960
Net loans charged off	$2,068	$1,016	$1,128	$2,098	$2,841
Provision for loan losses	5,132	1,200	1,350	2,379	3,350
Allowance for loan losses at end of period	$19,427	$16,363	$16,179	$15,957	$15,676
Net loans charged off to average loans	0.11 %	0.09 %	0.11 %	0.21 %	0.30 %

Allowance for loan losses to total loans at end of period	0.90	%	1.44	%	1.49	%	1.54	%	1.59	%

(1) Loans do not include, and the allowance for loan losses does not include, loan pool participations.

49

Table of Contents

The following table sets forth the allowance for loan losses by loan portfolio segments as of December 31 for each of the years indicated:

	December 31, 2015		2014		2013		2012		2011	
	Allowance Amount	Percent of Loans to Total Loans	Allowance Amount	Percent of Loans to Total Loans	Allowance Amount	Percent of Loans to Total Loans	Allowance Amount	Percent of Loans to Total Loans	Allowance Amount	Percent of Loans to Total Loans
(dollars in thousands)										
Agricultural	$1,417	7.3 %	$1,506	9.2 %	$1,358	8.4 %	$1,026	6.4 %	$1,209	7.7 %
Commercial and industrial	5,451	28.1	5,780	35.3	4,980	30.8	4,599	28.8	5,380	34.3
Commercial real estate	8,556	44.0	4,399	26.9	5,294	32.7	5,767	36.2	5,171	33.0
Residential real estate	3,968	20.4	3,167	19.4	3,185	19.7	3,007	18.9	3,501	22.3
Consumer	409	2.1	323	2.0	275	1.7	356	2.2	167	1.1
Unallocated	(374)	(1.9)	1,188	7.2	1,087	6.7	1,202	7.5	248	1.6
Total	$19,427	100.0 %	$16,363	100.0 %	$16,179	100.0 %	$15,957	100.0 %	$15,676	100.0 %

This table indicates measured growth in the allowance for loan losses as of December 31, 2015, as compared to December 31, 2014. While we remain within our internally identified “indicated range” (between 15% above and 5% below the “indicated reserve.”) for the allowance for loan losses.These unallocated amounts are due to those overall factors impacting the ALLL that are not captured in detailed loan category calculations.
There were no changes to our methodology for determining the allowance for loan losses during the year of 2015. 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 respective bank’s board of directors on a quarterly basis. At December 31, 2015, there were 10 owner-occupied 1-4 family loans with a LTV ratio of 100% or greater. In addition, there were 48 home equity loans without credit enhancement that had a LTV ratio of 100% or greater. We have the first lien on 16 of these equity loans and other financial institutions have the first lien on the remaining 32. There were also 68 commercial real estate loans without credit enhancement that exceed 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. We review loans 90 days and over 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.
Loan Pool Participations
As of December 31, 2015, we had no loan pool participations, net, down from $19.3 million at December 31, 2014. This decrease was due to the sale of the complete investment to an unaffiliated purchaser in June 2015, with a net loss on the sale of $0.4 million.
Premises and Equipment
As of December 31, 2015, premises and equipment totaled $76.2 million, an increase of $38.4 million, or 101.8%, from $37.8 million at December 31, 2014. This increase was primarily due to the merger, as well as two ongoing major construction projects, both in our Iowa City market. In August 2013, we entered into a contract for the restoration and remodeling of the building which serves as the main office of MidWestOne Bank and headquarters of the Company. The estimated cost of the restoration and remodeling is $13.8 million, and it is anticipated that the project will be completed in April 2016. In December 2013, we entered into a contract for the construction of a new Home Mortgage and Operations Center with an estimated cost of design and construction of $16.0 million. This

project was considered complete at the end of 2015. We expect the balance of premises and equipment to stabilize in the future as the remaining project is completed in 2016.
Goodwill and Other Intangible Assets
Goodwill increased from zero as of December 31, 2014, to $64.5 million as of December 31, 2015 due to the merger with Central. Other intangible assets increased $10.9 million, or 131.8%, to $19.1 million at December 31, 2015 compared to

Table of Contents

December 31, 2014, due to the merger-related addition of a $12.8 million core deposit intangible and a $1.4 million trade name intangible, along with normal amortization. See Note 6. “Goodwill and Intangible Assets” to our consolidated financial statements for additional information.

Deposits

Deposits increased $1.05 billion, or 74.9%, during the year ended December 31, 2015 primarily due to the merger. The average balance of non-interest-bearing accounts increased $280.2 million, or 134.7%, from 2014 to 2015. The average balance of interest-bearing demand deposits increased $256.1 million, or 42.4%, and the average balance of savings accounts increased by $176.4 million, or 171.5% between 2014 and 2015. The aggregate average balance of time deposits increased by $179.2 million, or 38.2%, from 2014 to 2015, primarily in deposits under $100,000.

	Year Ended December 31,										
	2015			2014			2013			2012	
(dollars in thousands)	Average Balance	% Total	Average Rate	Average Balance	% Total	Average Rate	Average Balance	% Total	Average Rate	Average Balance	% Total
Non-interest-bearing demand deposits	$488,312	21.4 %	NA	$208,071	15.0 %	NA	$204,185	15.0 %	NA	$170,841	12.8
Interest-bearing demand (NOW and money market)	859,945	37.8	0.31%	603,812	43.7	0.36%	581,723	42.8	0.41%	521,757	39.1
Savings	279,230	12.3	0.13	102,850	7.4	0.14	96,034	7.1	0.15	83,030	6.2
Time deposits	648,516	28.5	0.75	469,351	33.9	1.00	477,537	35.1	1.35	559,847	41.9
Total deposits	$2,276,003	100.0%	0.35%	$1,384,084	100.0%	0.51%	$1,359,479	100.0%	0.66%	$1,335,475	100.0

Certificates of deposit and other time deposits of $100,000 and over at December 31, 2015 had the following maturities:

(in thousands)	
Three months or less	$54,311
Over three through six months	61,978
Over six months through one year	71,122
Over one year	114,417
Total	$301,828

Federal Home Loan Bank Borrowings

FHLB borrowings totaled $87.0 million as of December 31, 2015 compared with $93.0 million as of December 31, 2014. We utilize FHLB borrowings as a supplement to customer deposits to fund earning assets and to assist in managing interest rate risk. Thus, if deposits decline, FHLB borrowing may increase to provide necessary liquidity. See Note 12. “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 $23.6 million as of December 31, 2015, an increase of $8.1 million, or 52.5%, from $15.5 million at December 31, 2014. This increase was due to junior subordinated notes that were assumed by us from Central in the recently completed merger. See Note 11. “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 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 $22.5 million was outstanding as of December 31, 2015. See Note 12. “Long-Term Borrowings” to our consolidated financial statements for additional information related to our long-term debt.

Table of Contents

The following table sets forth the distribution of borrowed funds and weighted average interest rates thereon at the end of each of the last three years.

	December 31,								
	2015			2014			2013		
	Balance	Average Rate		Balance	Average Rate		Balance	Average Rate	
(dollars in thousands)									
Federal funds purchased and repurchase agreements	$67,463	0.31	%	$78,229	0.28	%	$66,665	0.21	%
FHLB borrowings	87,000	1.64		93,000	1.88		106,900	2.10	
Junior subordinated notes issued to capital trusts	23,587	2.71		15,464	1.82		15,464	1.84	
Long-term debt	22,500	2.17		—	—		—	—	
Total	$200,550	1.38	%	$186,693	1.20	%	$189,029	1.41	%

The following table sets forth the maximum amount of borrowed funds outstanding at any month-end for the years ended December 31, 2015, 2014 and 2013.

	Year Ended December 31,		
	2015	2014	2013
(in thousands)			
Federal funds purchased and repurchase agreements	$102,009	$78,229	$74,573
FHLB borrowings	93,000	110,900	152,156
Junior subordinated notes issued to capital trusts	24,743	15,464	15,464
Subordinated note	12,099	—	—
Long-term debt	25,000	—	—
Total	$256,851	$204,593	$242,193

The following table sets forth the average amount of and the average rate paid on borrowed funds for the years ended December 31, 2015, 2014 and 2013:

	Year Ended December 31,								
	2015			2014			2013		
	Average Balance	Average Rate		Average Balance	Average Rate		Average Balance	Average Rate	
(dollars in thousands)									
Federal funds purchased and repurchase agreements	$69,498	0.30	%	$59,012	0.22	%	$63,604	0.26	%
FHLB borrowings	86,614	1.68		103,515	2.02		128,567	2.09	
Junior subordinated notes issued to capital trusts	20,868	2.84		15,464	1.82		15,464	1.84	
Subordinated note	1,805	8.98		—	—		—	—	
Long-term debt	16,527	2.26		—	—		—	—	
Total	$195,312	1.43	%	$177,991	1.41	%	$207,635	1.51	%

Table of Contents

Contractual Obligations

The following table summarizes contractual obligations payments due by period, as of December 31, 2015:

Contractual obligations (in thousands)	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Time certificates of deposit	$650,096	$391,097	$217,436	$41,556	$7
Federal funds purchased and repurchase agreements	68,963	68,963	—	—	—
FHLB borrowings	87,000	22,000	29,000	29,000	7,000
Junior subordinated notes issued to capital trusts	23,587	—	—	—	23,587
Long-term debt	22,500	5,000	10,000	7,500	—
Noncancelable operating leases and capital lease obligations	1,682	160	449	447	626
Total	$853,828	$487,220	$256,885	$78,503	$31,220

Off-Balance Sheet Transactions

During the normal course of business, we become a party to financial instruments with off-balance-sheet risk in order to meet the financing needs of our customers. These financial instruments include commitments to make loans and open-ended revolving lines of credit. We follow the same credit policy (including requiring collateral, if deemed appropriate) to make such commitments as is followed for those loans that are recorded in our financial statements. Our exposure to credit losses in the event of nonperformance is represented by the contractual amount of the commitments. Management does not expect any significant losses as a result of these commitments. Off-balance-sheet transactions are more fully discussed in Note 18 to our consolidated financial statements.

The following table summarizes our off-balance-sheet commitments by expiration period, as of December 31, 2015:

Contractual obligations (in thousands)	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Commitments to extend credit	$417,927	$253,722	$135,106	$14,534	$14,565
Commitments to sell loans	3,187	3,187	—	—	—
Standby letters of credit	16,146	8,877	7,147	115	7
Total	$437,260	$265,786	$142,253	$14,649	$14,572

Capital Resources

The Federal Reserve uses capital adequacy guidelines in its examination and regulation of bank holding companies and their subsidiary banks. Risk-based capital ratios are established by allocating assets and certain off-balance-sheet commitments into four risk-weighted categories. These balances are then multiplied by the factor appropriate for that risk-weighted category. The guidelines were changed by the Basel III Rule, which became effective on January 1, 2015. Pursuant to the Basel III Rule, the Company and Banks, respectively, are subject to new regulatory capital adequacy requirements promulgated by the Federal Reserve and the FDIC. Failure by the Company or Banks to meet minimum capital requirements could result in certain mandatory and discretionary actions by our regulators that could have a material adverse effect on our consolidated financial statements. Prior to January 1, 2015, the Banks were subject to capital requirements under Basel I, and there were no capital requirements for the Company. Under the capital requirements and the regulatory framework for prompt corrective action, the Company and Banks must meet specific capital guidelines that involve quantitative measures of the Company's and Banks' assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and Banks' capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Company and the Banks to maintain minimum amounts and ratios of total risk-based capital, Tier 1 capital (as defined in the regulations) and Common Equity Tier 1 Capital (as defined) to risk-weighted assets (as defined), and a leverage ratio

consisting of Tier 1 capital (as defined) to average assets (as defined). As of December 31, 2015, both the Banks and the Company exceeded federal regulatory minimum capital requirements to be classified as well-capitalized under the prompt corrective action requirements. The Company and the Banks

53

Table of Contents

elected to retain the prior treatment for accumulated other comprehensive income ("AOCI"), which previously did not affect regulatory capital; under the rule, non-advanced approach banking organizations were given a one-time option to exclude certain AOCI components from regulatory capital. See Note 17. "Regulatory Capital Requirements and Restrictions on Subsidiary Cash" to our consolidated financial statements for additional information related to our regulatory capital ratios.

Beginning January 1, 2016, the Basel III Rule implemented a requirement for all banking organizations to maintain a capital conservation buffer above the minimum risk-based capital requirements in order to avoid certain limitations on capital distributions, stock repurchases and discretionary bonus payments to executive officers. The capital conservation buffer will be exclusively composed of Common Equity Tier 1 Capital, and it applies to each of the three risk-based capital ratios but not the leverage ratio. Starting on January 1, 2016, the Company and Banks are expected to comply with the capital conservation buffer requirement, which will increase the three risk-based capital ratios by 0.625% each year through 2019, at which point the Common Equity Tier 1 risk-based, Tier 1 risk-based and total risk-based capital ratios will be 7.0%, 8.5% and 10.5%, respectively.

On July 17, 2014, our board of directors approved a new share repurchase program, allowing for the repurchase of up to $5.0 million of stock through December 31, 2016. Pursuant to the new program, we 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 our management. The repurchase program does not require us 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. During 2014 under the July 17, 2014 repurchase program we repurchased $1.2 million of common stock. Of the $5.0 million of stock authorized under the repurchase plan, $3.8 million remained available for possible future repurchases as of December 31, 2015. In 2015 we repurchased no shares of common stock.

On February 15, 2015, 20,900 restricted stock units were granted to certain officers of the Company. Additionally, during the year of 2015, 23,123 shares of common stock were issued in connection with the vesting of previously awarded grants of restricted stock units, of which 1,210 shares were surrendered by grantees to satisfy tax requirements, and 925 nonvested restricted stock units were forfeited. During 2015, 8,414 shares of common stock were issued in connection with the exercise of previously issued stock options, and 147 options were forfeited.

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 May 15, 2015, 6,700 restricted stock units were granted to certain incoming officers of the Company related to the Central merger, and 6,500 restricted stock units were granted to the directors of the Company. See Note 15. "Stock Compensation Plans" to our consolidated financial statements for additional information related to our stock compensation program.

Liquidity

Liquidity management involves the ability to meet the cash flow requirements of depositors and borrowers. We conduct liquidity management on both a daily and long-term basis. We adjust our investments in liquid assets based upon management's assessment of expected loan demand, projected loan sales, expected deposit flows, yields available on interest-bearing deposits, and the objectives of our asset/liability management program. Excess liquidity is invested generally in short-term U.S. government and agency securities, short- and medium-term state and political subdivision securities, and other investment securities.

Our most liquid assets are cash and due from banks, interest-bearing bank deposits, and federal funds sold. The balances of these assets are dependent on our operating, investing, lending, and financing activities during any given period.

Liquid assets on hand are summarized in the table below:

	Year Ended December 31,		
	2015	2014	2013

(dollars in thousands)			
Cash and due from banks	$44,199	$23,028	$24,516
Interest-bearing deposits	2,731	381	374
Federal funds sold	167	—	—
Total	$47,097	$23,409	$24,890
Percentage of average total assets	1.7 %	1.3 %	1.4 %

Table of Contents

Generally, our principal sources of funds are deposits, advances from the FHLB, principal repayments on loans, proceeds from the sale of loans, proceeds from the maturity and sale of investment securities, our Federal Funds lines of credit, and funds provided by operations. While scheduled loan amortization and maturing interest-bearing deposits are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by economic conditions, the general level of interest rates, and competition. We utilized particular sources of funds based on comparative costs and availability. This included fixed-rate advances from the FHLB that were obtained at a more favorable cost than deposits of comparable maturity. We generally managed the pricing of our deposits to maintain a steady deposit base but from time to time decided not to pay rates on deposits as high as our competition. Our banking subsidiaries also maintain 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.

As of December 31, 2015, we had $22.5 million of long-term debt outstanding to an unaffiliated banking organization. See Note 12. “Long-Term Borrowings” to our consolidated financial statements for additional information related to our long-term debt. We also have $23.6 million of indebtedness payable under junior subordinated debentures issued to subsidiary trusts that issued trust preferred securities in pooled offerings. See Note 11. “Subordinated Notes Payable” to our consolidated financial statements for additional information related to our junior subordinated notes.

Net cash provided by operations was another major source of liquidity. The net cash provided by operating activities was $32.7 million for the year ended December 31, 2015 and $23.3 million for the year ended December 31, 2014.

As of December 31, 2015, we had outstanding commitments to extend credit to borrowers of $417.9 million, standby letters of credit of $16.1 million, and commitments to sell loans of $3.2 million. Certificates of deposit maturing in one year or less totaled $391.1 million as of December 31, 2015. We believe that a significant portion of these deposits will remain with us upon maturity.

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 the overall impact. The price of one or more of the components of the Consumer Price Index may fluctuate considerably and thereby influence the overall Consumer Price Index 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.

ITEM 7A. 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 us as other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not arise in the normal course of our business activities.

In addition to interest rate risk, economic conditions in recent years have made liquidity risk (namely, 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.

Liquidity Risk

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

Net cash provided by operating activities was $32.7 million during 2015, compared with $23.3 million in 2014 and $28.3 million in 2013. Proceeds from loans held for sale, net of funds used to originate loans held for sale, represented

a $2.4 million outflow for 2015, compared to an outflow of $0.4 million for 2014 and a $0.8 million net inflow for 2013.

Table of Contents

Net cash provided by investing activities was $5.0 million during 2015, compared with net cash used of $47.4 million in 2014 and $5.4 million used in 2013. During 2015, 2014, and 2013, securities transactions accounted for a net cash inflows of $137.7 million, $11.3 million, and $41.1 million, respectively. Net origination of loans and principal received from loan pools resulted in $86.9 million in cash outflows for 2015, compared to a $39.7 million outflow for 2014 and a $44.4 million outflow in 2013. Net cash used to acquire Central Bancshares, Inc. was $35.6 million.

Net cash used in financing activities was $14.0 million during 2015, compared with net cash provided of $22.7 million in 2014, and net cash used of $45.2 million in 2013. Sources of cash for 2015 included $25.0 million of new long-term borrowings, $7.9 million proceeds from the issuance of common stock, and a $5.8 million increase in net deposits, partially offset by a net decrease of $15.9 million in federal funds purchased, $12.7 million to redeem a subordinated note, and a net decrease in FHLB borrowings of $6.0 million. In 2014, main sources of cash were a $33.6 million increase in net deposits, and a net increase of $11.9 million in federal funds purchased, partially offset by a net decrease in FHLB borrowings of $13.9 million. In 2013, decreases in deposits of $24.8 million, a net decrease in FHLB borrowings of $13.3 million, and a net decrease of $7.6 million in securities sold under agreement to repurchase were partially offset by a net increase in federal funds purchased of $5.5 million.

To further mitigate liquidity risk, both MidWestOne Bank and Central Bank have 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; and
- Federal Reserve Bank Discount Window.

Federal Funds Lines: Routine liquidity requirements are met by fluctuations in the federal funds position of both MidWestOne Bank and Central 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, MidWestOne Bank and Central Bank have 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 both MidWestOne Bank and Central Bank. Use of this type of funding is coordinated with both the strategic balance sheet growth projections and interest rate risk profile of MidWestOne Bank and Central 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 December 31, 2015, MidWestOne Bank and Central Bank had $87.0 million in outstanding FHLB borrowings, leaving $270.3 million available for liquidity needs, based on collateral capacity. These borrowings are secured by various real estate loans (residential, commercial and agricultural).

Brokered Deposits: MidWestOne Bank and Central Bank have brokered certificate of deposit lines/deposit relationships available to help diversify their 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 respective bank’s core market area, is reflected in an internal policy stating that MidWestOne Bank and Central 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. MidWestOne Bank and Central 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 them 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 December 31, 2015.

Table of Contents

Federal Reserve Bank Discount Window: The Federal Reserve Bank Discount Window is another source of liquidity, particularly during difficult economic times. MidWestOne Bank and Central Bank each have a borrowing capacity with the Federal Reserve Bank of Chicago limited by the amount of municipal securities pledged against the line. As of December 31, 2015, the banks had combined municipal securities with an approximate market value of $13.1 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 simulation and valuation analyses. The interest rate scenarios 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). The change in the Company’s interest rate profile between December 31, 2014 and December 31, 2015 is largely attributable to the acquisition of Central. The Company liquidated certain investment securities in order to provide for the cash portion of the deal consideration. Selling fixed-rate securities made the Company less liability sensitive. In addition, Central Bank’s interest rate risk position is asset sensitive - more than off-setting the Company’s heretofore modest liability sensitivity.

MidWestOne Bank’s and Central Bank’s ALCOs meet regularly and are responsible for reviewing their respective interest rate sensitivity positions and establishing policies to monitor and limit exposure to interest rate risk. Our asset and liability committees seek 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, including the level of interest rates and the shape of the yield curve. Management exercises its best judgment in making assumptions regarding events that management can influence, such as non-contractual deposit re-pricings and events outside management's control, such as customer behavior on loan and deposit activity and the effect that competition has on both loan and deposit pricing. These assumptions are subjective and, as a result, net interest income simulation results will differ from actual results due to the timing, magnitude and frequency of interest rate changes, changes in market conditions, customer behavior and management strategies, among other factors. We perform various sensitivity analyses on assumptions of deposit attrition and deposit re-pricing.

Table of Contents

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

	Immediate Change in Rates	
	+100	+200
(dollars in thousands)		
December 31, 2015		
Dollar change	$636	$1,616
Percent change	0.7 %	1.7 %
December 31, 2014		
Dollar change	$(369)	$(491)
Percent change	(0.7)%	(0.9)%

As of December 31, 2015, 39.9% of the Company's earning asset balances will reprice or are expected to pay down in the next 12 months and 46.0% of the Company's deposit balances are low cost or no cost deposits.

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

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

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.
Report of Independent Registered Public Accounting Firm
The Board of Directors and Shareholders
MidWestOne Financial Group, Inc.
We have audited the accompanying consolidated balance sheets of MidWestOne Financial Group, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, shareholders’ equity, and cash flows for each of the two years in the period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.
We have also audited Note 22 to the 2013 financial statements to retrospectively apply the addition of a footnote for reporting segments as described in Note 22. In our opinion, such additions are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2013 financial statements of the Company other than in respect to Note 22 and, accordingly, we do not express an opinion or any other form of assurance on the 2013 financial statements taken as a whole.
We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MidWestOne Financial Group, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2015 and Note 22 for the year ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.
We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), MidWestOne Financial Group, Inc. and subsidiaries’ internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 3, 2016 expressed an unqualified opinion on the effectiveness of MidWestOne Financial Group, Inc. and subsidiaries’ internal control over financial reporting.
/s/ RSM US LLP
Cedar Rapids, Iowa
March 3, 2016

Table of Contents

Report of Independent Registered Public Accounting Firm
The Board of Directors and Shareholders
MidWestOne Financial Group, Inc.:

We have audited, before the effects of the adjustments to retrospectively reflect the change in the composition of reportable segments described in Note 22, the accompanying consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows of MidWestOne Financial Group, Inc. and subsidiaries (the Company) for the year ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, before the effects of the adjustments to retrospectively reflect the change in the composition of reportable segments described in Note 22, present fairly, in all material respects, the results of operations and the ca