

MidWestOne Financial Group, Inc.
Form 10-K
March 02, 2017

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
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 (I.R.S. Employer
Incorporation or Organization) 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 each 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.
Yes 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. Yes 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. Yes No

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

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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. "

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes 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 \$243.7 million.

The number of shares outstanding of the registrant's common stock, par value \$1.00 per share, as of March 1, 2017, was 11,459,521.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2017 Annual Meeting of Shareholders of MidWestOne Financial Group, Inc. to be held on April 21, 2017, are incorporated by reference into Part III of this Annual Report on Form 10-K.

MIDWESTONE FINANCIAL GROUP, INC.
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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 bank subsidiary, MidWestOne Bank, an Iowa state non-member bank chartered in 1934 with its main office in Iowa City, Iowa (the “Bank”), as well as MidWestOne Insurance Services, Inc., our wholly-owned subsidiary that operates through three agencies located in central and east-central Iowa.

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. On April 2, 2016, Central Bank merged into the Bank. See Note 2. “Business Combination” to our consolidated financial statements.

As of December 31, 2016, we had total consolidated assets of \$3.08 billion, total deposits of \$2.48 billion and total shareholders’ equity of \$305.5 million, all of which is common shareholders’ equity. For the year ended December 31, 2016, we generated net income available to common shareholders of \$20.4 million, which was a decrease from the net income available to common shareholders of \$25.1 million for the year ended December 31, 2015, and an increase from the net income available to common shareholders of \$18.5 million for the year ended December 31, 2014. For our complete financial information as of December 31, 2016 and 2015 and for each of the years in the three-year period ended December 31, 2016, see Item 8. Financial Statements and Supplementary Data.

The Bank operates a total of 43 branch locations, including its specialized Home Mortgage Center. It operates 23 branches in 13 counties throughout central and east-central Iowa, and 18 offices in the Twin Cities metro area and western Wisconsin. Additionally, the Bank operates two Florida offices in Naples and Fort Myers. The Bank provides full-service retail banking in and around 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. The Bank offers commercial and industrial, agricultural, real estate mortgage and consumer loans. Other products and services include debit cards, automated teller machines, online 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. The Bank also has a trust and investment department through which it offers a variety of trust and investment services, including administering estates, personal trusts, and conservatorships 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).

On February 17, 2017 the Company announced its plans to expand into the Denver, Colorado market area through the hiring of four bankers and the establishment of a full-service branch in Denver. The Company expects its first Denver-area full service bank office will open in late spring of 2017 once all arrangements and regulatory approvals are secured.

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 and Minnesota-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, 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.

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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 24,500 undergraduate students and 8,900 graduate and professional students. Iowa City is the home of the University of Iowa Hospitals and Clinics, a 761-bed comprehensive academic medical center and regional referral center with approximately 1,650 staff physicians, residents, and fellows and approximately 2,100 professional nurses. The city of Iowa City has a total population of approximately 74,000 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, and Johnson County is the second fastest growing county in Iowa. Based on deposit information collected by the Federal Deposit Insurance Corporation (the "FDIC") as of June 30, 2016, the most recent date for which data is available, the Bank had the second highest deposit market share in the Iowa City MSA at approximately 18.2% compared to 21 other institutions in the market.

The Bank operates 23 branch offices in 13 counties in central and east-central Iowa, 13 branches along with a loan production office in Minnesota, 4 branches in Wisconsin, and 2 branches in Florida. Based on deposit information collected by the FDIC as of June 30, 2016, in 7 of the 13 counties in Iowa, the Bank held between 9% and 39% of the deposit market share. In Mahaska County, Iowa, the Bank held 39% of the deposit market share. In the remaining 6 counties of Iowa, the Bank's market share is less than 8%. In 3 of the 8 counties in Minnesota, the Bank held between 6% and 16% of the deposit market share. In Polk County Wisconsin, the Bank held 25% of the deposit market share. In the remaining 3 counties in Wisconsin and Florida the 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 and industrial loans; agricultural 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, 2016, construction and development loans constituted approximately 5.9% of our total loan portfolio.

Mortgage Loans. We offer residential, commercial and agricultural mortgage loans. As of December 31, 2016, we had \$1.55 billion in combined residential, commercial and agricultural mortgage loans outstanding, which represented approximately 71.8% of our total loan portfolio.

Residential mortgage lending is a focal point for us, as residential real estate loans constituted approximately 22.6% of our total loan portfolio at December 31, 2016. 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

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servicing activity for third parties on participations sold. At December 31, 2016, we serviced approximately \$262.5 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 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, 2016, commercial and agricultural real estate mortgage loans, including construction and development loans, constituted approximately 49.2% 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, 2016, commercial and industrial loans comprised approximately 21.3% 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 5.2% of our total loan portfolio at December 31, 2016.

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, 2016, consumer loans comprised only 1.7% of our total loan portfolio.

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

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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, primarily in our Iowa market at this time, to help our business and individual clients in meeting their financial goals and preserving wealth. Our services include administering estates, personal trusts, conservatorships and providing property management, farm management, investment advisory, retail securities brokerage, and 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 and the branch expected to open on 2017 in Colorado will 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 actively solicit deposit-oriented clients and compete for deposits by offering personal attention, combined with electronic banking convenience, professional service and competitive interest rates.

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Employees

As of December 31, 2016, we had 587 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 a website for the 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.

Supervision and Regulation

General

FDIC-insured institutions, like the Bank, 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 Division of Banking (the "Iowa Division"), the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the FDIC and the Consumer Financial Protection Bureau (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 SEC and state securities authorities, and anti-money laundering laws enforced by the U.S. Department of the Treasury ("Treasury") have an impact on the Company's business. The effect of these statutes, regulations, regulatory policies and accounting rules are significant to the Company's operations and results.

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 laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of the Company's business, the kinds and amounts of investments the Company and the Bank may make, reserve requirements, required 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 the Company's and the Bank's insiders and affiliates, and the Company's payment of dividends. In the last several years, the Company has 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. While it is anticipated that the new presidential administration will not increase the regulatory burden on community banks and may reduce some of the burdens associated with implementation of the Dodd-Frank Act, the true impact of the new administration is impossible to predict with any certainty.

This supervisory and regulatory framework subjects banks and bank 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.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and the Bank, beginning with a discussion of the continuing regulatory emphasis on the Company's 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.

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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. While capital has historically been one of the key measures of the financial health of both bank holding companies and 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 banks and bank holding companies that are meaningfully more stringent than those in place previously.

Minimum Required Capital Levels. Banks have been required to hold minimum levels of capital based on guidelines established by the bank regulatory agencies since 1983. The minimums have been expressed in terms of ratios of capital divided by total assets. As discussed below, bank capital measures have become more sophisticated over the years and have focused more on the quality of capital and the risk of assets. 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 the Federal Reserve to establish minimum capital levels for holding companies on a consolidated basis as stringent as those required 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 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 capital but the Company has to comply with new capital mandates in other respects and will not be able to raise capital in the future through the issuance of trust preferred securities.

The Basel International Capital Accords. The risk-based capital guidelines for U.S. banks since 1989 were 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 that acts as the primary global standard-setter for prudential regulation, as implemented by the U.S. bank regulatory agencies on an interagency basis. The accord recognized that bank assets for the purpose of the capital ratio calculations needed to be risk weighted (the theory being that riskier assets should require more capital) and that off-balance sheet exposures needed to be factored in the calculations. Basel I had a very simple formula for assigning risk weights to bank assets from 0% to 100% based on four categories. 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) known as "advanced approaches" banks. The primary focus of Basel II was on the calculation of risk weights based on complex models developed by each advanced approaches bank. Because most banks were not subject to Basel II, the U.S. bank regulators worked to improve the risk sensitivity of Basel I standards without imposing the complexities of Basel II. This "standardized approach" increased the number of risk-weight categories and recognized risks well above the original 100% risk weighting. The standardized approach is institutionalized by the Dodd-Frank Act for all banking organizations as a floor.

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.

The Basel III Rule. In July of 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 enforceable 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 holding companies with consolidated assets of less

than \$1 billion that do not have securities registered with the SEC).

The Basel III Rule required higher capital levels, increased the required quality of capital, and required more detailed categories of risk weighting of riskier, more opaque assets. 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.

Not only did the Basel III Rule increase most of the required minimum capital ratios in effect prior to 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 changed the definition of capital by establishing more stringent criteria that instruments must meet to be

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considered Additional Tier 1 Capital (primarily non-cumulative perpetual preferred stock that meets certain requirements) and Tier 2 Capital (primarily other types of preferred stock and subordinated debt, subject to limitations). A number of instruments that qualified as Tier 1 Capital under Basel I do not qualify, or their qualifications changed. For example, noncumulative perpetual preferred stock, which qualified as simple Tier 1 Capital under Basel I, 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 institution's Common Equity Tier 1 Capital.

The Basel III Rule required minimum capital ratios as of January 1, 2015, as follows:

- ▲ A 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 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.

In addition, institutions 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 Capital attributable to a capital conservation buffer being phased in over three years beginning in 2016 (which, as of January 1, 2017, was phased in half-way to 1.25%). The purpose of the conservation buffer is to ensure that banking institutions 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% for Common Equity Tier 1 Capital, 8.5% for Tier 1 Capital and 10.5% for Total Capital.

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 discussed below. 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." Bank regulatory agencies uniformly encourage banks to hold more capital and be "well-capitalized" and, to that end, federal law and regulations provide various incentives for banking 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. For example, 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:

- ▲ Common Equity Tier 1 Capital ratio to risk-weighted assets of 6.5% or more;
 - A ratio of Tier 1 Capital to total risk-weighted assets of 8% (6% under Basel I);
- ▲ A 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.

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

As of December 31, 2016: (i) the Bank was not subject to a directive from the Iowa Division or FDIC to increase its capital and (ii) the Bank was well-capitalized, as defined by FDIC regulations. As of December 31, 2016, 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

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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 that senior executive officers or directors be dismissed; (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 Bank, is a bank holding company for the Bank. As a bank holding company, the Company is registered with, and subject to regulation, supervision and enforcement 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 Bank and to commit resources to support the Bank in circumstances where the Company might not otherwise do so. Under the BHCA, the Company is subject to periodic examination by the Federal Reserve and is required to file with the Federal Reserve periodic reports of the Company's operations and such additional information regarding the Company and the Bank 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 examiners must rate them 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 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 Bank must be well-capitalized, well-managed, and the Bank 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.

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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. 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) 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; (ii) the prospective rate of earnings retention is inconsistent with the company’s capital needs and overall current and prospective financial condition; or (iii) the company 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 Capital attributable to the capital conservation buffer to be phased in over three years beginning in 2016. See “-Regulatory Emphasis on Capital” above.

Incentive Compensation. There have been a number of developments in recent years focused on incentive compensation plans sponsored by bank holding companies and banks, reflecting recognition by the bank regulatory agencies and Congress that flawed incentive compensation practices in the financial industry were one of many factors contributing to the global financial crisis. Layered on top of that are the abuses in the headlines dealing with product cross-selling incentive plans. The result is interagency guidance on sound incentive compensation practices and proposed rulemaking by the agencies required under Section 956 of the Dodd-Frank Act.

The interagency guidance recognized three core principles: effective incentive plans should: (i) provide employees incentives that appropriately balance risk and reward; (ii) be compatible with effective controls and risk-management; and (iii) be supported by strong corporate governance, including active and effective oversight by the organization’s board of directors. Much of the guidance addresses large banking organizations and, because of the size and complexity of their operations, the regulators expect those organizations to maintain systematic and formalized policies, procedures, and systems for ensuring that the incentive compensation arrangements for all executive and non-executive employees covered by this guidance are identified and reviewed, and appropriately balance risks and rewards. Smaller banking organizations like the Company that use incentive compensation arrangements are expected to be less extensive, formalized, and detailed than those of the larger banks.

Section 956 of the Dodd-Frank Act required the banking agencies, the National Credit Union Administration, the SEC and the Federal Housing Finance Agency to jointly prescribe regulations that prohibit types of incentive-based compensation that encourage inappropriate risk taking and to disclose certain information regarding such plans. On June 10, 2016, the agencies released an updated proposed rule for comment. Section 956 will only apply to banking organizations with assets of greater than \$1 billion. The Company has consolidated assets greater than \$1 billion and less than \$50 billion and the Company is considered a Level 3 banking organization under the proposed rules. The proposed rules contain mostly general principles and reporting requirements for Level 3 institutions so there are no

specific prescriptions or limits, deferral requirements or claw-back mandates. Risk management and controls are required, as is board or committee level approval and oversight. Management expects to review its incentive plans in light of the proposed rulemaking and guidance and implement policies and procedures that mitigate unreasonable risk. 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

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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. It 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.

Regulation and Supervision of the Bank

General. The Bank is an Iowa-chartered bank. The deposit accounts of the Bank are insured by the FDIC’s Deposit Insurance Fund (“DIF”) to the maximum extent provided under federal law and FDIC regulations, currently \$250,000 per insured depositor category. As an Iowa-chartered, FDIC-insured bank, the Bank is subject to the examination, supervision, reporting and enforcement requirements of the Iowa Division, the chartering authority for Iowa banks. The Bank is also regulated by the FDIC, designated by federal law as the primary federal regulator of insured state banks that, like the Bank, are not members of the Federal Reserve System (“nonmember banks”).

Deposit Insurance. As FDIC-insured institutions, the Bank is 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. The total base assessment rates currently range from three basis points to 30 basis points. At least semi-annually, the FDIC updates its loss and income projections for the DIF and, if needed, increases or decreases the assessment rates, following notice and comment on proposed rulemaking. The assessment base against which an FDIC-insured institution’s deposit insurance premiums paid to the DIF are calculated is based on its average consolidated total assets less its average tangible equity. This method shifts the burden of deposit insurance premiums toward those large depository institutions that rely on funding sources other than U.S. deposits.

The reserve ratio is the DIF balance divided by estimated insured deposits. The Dodd-Frank Act altered the minimum 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 when the reserve ratio exceeds certain thresholds. The reserve ratio reached 1.15% on June 30, 2016, when revised factors were put in place for calculating the assessment. If the reserve ratio does not reach 1.35% by December 31, 2018 (provided it is at least 1.15%), the FDIC will impose a shortfall assessment on March 31, 2019 on insured depository institutions with total consolidated assets of \$10 billion or more. The FDIC will provide assessment credits to insured depository institutions, like the Bank, with total consolidated assets of less than \$10 billion for the portion of their regular assessments that contribute to growth in the reserve ratio between 1.15% and 1.35%. The FDIC will apply the credits each quarter that the reserve ratio is at least 1.38% to offset the regular deposit insurance assessments of institutions with credits.

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 2016 was 0.560 basis points (56 cents per \$100 dollars of assessable deposits).

Supervisory Assessments. All Iowa banks are required to pay supervisory assessments to the Iowa Division of Banking 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, 2016, MidWestOne Bank paid supervisory assessments to the Iowa Superintendent of Banking totaling approximately \$172,000.

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Prior to the merger of Central Bank and the Bank, during the year ended December 31, 2016, Central Bank paid no supervisory assessments to the Minnesota Department of Commerce.

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 bank 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 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 banking entity 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 (“NSFR”), is designed to promote more medium- and long-term funding of the assets and activities of FDIC-insured institutions over a one-year horizon. These tests provide an incentive for banks and holding companies 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 federal bank regulatory agencies implemented the Basel III LCR in 2014 and have proposed the NSFR. While the LCR only applies to the largest banking organizations in the country, as will the NSFR, certain elements are expected to filter down to all FDIC-insured institutions. The Company continues to review the Company’s liquidity risk management policies 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. Stress tests are not required for banks with less than \$10 billion in assets; however, the FDIC now recommends stress testing as means to identify and quantify loan portfolio risk and the Bank is engaged in 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 the Bank, generally may pay dividends only out of undivided profits. In addition, the Iowa Division may restrict the declaration or payment of a dividend by an Iowa-chartered bank, such as the Bank.

The payment of dividends by any FDIC-insured institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a FDIC-insured institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, the Bank exceeded its capital requirements under applicable guidelines as of December 31, 2016. Notwithstanding the availability of funds for dividends, however, the FDIC and the respective state banking regulator may prohibit the payment of dividends by the Bank 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 Capital 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 Bank is permitted to make investments and engage in activities directly or through subsidiaries as authorized by Iowa law. 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 the Bank.

Insider Transactions. The Bank is subject to certain restrictions imposed by federal law on “covered transactions” between the Bank and any of its “affiliates.” The Company is an affiliate of the Bank 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 the Bank. The

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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.

Certain limitations and reporting requirements are also placed on extensions of credit by the Bank 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 Bank, or a principal shareholder of the Company, may obtain credit from banks with which the Bank 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 and cybersecurity are critical sources of operational risk that FDIC-insured institutions are expected to address in the current environment. The Bank is 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 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 Dodd-Frank Act permits well-capitalized and well-managed banks to establish new interstate branches or acquire 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 2017: the first \$15.5 million of otherwise reservable balances are exempt from reserves and have a zero percent reserve requirement; for transaction accounts aggregating more than \$15.5 million to \$115.1 million, the reserve requirement is 3% of total transaction accounts; and for net transaction accounts in excess of \$115.1 million, the reserve requirement is 3% up to \$115.1

million plus 10% of the aggregate amount of total transaction accounts in excess of \$115.1 million. These reserve requirements are subject to annual adjustment by the Federal Reserve.

Community Reinvestment Act Requirements. The Community Reinvestment Act requires the Bank 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 Bank's effectiveness in meeting its Community Reinvestment Act requirements.

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Anti-Money Laundering. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “Patriot Act”) is 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 Patriot Act mandates 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 programs; (ii) money laundering; (iii) terrorist financing; (iv) identifying and reporting suspicious activities and currency transactions; (v) currency crimes; and (vi) cooperation between 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 its loan portfolio as of December 31, 2016, the Bank did not exceed the 300% guideline for non-owner occupied commercial real estate loans to total risk-based capital.

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 Bank, 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 Bank, 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 Company does not currently expect the CFPB’s rules to have a significant impact on the Bank’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 expressions. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from

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those expressed in, or implied by, these statements. Readers are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Additionally, we undertake no obligation to update any statement in light of new information or future events, except as required under federal securities law.

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

- credit quality deterioration or pronounced and sustained reduction in real estate market values 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 Rule, 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, internationally, 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.

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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 2017, 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.

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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 Bank's loan portfolio consists 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 Bank is 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 \$574.3 million, or approximately 26.5% of our total loan portfolio, as of December 31, 2016. 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 \$1.06 billion, or approximately 49.2% of our total loan portfolio, as of December 31, 2016. Of this amount, \$817.8 million, or approximately 37.8% 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

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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 allowance for loan losses in consultation with the credit officers of the Bank and maintain it 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, 2016, our allowance for loan losses as a percentage of total gross loans was 1.01% and as a percentage of total nonperforming loans was approximately 76.8%. 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, 2016, 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 \$28.5 million, or 1.31% of our loan portfolio, and our nonperforming assets (which include nonperforming loans plus other real estate owned) totaled \$30.6 million, or 1.41% of loans. In addition, we had \$10.7 million in accruing loans that were 31-89 days delinquent as of December 31, 2016.

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 loan secured by real estate.

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.

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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 mid 2016, we renewed our universal shelf-registration statement registering for future sale up to \$75 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, \$64.7 million related to Central Bank, as of October 1, 2016, 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 Federal Home Loan Bank (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, pay our expenses, pay dividends to our shareholders, or 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 Bank 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.

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Economic conditions since 2008, particularly in the financial markets, resulted in government regulatory agencies and political bodies placing increased focus and scrutiny on the financial services industry. This environment has subjected financial institutions to additional restrictions, oversight and costs. In addition, new legislative and regulatory proposals, and modifications of existing regulations, could be introduced that could further increase the oversight of the financial services industry. While it is anticipated that the new presidential administration will not increase the regulatory burden on community banks and may reduce some of the burdens associated with implementation of the Dodd-Frank Act, the true impact of the new administration is impossible to predict with any certainty.

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, 2016, the fair value of our securities portfolio was approximately \$642.3 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.

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, 2016, we had \$273.2 million of municipal securities, which represented 42.3% 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.

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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 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 changed the base for FDIC insurance assessments to a bank's average consolidated total assets minus average tangible equity, rather than its deposit base, permanently raised the current standard deposit insurance limit to \$250,000, and expanded the FDIC's authority to raise the premiums we pay for deposit insurance. The legislation allowed financial institutions to pay interest on business checking accounts, contained provisions on mortgage-related matters (such as steering incentives, determinations as to a borrower's ability to repay and prepayment penalties) and established 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 included provisions that affect corporate governance and executive compensation at all publicly traded companies. However, there may be changes to the Dodd-Frank Act and the CFPB under the new presidential administration.

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 increased most of the required minimum regulatory capital ratios, it introduced a new Common Equity Tier 1 Capital ratio and the concept of a capital conservation buffer. The Basel III Rule also expanded the 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. The Basel III Rule maintained the general structure of the 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.

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.

Increases in FDIC insurance premiums may adversely affect our earnings.

The Bank's deposits are insured by the FDIC up to legal limits and, accordingly, the Bank is subject to FDIC deposit insurance assessments. We generally cannot control the amount of premiums the Bank 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 Bank 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.

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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 Bank to pay dividends to us is limited by its obligations to maintain sufficient capital and liquidity and by other general restrictions on dividends that are applicable to the Bank, including the requirement under the Iowa Banking Act that the Bank may not pay dividends in excess of its accumulated net profits. If these regulatory requirements are not met, the Bank 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, 2016, we had \$23.7 million of junior subordinated debentures held by three statutory business trusts that we control. Interest payments on the debentures, which totaled \$0.5 million for the year ended December 31, 2016, 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 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.

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Consumers and businesses are increasingly using non-banks to complete their financial transactions, which could adversely affect our business and results of operations.

Technology and other changes are allowing consumers and businesses to complete financial transactions that historically have involved banks through alternative methods. For example, the wide acceptance of internet-based commerce has resulted in a number of alternative payment processing systems and lending platforms in which banks play only minor roles. Customers can now maintain funds in prepaid debit cards or digital currencies, and pay bills and transfer funds directly without the direct assistance of banks. The diminishing role of banks as financial intermediaries has resulted and could continue to result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the potential loss of lower cost deposits as a source of funds could have a material adverse effect on our business, financial condition and results of operations.

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 of 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.

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.

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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.

A new accounting standard may require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

The FASB has adopted a new accounting standard that will be effective for the Company and the Bank for our first fiscal year after December 15, 2019. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which may require us to increase our allowance for loan losses, and to greatly increase the types of data we will need to collect and review to determine the appropriate level of the allowance for loan losses. Any increase in our allowance for loan losses or expenses incurred to determine the appropriate level of the allowance for loan losses may 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 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.

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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.

The stock market can be volatile, and fluctuations in our operating results and other factors could cause our stock price to decline.

The stock market has experienced, and may continue to experience, fluctuations that significantly impact the market prices of securities issued by many companies. Market fluctuations could adversely affect our stock price. These fluctuations have often been unrelated or disproportionate to the operating performance of particular companies. These broad market fluctuations, as well as general economic, systemic, political and market conditions, such as recessions, loss of investor confidence, interest rate changes, or international currency fluctuations, may negatively affect the market price of our common stock. Moreover, our operating results may fluctuate and vary from period to period due to the risk factors set forth herein. As a result, period-to-period comparisons should not be relied upon as an indication of future performance. Our stock price could fluctuate significantly in response to our quarterly or annual results, annual projections and the impact of these risk factors on our operating results or financial position. 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 21.2% of our outstanding common stock. These 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.

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ITEM 2. PROPERTIES.

The following table is a listing of the Company's operating facilities:

Facility Address	Facility Square Footage	Owned or Leased
Iowa Offices		
802 13th Street in Belle Plaine	5,013	Owned
3225 Division Street in Burlington	10,550	Owned
4510 Prairie Parkway in Cedar Falls	14,500	Owned
120 West Center Street in Conrad	8,382	Owned
110 First Avenue in Coralville	5,000	Owned
58 East Burlington Avenue in Fairfield	5,896	Owned
2408 West Burlington Avenue in Fairfield	3,520	Owned
926 Avenue G in Fort Madison	3,548	Owned
102 South Clinton Street in Iowa City ⁽¹⁾	58,440	Owned
500 South Clinton Street in Iowa City ⁽²⁾	44,427	Owned
1906 Keokuk Street in Iowa City	6,333	Owned
2233 Rochester Avenue in Iowa City	3,916	Owned
202 Main Street in Melbourne	2,800	Owned
10030 Highway 149 in North English	2,080	Owned
465 Highway 965 NE, Suite A in North Liberty	3,245	Leased
124 South First Street in Oskaloosa	7,160	Owned
222 First Avenue East in Oskaloosa	6,692	Owned
1001 Highway 57 in Parkersburg	7,420	Owned
700 Main Street in Pella	9,374	Leased
500 Oskaloosa Street in Pella	1,960	Owned
112 North Main Street in Sigourney	4,440	Owned
3110 Kimball Avenue in Waterloo	3,364	Leased
305 West Rainbow Drive in West Liberty	4,791	Owned
Minnesota Offices		
7111 21st Avenue N. in Centerville	3,167	Owned
7031 20th Avenue S. in Centerville ⁽³⁾	2,400	Leased
11151 Lake Boulevard in Chisago City	2,500	Owned
3585 124th Avenue in Coon Rapids	4,125	Owned
6640 Shady Oak Road in Eden Prairie	4,464	Leased
18233 Carson Court NW in Elk River	6,393	Owned
1650 South Lake Street in Forest Lake	8,150	Owned
945 Winnetka Avenue N. in Golden Valley	18,078	Owned
2120 Hennepin Avenue S. in Minneapolis	4,360	Owned
2104 Hastings Avenue in Newport	16,600	Owned
835 Southview Boulevard in South Saint Paul	11,088	Owned
2270 Frontage Road W. in Stillwater	12,730	Owned
750 Central Avenue E., Suite 100 in Saint Michael	7,378	Leased
3670 East County Line N. in White Bear Lake	5,440	Owned

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Facility Address	Facility Square Footage	Owned or Leased
Wisconsin Offices		
404 County Road UU in Hudson	5,300	Owned
880 Sixth Street N. in Hudson	4,763	Owned
304 Cascade Street in Osceola	21,500	Owned
2183 US Highway 8 E. in Saint Croix Falls	3,400	Owned
Florida Offices		
1520 Royal Palm Square Boulevard, Suite 100 in Fort Myers	5,863	Leased
4099 Tamiami Trail N., Suite 100 in Naples	9,365	Leased

(1) - This facility is utilized as a branch in addition to housing the Company's headquarters.

(2) - This facility contains a total of 63,206 square feet, of which the Bank occupies 44,427 square feet.

(3) - This facility is not a full service branch, but is used exclusively for the origination of Small Business Administration (SBA) loans.

The Bank intends to limit its investment in premises to no more than 50% of capital. Management believes that the facilities are of sound construction, in good operating condition, appropriately insured and adequately equipped for carrying on the business of the Company.

No individual real estate property amounts to 10% or more of consolidated assets.

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.

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PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. 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
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

2016

First Quarter	\$30.04	\$24.71	\$ 0.160
Second Quarter	30.50	25.49	0.160
Third Quarter	30.74	26.50	0.160
Fourth Quarter	39.20	27.93	0.160

As of March 1, 2017, there were 11,459,521 shares of common stock outstanding held by approximately 468 holders of record. Additionally, there are an estimated 2,126 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 21, 2016, the board of directors of the Company approved a share repurchase program, allowing for the repurchase of up to \$5.0 million of stock through December 31, 2018. During the fourth quarter of 2016 the Company repurchased no common stock. Of the \$5.0 million of stock authorized under the repurchase plan, \$5.0 million remained available for possible future repurchases as of December 31, 2016.

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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, 2016.

MidWestOne Financial Group, Inc.

Index	At					
	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
MidWestOne Financial Group, Inc.	\$ 100.00	\$ 142.89	\$ 193.44	\$ 209.65	\$ 225.78	\$ 285.28
NASDAQ Composite Index	100.00	117.45	164.57	188.84	201.98	219.89
SNL-Midwestern Banks Index	100.00	120.36	164.78	179.14	181.86	242.99

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.

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ITEM 6. SELECTED FINANCIAL DATA.

The following selected financial data for each of the five years in the period ended December 31, 2016, 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, 2016. This financial data should be read in conjunction with the financial statements and the related notes thereto.

(Dollars in thousands, except per share data)	Year Ended December 31,					
	2016	2015	2014	2013	2012	
Summary of Income Data:						
Total interest income excluding loan pool participations	\$ 112,328	\$ 99,902	\$ 62,888	\$ 64,048	\$ 67,324	
Total interest and discount on loan pool participations	—	798	1,516	2,046	1,978	
Total interest income including loan pool participations	112,328	100,700	64,404	66,094	69,302	
Total interest expense	12,722	10,648	9,551	12,132	15,952	
Net interest income	99,606	90,052	54,853	53,962	53,350	
Provision for loan losses	7,983	5,132	1,200	1,350	2,379	
Noninterest income	23,434	21,193	15,313	14,728	19,737	
Noninterest expense	87,806	73,176	43,413	42,087	48,960	
Income before income tax	27,251	32,937	25,553	25,253	21,748	
Income tax expense	6,860	7,819	7,031	6,646	5,214	
Net income	\$ 20,391	\$ 25,118	\$ 18,522	\$ 18,607	\$ 16,534	
Per share data:						
Net income - basic	\$ 1.78	\$ 2.42	\$ 2.20	\$ 2.19	\$ 1.95	
Net income - diluted	1.78	2.42	2.19	2.18	1.94	
Net income, exclusive of loss on termination of pension and gain on sale of Home Mortgage Center - diluted*	1.78	2.42	2.19	2.18	2.10	
Net income, exclusive of merger-related expenses - diluted*	2.03	2.70	2.31	2.18	2.10	
Cash dividends declared	0.64	0.60	0.58	0.50	0.36	
Book value	26.71	25.96	23.07	20.99	20.51	
Net tangible book value*	20.00	19.10	22.08	19.95	19.39	
Selected financial ratios:						
Return on average assets	0.68	% 0.91	% 1.05	% 1.06	% 0.96	%
Return on average assets, exclusive of loss on termination of pension and gain on sale of Home Mortgage Center, and merger-related expenses*	0.78	1.01	1.11	1.06	1.03	
Return on average shareholders' total equity	6.69	9.84	9.94	10.59	9.99	
Return on average shareholders' total equity, exclusive of loss on termination of pension and gain on sale of Home Mortgage Center, and merger-related expenses*	7.64	11.00	10.45	10.59	10.77	
Return on average tangible equity*	10.13	14.29	10.61	11.43	10.95	
Return on average tangible equity, exclusive of loss on termination of pension and gain on sale of Home Mortgage Center*	10.13	14.29	10.61	11.43	11.78	
Dividend payout ratio	35.96	24.79	26.36	22.83	18.46	
Total shareholders' equity to total assets	9.92	9.94	10.71	10.14	9.70	
Tangible equity to tangible assets*	7.62	7.51	10.29	9.69	9.22	
Tier 1 capital to average assets*	8.75	8.34	10.85	10.55	9.65	
Tier 1 capital to risk-weighted assets*	10.73	10.63	13.47	13.36	12.56	
Net interest margin*	3.80	3.71	3.53	3.46	3.46	

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Efficiency ratio*	66.43	61.36	58.71	57.11	67.21
Efficiency ratio, exclusive of loss on termination of pension*	66.43	61.36	58.71	57.11	58.71
Gross revenue of loan pools to total gross revenue	—	0.72	2.16	2.98	2.71
Allowance for bank loan losses to total bank loans	1.01	0.90	1.44	1.49	1.54
Allowance for loan pool losses to total loan pools	—	—	9.94	7.71	5.65
Non-performing loans to total loans	1.31	0.54	1.15	1.27	1.03
Net loans charged off to average loans	0.26	0.11	0.09	0.11	0.21

* - Non-GAAP measure. See pages 30 - 32 for a detailed explanation.

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(In thousands)	Year Ended December 31,				
	2016	2015	2014	2013	2012
Selected balance sheet data:					
Total assets	\$3,079,575	\$2,979,975	\$1,800,302	\$1,755,218	\$1,792,819
Total loans net of purchase accounting and unearned discounts	2,165,143	2,151,942	1,132,519	1,088,412	1,035,284
Allowance for loan losses	21,850	19,427	16,363	16,179	15,957
Loan pool participations, net	—	—	19,332	25,533	35,650
Total deposits	2,480,448	2,463,521	1,408,542	1,374,942	1,399,733
Federal funds purchased and repurchase agreements	117,871	68,963	78,229	66,665	68,823
Federal Home Loan Bank advances	115,000	87,000	93,000	106,900	120,120
Junior subordinated notes issued to capital trusts	23,692	23,587	15,464	15,464	15,464
Long-term debt	17,500	22,500	—	—	—
Total shareholders' equity	305,456	296,178	192,731	178,016	173,932

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,					
	2016	2015	2014	2013	2012	
Average Tangible Equity						
Average total shareholders' equity	\$304,670	\$255,307	\$186,375	\$175,666	\$165,429	
Plus: Average deferred tax liability associated with intangibles	3,909	5,354	—	—	—	
Less: Average goodwill and intangibles, net	(81,727)	(69,975)	(8,477)	(9,073)	(9,785)	
Average tangible equity	\$226,852	\$190,686	\$177,898	\$166,593	\$155,644	
Net Income						
Net income	\$20,391	\$25,118	\$18,522	\$18,607	\$16,534	
Plus: Intangible amortization, net of tax ⁽¹⁾	2,581	2,126	356	431	513	
Adjusted net income	\$22,972	\$27,244	\$18,878	\$19,038	\$17,047	
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, exclusive of loss on termination of pension and gain on sale of Home Mortgage Center	\$22,972	\$27,244	\$18,878	\$19,038	\$18,333	
Return on Average Tangible Equity	10.13	% 14.29	% 10.61	% 11.43	% 10.95	%
Return on Average Tangible Equity, Exclusive of Loss on Termination of Pension and Gain on Sale of Home Mortgage Center	10.13	% 14.29	% 10.61	% 11.43	% 11.78	%

(1) Computed on a tax-equivalent basis, assuming a federal income tax rate of 34% for 2012, and 35% for 2013, 2014, 2015 and 2016.

(2) Computed assuming a combined state and federal tax rate of 37% for 2012.

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	As of or for the Year Ended December 31,					
(dollars in thousands, except per share data)	2016	2015	2014	2013	2012	
Tangible Common Equity						
Total shareholders' equity	\$305,456	\$296,179	\$192,731	\$178,016	\$173,932	
Plus: Deferred tax liability associated with intangibles	3,068	5,366	—	—	—	
Less: Goodwill and intangibles, net	(79,825)	(83,689)	(8,259)	(8,806)	(9,469)	
Tangible common equity	\$228,699	\$217,856	\$184,472	\$169,210	\$164,463	
Tangible Assets						
Total assets	\$3,079,575	\$2,979,975	\$1,800,302	\$1,755,218	\$1,792,819	
Plus: Deferred tax liability associated with intangibles	3,068	5,366	—	—	—	
Less: Goodwill and intangibles, net	(79,825)	(83,689)	(8,259)	(8,806)	(9,469)	
Tangible Assets	\$3,002,818	\$2,901,652	\$1,792,043	\$1,746,412	\$1,783,350	
Common shares outstanding	11,436,360	11,408,773	8,355,666	8,481,799	8,480,488	
Tangible Book Value Per Share	\$20.00	\$19.10	\$22.08	\$19.95	\$19.39	
Tangible Common Equity to Tangible Assets	7.62	% 7.51	% 10.29	% 9.69	% 9.22	%
Tier 1 Capital						
Total shareholders' equity	\$305,456	\$296,179	\$192,731	\$178,016	\$173,932	
Plus: Long term debt (qualifying restricted core capital)	23,666	23,587	15,464	15,464	15,464	
Less: Net unrealized gains on securities available for sale, net of tax	1,133	(3,408)	(5,322)	(1,049)	(11,050)	
Disallowed goodwill and intangibles	(71,951)	(72,203)	(8,511)	(9,036)	(9,617)	
Tier 1 capital	\$258,304	\$244,155	\$194,362	\$183,395	\$168,729	
Average Assets						
Quarterly average assets	\$3,022,919	\$3,000,284	\$1,799,666	\$1,746,313	\$1,757,910	
Less: Disallowed goodwill and intangibles	(71,951)	(72,203)	(8,511)	(9,036)	(9,617)	
Average assets	\$2,950,968	\$2,928,081	\$1,791,155	\$1,737,277	\$1,748,293	
Tier 1 Capital to Average Assets	8.75	% 8.34	% 10.85	% 10.56	% 9.65	%
Risk-weighted assets						
Risk-weighted assets	\$2,407,661	\$2,296,478	\$1,442,585	\$1,372,648	\$1,343,194	
Tier 1 Capital to Risk-Weighted Assets	10.73	% 10.63	% 13.47	% 13.36	% 12.56	%
Operating Expense						
Total noninterest expense	\$87,806	\$73,176	\$43,413	\$42,087	\$48,960	
Less: Amortization of intangibles and goodwill impairment	(3,970)	(3,271)	(547)	(663)	(778)	
Operating expense	\$83,836	\$69,905	\$42,866	\$41,424	\$48,182	
Less: Loss on termination of pension	—	—	—	—	(6,088)	
Operating expense, exclusive of loss on termination of pension	\$83,836	\$69,905	\$42,866	\$41,424	\$42,094	
Operating Revenue						
Tax-equivalent net interest income ⁽¹⁾	\$104,321	\$94,243	\$58,890	\$57,720	\$56,481	
Plus: Noninterest income	23,434	21,193	15,313	14,728	19,737	

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Impairment losses on investment securities	—	—	—	—	345	
Less: Gain on sale or call of available for sale securities	464	1,011	1,227	65	805	
Gain (loss) on sale of premises and equipment	(44)	(29)	(1)	(3)	4,188	
Other gain (loss)	1,133	527	(37)	(146)	(123)	
Operating Revenue	\$126,202	\$113,927	\$73,014	\$72,532	\$71,693	
Efficiency Ratio	66.43	% 61.36	% 58.71	% 57.11	% 67.21	%
Efficiency Ratio, Exclusive of Loss on Termination of Pension	66.43	% 61.36	% 58.71	% 57.11	% 58.71	%

(1) Computed on a tax-equivalent basis, assuming a federal income tax rate of 34% for 2012, and 35% for 2013, 2014, 2015 and 2016.

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(dollars in thousands, except per share data)	For the Year Ended December 31,					
	2016	2015	2014	2013	2012	
Net Interest Margin Tax Equivalent Adjustment						
Net interest income	\$99,606	\$90,052	\$54,853	\$53,962	\$53,350	
Plus tax equivalent adjustment: ⁽¹⁾						
Loans	1,692	1,293	1,157	963	827	
Securities	3,023	2,898	2,880	2,795	2,304	
Tax equivalent net interest income ⁽¹⁾	\$104,321	\$94,243	\$58,890	\$57,720	\$56,481	
Average interest-earning assets	\$2,747,493	\$2,541,681	\$1,669,130	\$1,667,251	\$1,630,835	
Net Interest Margin	3.80	% 3.71	% 3.53	% 3.46	% 3.46	%
Net Income	\$20,391	\$25,118	\$18,522	\$18,607	\$16,534	
Plus: Loss on termination of pension	—	—	—	—	6,088	
Merger-related expenses	4,568	3,512	1,061	—	—	
Less: Gain on sale of Home Mortgage Center	—	—	—	—	(4,047))
Net tax effect of above items ⁽²⁾	(1,682)) (539)) (111)) —	(755))
Net income, exclusive of loss on termination of pension and gain on sale of Home Mortgage Center, and merger-related expenses	\$23,277	\$28,091	\$19,472	\$18,607	\$17,820	
Average Assets	\$2,993,875	\$2,773,095	\$1,760,776	\$1,756,344	\$1,721,792	
Average Equity	\$304,670	\$255,307	\$186,375	\$175,666	\$165,429	
Diluted average number of shares	11,456,324	10,391,323	8,433,296	8,525,119	8,527,544	
Return on Average Assets	0.68	% 0.91	% 1.05	% 1.06	% 0.96	%
Return on Average Assets, Exclusive of Loss on Termination of Pension and Gain on Sale of Home Mortgage Center, and merger-related expenses	0.78	% 1.01	% 1.11	% 1.06	% 1.03	%
Return on Average Equity	6.69	% 9.84	% 9.94	% 10.59	% 9.99	%
Return on Average Equity, Exclusive of Loss on Termination of Pension and Gain on Sale of Home Mortgage Center, and merger-related expenses	7.64	% 11.00	% 10.45	% 10.59	% 10.77	%
Earnings Per Common Share-Diluted	\$1.78	\$2.41	\$2.19	\$2.18	\$1.94	
Earnings Per Common Share-Diluted, Exclusive of Loss on Termination of Pension and Gain on Sale of Home Mortgage Center	\$1.78	\$2.41	\$2.19	\$2.18	\$2.10	
Earnings Per Common Share-Diluted, Exclusive of Merger-related Expenses	\$2.03	\$2.70	\$2.31	\$2.18	\$1.94	

(1) Computed on a tax-equivalent basis, assuming a federal income tax rate of 34% for 2012, and 35% for 2013, 2014, 2015 and 2016.

(2) Computed assuming a combined state and federal tax rate of 37% for 2012, and 38% on eligible tax-deductible expenses for 2014, 2015 and

2016.

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. 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.

The Bank operates a total of 43 banking offices in Iowa, Minnesota, Wisconsin, and Florida. 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 completed our merger with Central, pursuant to which Central was merged with and into the Company. In connection with the merger, Central Bank, a Minnesota-chartered commercial bank and wholly-owned subsidiary of Central, became a wholly-owned subsidiary of the Company. On April 2, 2016, Central Bank merged with and into the Bank. See Note 2. "Business Combination" to our consolidated financial statements.

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Financial results for 2016 were not as strong as for the previous five years, during which the Company experienced all-time highs in terms of earnings per share. Net income for the year ended December 31, 2016 was \$20.4 million, a decrease of \$4.7 million, or 18.8%, compared to \$25.1 million of net income for 2015, with diluted earnings per share of \$1.78 and \$2.42 for the comparative twelve month periods, respectively. The decrease in net income was due primarily to increased salaries and employee benefits expense in 2016, reflecting the increased number of our employees after the holding company merger and \$1.7 million of merger-related stay bonuses and severance expenses. The year 2016 results reflect a full year of operations after the merger with Central, while the year 2015 included only eight months of post-merger operations. The income for the year 2016 reflects higher noninterest expense partially offset by increased net interest income and increased noninterest income. After excluding the effects of \$4.6 million (\$2.9 million after tax) of expenses related to the merger with Central Bank, adjusted diluted earnings per share for the year ended December 31, 2016, were \$2.03, compared to \$2.70, after excluding \$3.5 million (\$3.0 million after tax) of expenses related to the merger with Central, for the same period last year. Return on average assets (“ROAA”) and return on average tangible equity (“ROATE”) for the full year of 2016, including merger expenses, of 0.68% and 10.13%, respectively, decreased from 0.91% and 14.29%, respectively, for 2015. These returns are lower than our results for the past five years as well as our long term goals. Our 12 to 24 month goal is to return ROAA closer to the 1% level and ROATE to the 12 to 14% range.

Total assets increased to \$3.08 billion at December 31, 2016 from \$2.98 billion at December 31, 2015. Total deposits at December 31, 2016, were \$2.48 billion, an increase of \$16.9 million, or 0.7%, from December 31, 2015. The mix of deposits experienced increases between December 31, 2015 and December 31, 2016 of \$71.9 million, or 6.8%, in interest-bearing checking deposits, \$8.2 million, or 4.3%, in savings deposits, and \$1.8 million, or 0.27%, in certificates of deposit. These increases were partially offset by a decrease in non-interest bearing demand deposits of \$65.0 million, or 11.6% between December 31, 2015 and December 31, 2016. Total loans (excluding loans held for sale) increased \$13.2 million, or 0.6%, from \$2.15 billion at December 31, 2015, to \$2.17 billion at December 31, 2016. The increase was primarily concentrated in commercial real estate-other, multifamily, construction and development, and farmland loans. During 2016 we sold our offices in Barron and Rice Lake, Wisconsin and in Davenport, Iowa. Combined, these offices accounted for \$39.6 million in deposits and \$47.2 million in loans at the time of the sales. The Company increased its loans and deposits in 2016 despite these asset and deposit sales. On a geographic basis, loans increased in Minnesota, Wisconsin, and Florida and decreased in Iowa while the Iowa market contributed the largest increase in deposits in the Company.

Net interest income for the year ended December 31, 2016, was \$99.6 million, up \$9.5 million, or 10.6%, from \$90.1 million for the year ended December 31, 2015, primarily due to an increase of \$11.6 million, or 11.5%, in interest income. Loan interest income increased \$11.6 million, or 13.4%, to \$98.2 million for the year 2016 compared to the year 2015, primarily due to the merger-related increase in average loan balances of \$198.5 million, or 10.1%, between the two periods, and despite the effect of a decrease in the merger-related discount accretion to \$3.2 million for the year ended December 31, 2016, compared to \$4.4 million for the year ended December 31, 2015. Interest expense was \$12.7 million for the year ended December 31, 2016, an increase of \$2.1 million, or 19.5%, compared to the year of 2015. Interest expense on deposits increased \$1.5 million, or 19.7%, to \$9.4 million for the year ended December 31, 2016 (including \$0.9 million in merger-related amortization of the purchase accounting premium on certificates of deposit), compared to \$7.8 million (including \$1.1 million in merger-related amortization) for the year ended December 31, 2015. We posted a net interest margin of 3.80% for the year 2016, up 9 basis points from the net interest margin of 3.71% for the same period in 2015. An increase in both the volume and of yield received on loans was the primary driver of the increased margin.

A contributor to our decline in net income in 2016 from 2015 was the increase in our provision for loan losses. The provision for loan losses for the year 2016 increased \$2.9 million to \$8.0 million from \$5.1 million for the same period in 2015, primarily due to the increased level of impaired loans and the greater level of loans moving from the purchased accounting portfolio to our standard methodology.

For the year ended December 31, 2016, noninterest income rose to \$23.4 million, an increase of \$2.2 million, or 10.6%, from \$21.2 million during 2015. The greatest increase for the year ended December 31, 2016, was in loan origination and servicing fees which increased \$1.0 million, or 36.8%, in the year 2016, from \$2.8 million for the

same period in 2015, due to increased gains on the sale of SBA loans. Our Home Mortgage Center (“HMC”) enjoyed a year of increased revenues of 37.8% during the year 2016 compared to 2015. Despite the increased revenues, we continue to believe we are underperforming the peers of the HMC, and one of 2017’s goals is to improve the bottom line performance of this business line. Another significant contributor to the overall increase in noninterest income was service charges and fees on deposit accounts, which increased \$0.8 million to \$5.2 million for the year 2016, compared with \$4.4 million for the same period of 2015. We believe that there is potential here as well to continue to see modest increases in this category in the year ahead. Other service charges and fees rose from \$5.2 million for the year ended December 31, 2015, to \$6.0 million for the year ended December 31, 2016, an increase of \$0.7 million, or 14.1%. Other gain increased \$0.6 million to a gain of \$1.1 million for the year ended December 31, 2016, compared to a gain of \$0.5 million for the year ended December 31, 2015. The year 2016 reflected a net gain on other real estate owned of \$0.6 million, a net gain on the sale of the Rice Lake and Barron, Wisconsin, and Davenport, Iowa, branch offices of \$1.4 million, and the writedown

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of other real estate owned of \$0.6 million. The year 2015 included a net loss on other real estate owned of \$0.2 million, and a net gain of \$0.7 million on the sale of the Ottumwa, Iowa branch office. These increases were partially offset by decreased gains on the sale of available for sale securities of \$0.5 million between the years 2015 and 2016. In addition, trust, investment, and insurance fees decreased to \$5.6 million for the year 2016, a decline of \$0.4 million, or 7.2%, from \$6.0 million for the same period in 2015.

Noninterest expense increased to \$87.8 million for the year ended December 31, 2016 compared with \$73.2 million for the year ended December 31, 2015, an increase of \$14.6 million, or 20.0%. All categories of noninterest expense increased for the year ended December 31, 2016, with the exception of professional fees, which decreased \$0.7 million, or 14.5%, due to lower merger-related expenses for professional fees of \$0.3 million for the year of 2016 compared with \$1.9 million for the same period last year. Salaries and employee benefits increased \$7.7 million, or 18.5%, from \$41.9 million for the year ended December 31, 2015, to \$49.6 million for the year ended December 31, 2016. This increase includes \$2.1 million of merger-related expenses for the year ended December 31, 2016, compared to \$0.6 million for the same period in 2015. The increase in salaries and employee benefits is primarily due to the increased number of employees after the merger with Central and merger-related stay bonuses and severance costs. We expect lower salaries and employee benefits in the future due to the absence of the merger-related costs. Net occupancy and equipment expense rose from \$10.0 million for the year of 2015 to \$13.1 million for the same period of 2016, an increase of \$3.1 million, or 31.0%. The increase in data processing expense for the year ended December 31, 2016, of \$2.3 million, or 85.8%, was attributable primarily to one-time contract termination expenses of \$1.9 million in connection with the merger of the Bank and Central Bank. When we announced our merger with Central in 2014, we set a goal to reduce our non-interest expenses by \$8.0 million from the pro-forma company's non-interest expense. At this time, we believe we are on track to exceed this goal in 2017.

Nonperforming loans increased from \$11.5 million, or 0.54% of total bank loans, at December 31, 2015, to \$28.5 million, or 1.31% of total bank loans, at December 31, 2016. The increase was due primarily to a higher level of nonaccrual loans. As of December 31, 2016, the allowance for loan losses was \$21.9 million, or 1.01% of total loans, compared with \$19.4 million, or 0.90% of total loans at December 31, 2015. The allowance for loan losses represented 76.76% of nonperforming loans at December 31, 2016, compared with 168.52% of nonperforming loans at December 31, 2015. The Company had net loan charge-offs of \$5.6 million in the year ended December 31, 2016, or an annualized 0.26% of average loans outstanding, and our level of non-performing loans to total loans rose to 1.31%, compared to net charge-offs of \$2.1 million, or an annualized 0.11% of average loans outstanding, and a non-performing loans to total loan ratio of 0.54% for the same period of 2015. During the fourth quarter of 2016, we held three loans that had shown gradual deterioration as 2016 progressed but experienced an impairment triggering event in the fourth quarter of 2016, and two loans that had unexpected credit deterioration, during the quarter. This resulted in appropriate charge-offs for these loans and increased provision for loan losses during the fourth quarter of 2016.

The Company's capital position increased in 2016 compared to 2015, with our tangible equity to tangible assets (both net of associated deferred tax liability on intangibles) ratio of 7.62%, which was below our target range of 8.00% to 8.50%, but higher than the December 31, 2015 ratio of 7.51%. Our regulatory capital levels remain well above the minimums established to be considered well-capitalized.

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, 2016, was adequate to absorb probable losses in the existing portfolio.

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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 the Bank. 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 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, 2016

Summary

Our consolidated net income for the year ended December 31, 2016 was \$20.4 million, or \$1.78 per fully-diluted share, compared to net income of \$25.1 million, or \$2.42 per fully-diluted share, for the year ended December 31, 2015. The decrease in consolidated net income was due primarily to a \$14.6 million, or 20.0%, increase in noninterest expense from 2015 to 2016,

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which was mainly due to the inclusion of a full year of expenses related to the Central merger in 2016, versus eight months of post-merger operations in 2015. Salaries and employee benefits increased \$7.7 million, or 18.5%, from the year ended December 31, 2015 to the year ended December 31, 2016. In addition, the provision for loan losses for the year 2016 increased \$2.9 million to \$8.0 million from \$5.1 million for the same period in 2015, primarily due to the increased level of impaired loans and the greater level of loans moving from the purchased accounting portfolio to our standard methodology for the allowance for loan and lease losses (“ALLL”) in 2016. Partially offsetting these expense increases there was a \$9.5 million, or 10.6%, increase in net interest income, again mainly related to the merger with Central. We also experienced a mainly merger-related increase in noninterest income to \$23.4 million for the year ended December 31, 2016 from \$21.2 million for 2015, which was primarily due to a \$1.0 million increase in loan origination and servicing fees to \$3.8 million, compared with \$2.8 million in 2015. Merger-related expenses paid were \$4.6 million (\$2.9 million after tax), for the year ended December 31, 2016, compared to \$3.5 million (\$3.0 million after tax) for the year ended December 31, 2015. After excluding the effects of the merger-related expenses, adjusted diluted earning per share for the year ended December 31, 2016 were \$2.03, compared to \$2.70 for the year ended December 31, 2015.

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 \$2.9 million increase in other service charges and fees to \$5.2 million, compared with \$2.3 million in 2014. These increases were 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 with Central and eight months of post-merger expenses in 2015. 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 compared to \$1.1 million (\$1.0 million after tax) in merger expenses in 2014. 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, compared to \$2.31 for the year ended December 31, 2014.

We ended 2016 with an allowance for loan losses of \$21.9 million, which represented 76.8% coverage of our nonperforming loans at December 31, 2016 as compared to 168.5% at December 31, 2015 and 125.7% coverage of our nonperforming loans (excluding loan pool participations) at December 31, 2014. Nonperforming loans totaled \$28.5 million as of December 31, 2016 compared with \$11.5 million and \$13.0 million at December 31, 2015 and December 31, 2014, respectively. For the year ended December 31, 2016, the provision for loan losses increased to \$8.0 million from \$5.1 million for 2015, which had increased from \$1.2 million for 2014. The increased provision primarily reflects the increase in outstanding loan balances due to the merger, the increase in nonperforming loans, 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, 2016, under regulatory standards, the Bank 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,					
	2016		2015		2014	
Return on average assets	0.68	%	0.91	%	1.05	%
Return on average shareholders' total equity	6.69		9.84		9.94	
Return on average tangible common equity	10.13		14.29		10.61	

Dividend payout ratio	35.96	24.79	26.36
Average equity to average assets	10.18	9.21	10.58
Equity to assets ratio (at period end)	9.92	9.94	10.71

For information on the calculation of certain non-GAAP measures please see pages 30 to 32.

Net Interest Income

Net interest income is the difference between interest income and fees earned on interest-earning assets, less interest expense incurred on interest-bearing liabilities. Interest rate levels and volume fluctuations within interest-earning assets and

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interest-bearing liabilities impact net interest income. Net interest margin is tax-equivalent net interest income as a percent of average interest-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 interest-earning assets. In addition to yield, various other risks are factored into the evaluation process.

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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,								
	2016			2015			2014		
	Average Balance	Interest Income/Expense	Average Rate/Yield	Average Balance	Interest Income/Expense	Average Rate/Yield	Average Balance	Interest Income/Expense	Average Rate/Yield
(dollars in thousands)									
Average interest-earning assets:									
Loans ⁽¹⁾⁽²⁾⁽³⁾	\$2,161,376	\$99,854	4.62 %	\$1,962,846	\$87,837	4.47 %	\$1,092,280	\$49,623	4.54 %
Loan pool participations ⁽⁴⁾	—	—	—	10,032	798	7.95	24,321	1,516	6.23
Investment securities:									
Taxable investments	358,727	8,297	2.31	362,217	7,734	2.14	364,153	8,921	2.45
Tax exempt investments ⁽²⁾	192,656	8,726	4.53	180,298	8,451	4.69	170,218	8,335	4.90
Total investment securities	551,383	17,023	3.09	542,515	16,185	2.98	534,371	17,256	3.23
Federal funds sold and interest-bearing balances	34,734	166	0.48	26,288	71	0.27	18,158	46	0.25
Total earning assets	\$2,747,493	\$117,043	4.26 %	\$2,541,681	\$104,891	4.13 %	\$1,669,130	\$68,441	4.10 %
Noninterest-earning assets:									
Cash and due from banks	37,335			39,474			19,295		
Premises and equipment	75,948			66,842			32,336		
Allowance for loan losses	(20,909)			(18,866)			(18,575)		
Other assets	154,008			143,964			58,590		
Total assets	\$2,993,875			\$2,773,095			\$1,760,776		
Average interest-bearing liabilities:									
Savings and interest-bearing demand deposits	\$1,282,994	\$3,418	0.27 %	\$1,139,175	\$2,987	0.26 %	\$706,662	\$2,313	0.33 %
Certificates of deposit	649,986	5,961	0.92	648,516	4,851	0.75	469,351	4,714	1.00
Total deposits	1,932,980	9,379	0.49	1,787,691	7,838	0.44	1,176,013	7,027	0.60
Federal funds purchased and	74,566	205	0.27	69,498	210	0.30	59,012	127	0.22

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repurchase agreements										
Federal Home Loan Bank borrowings	104,954	1,827	1.74	86,614	1,451	1.68	103,515	2,092	2.02	
Long-term debt and other	45,788	1,311	2.86	40,603	1,149	2.83	15,904	305	1.92	
Total borrowed funds	225,308	3,343	1.48	196,715	2,810	1.43	178,431	2,524	1.41	
Total interest-bearing liabilities	\$2,158,288	\$12,722	0.59 %	\$1,984,406	\$10,648	0.54 %	\$1,354,444	\$9,551	0.71 %	
Net interest spread (2)			3.67 %			3.59 %			3.39 %	
Noninterest-bearing liabilities										
Demand deposits	\$512,383			\$488,312			\$208,071			
Other liabilities	18,534			45,070			11,886			
Shareholders' equity	304,670			255,307			186,375			
Total liabilities and shareholders' equity	\$2,993,875			\$2,773,095			\$1,760,776			
Interest income/earning assets (2)	\$2,747,493	\$117,043	4.26 %	\$2,541,681	\$104,891	4.13 %	\$1,669,130	\$68,441	4.10 %	
Interest expense/earning assets	\$2,747,493	\$12,722	0.46 %	\$2,541,681	\$10,648	0.42 %	\$1,669,130	\$9,551	0.57 %	
Net interest income/margin (2)(5)		\$104,321	3.80 %		\$94,243	3.71 %		\$58,890	3.53 %	
Non-GAAP to GAAP Reconciliation:										
Tax Equivalent Adjustment:										
Loans		\$1,692			\$1,293			\$1,157		
Securities		3,023			2,898			2,880		
Total tax equivalent adjustment		4,715			4,191			4,037		
Net Interest Income		\$99,606			\$90,052			\$54,853		

(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 interest-earning assets.

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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, 2016, 2015, and 2014					
	Year 2016 to 2015 Change due			Year 2015 to 2014 Change due		
	to Volume	Rate/Yield	Net	to Volume	Rate/Yield	Net
(dollars in thousands)						
Increase (decrease) in interest income						
Loans (tax equivalent)	\$9,102	\$ 2,915	\$ 12,017	\$38,969	\$ (755)	\$ 38,214
Loan pool participations	(399)	(399)	(798)	(1,058)	340	(718)
Investment securities:						
Taxable investments	(75)	638	563	(47)	(1,140)	(1,187)
Tax exempt investments (tax equivalent)	566	(291)	275	481	(365)	116
Total investment securities	491	347	838	434	(1,505)	(1,071)
Federal funds sold and interest-bearing balances	28	67	95	22	3	25
Change in interest income	9,222	2,930	12,152	38,367	(1,917)	36,450
Increase (decrease) in interest expense						
Savings and interest-bearing demand deposits	382	49	431	1,203	(529)	674
Certificates of deposit	11	1,099	1,110	1,524	(1,387)	137
Total deposits	393	1,148	1,541	2,727	(1,916)	811
Federal funds purchased and repurchase agreements	15	(20)	(5)	25	58	83
Federal Home Loan Bank borrowings	317	59	376	(313)	(328)	(641)
Other long-term debt	148	14	162	646	198	844
Total borrowed funds	480	53	533	358	(72)	286
Change in interest expense	873	1,201	2,074	3,085	(1,988)	1,097
Increase in net interest income	\$8,349	\$ 1,729	\$ 10,078	\$ 35,282	\$ 71	\$ 35,353
Percentage increase in net interest income over prior period			10.7 %			60.0 %

Earning Assets, Sources of Funds, and Net Interest Margin

Average earning assets were \$2.75 billion in 2016, an increase of \$205.8 million, or 8.1%, from \$2.54 billion in 2015. The growth in the average balance of earning assets in 2016 compared to 2015 was due primarily to an increase in average loans outstanding of \$198.5 million, or 10.1%, primarily due to a full year of post-merger balances in 2016 as opposed to only eight months of post-merger balances in 2015, partially offset by a decrease in average loan pool participations of \$10.0 million, or 100.0%, due to the sale of the complete portfolio of loan pool participations during 2015. Average earning assets in 2015 increased by \$872.6 million, or 52.3%, from 2014. The growth in the average balance of earning assets in 2015 compared to 2014 was due primarily to increased average loans outstanding due to the merger, partially offset, again, by a decrease in average loan pool participations of \$14.3 million, or 58.8%, due to the sale of the complete portfolio during 2015. Interest-bearing liabilities averaged \$2.16 billion for the year ended December 31, 2016, an increase of \$173.9 million, or 8.8%, from the average balance for the year ended December 31, 2015. An increase in average deposits of \$145.3 million during 2016 compared to 2015, mainly due to the merger, accounted for the majority of the increase in average interest-bearing liabilities. Average borrowed funds increased \$28.6 million during 2016 compared to 2015, primarily due to new FHLB borrowings. 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 average deposits of \$611.7 million during 2015 compared to 2014, mainly due to the merger, accounted for the majority of the increase in average interest-bearing liabilities. Average borrowed funds increased \$18.3 million during 2015 compared to 2014, primarily due to the assumption of new long-term debt and junior subordinated notes related to the merger.

Interest income, on a tax-equivalent basis, increased \$12.2 million, or 11.6%, to \$117.0 million in 2016 from \$104.9 million in 2015. Tax equivalent interest income in 2015 increased \$36.5 million, or 53.3%, to \$104.9 million in 2015 from \$68.4 million in 2014. The higher interest income in 2016 compared to 2015, was due primarily to the merger-related increase in the volume of loans, the increased interest rate on loans and the inclusion in loan interest income of \$3.2 million of merger-related

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loan discount accretion, which increased interest income, and by an increase in the yield on investment securities. In 2015, interest income increased compared to 2014 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. Our yield on average earning assets was 4.26% in 2016 compared to 4.13% in 2015 and 4.10% in 2014. The increase in 2016 compared to 2015, as well as the increase between 2015 compared to 2014, was primarily due to the positive effect of purchase accounting accretion in loans.

Interest expense increased during 2016 by \$2.1 million, or 19.5%, to \$12.7 million from \$10.6 million in 2015. Interest expense in 2015 increased by \$1.1 million, or 11.5%, from 2014. The increase in interest expense during 2016 compared to 2015 was primarily due to the full year of additional cost of merger-related assumptions of deposits and debt, partially offset by the lower expense on federal funds and repurchase agreements, and the inclusion of \$0.9 million of merger-related premium amortization on certificate of deposits, which served to decrease deposit interest expense. 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. The average rate paid on interest-bearing liabilities was 0.59% in 2016 compared to 0.54% in 2015 and 0.71% in 2014.

Net interest income, on a tax-equivalent basis, increased 10.7% in 2016 to \$104.3 million from \$94.2 million in 2015. The higher volume on earning assets during 2016, offset somewhat by the higher volume of interest-bearing liabilities, account for the majority of the increase. Tax-equivalent net interest income in 2015 increased by \$35.4 million, or 60.0%, from 2014. Net interest margin, which is our net interest income expressed as a percentage of average interest-earning assets stated on a tax-equivalent basis, was higher at 3.80% during 2016 compared to 3.71% in 2015 and 3.53% in 2014. The net interest spread, also on a tax-equivalent basis, was 3.67% in 2016 compared to 3.59% in 2015 and 3.39% in 2014.

Net interest income increased in 2016 as compared to 2015 due primarily to the increase in interest earned on interest-earning assets, due to increased average balances and rates on interest-earning assets, partially offset by the increase in interest paid on interest-bearing liabilities. The increased interest income in 2016 included \$3.2 million of merger-related discount accretion income for loans, combined with the inclusion of \$0.9 million of merger-related amortization of the purchase accounting premium on certificates of deposit. The increased net interest income for 2015 as compared to 2014 was due primarily to the increase in interest earned on interest-earning assets due to increased average balances 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 average balance sheets reflect a competitive marketplace on both 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 remained low since 2008, even as general market interest rates begin to slowly rise.

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 \$8.0 million during 2016 compared to \$5.1 million in 2015 and \$1.2 million in 2014. The increased provision reflects the increase in both nonperforming and outstanding loan balances since the merger. 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 2014, 2015, and 2016 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 section Nonperforming Assets.

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Noninterest Income

The following table set forth the various categories of noninterest income for the years ended December 31, 2016, 2015, and 2014.

	For the Year Ended December 31,								
	2016	2015	\$ Change	% Change	2015	2014	\$ Change	% Change	
(dollars in thousands)									
Trust, investment, and insurance fees	\$5,574	\$6,005	\$(431)	(7.2)%	\$6,005	\$5,771	\$234	4.1	%
Service charges and fees on deposit accounts	5,219	4,401	818	18.6	4,401	3,279	1,122	34.2	
Loan origination and servicing fees	3,771	2,756	1,015	36.8	2,756	1,554	1,202	77.3	
Other service charges and fees	5,951	5,215	736	14.1	5,215	2,307	2,908	126.1	
Bank-owned life insurance income	1,366	1,307	59	4.5	1,307	1,102	205	18.6	
Gain on sale or call of available for sale securities	464	1,011	(547)	(54.1)	1,011	1,227	(216)	(17.6)	
Loss on sale of premises and equipment	(44)	(29)	(15)	51.7	(29)	(1)	(28)	NM	
Other gain	1,133	527	606	115.0	527	74	453	NM	
Total noninterest income	\$23,434	\$21,193	\$2,241	10.6 %	\$21,193	\$15,313	\$5,880	38.4	%
Noninterest income as a % of total revenue*	18.0 %	17.9 %			17.9 %	20.3 %			

NM - Percentage change not considered meaningful.

* Total revenue is net interest income plus noninterest income excluding gain/loss on sales of securities, premises and equipment, and other gains or losses, and impairment of investment securities.

Total noninterest income for the year ended December 31, 2016 was \$23.4 million, an increase of \$2.2 million, or 10.6%, from \$21.2 million during the same period of 2015, primarily due to the merger. The greatest increase for the year ended December 31, 2016 compared to 2015, was in loan origination and servicing fees which increased \$1.0 million, or 36.8%, in the year 2016, from \$2.8 million for the same period in 2015, due to increased gains on the sale of SBA loans. Another significant contributor to the overall increase in noninterest income was service charges and fees on deposit accounts, which increased \$0.8 million to \$5.2 million for the year 2016, compared with \$4.4 million for the same period of 2015. Other service charges and fees rose from \$5.2 million for the year ended December 31, 2015, to \$6.0 million for the year ended December 31, 2016, an increase of \$0.7 million, or 14.1%. Other gain increased \$0.6 million to a gain of \$1.1 million for the year ended December 31, 2016, compared to a gain of \$0.5 million for the year ended December 31, 2015. The year 2016 reflected a net gain on other real estate owned of \$0.6 million, a net gain on the sale of the Rice Lake and Barron, Wisconsin, and Davenport, Iowa, branch offices of \$1.4 million, and the writedown of other real estate owned of \$0.6 million. The year 2015 included a net loss on other real estate owned of \$0.2 million, and a net gain of \$0.7 million on the sale of the Ottumwa, Iowa branch office. These increases were partially offset by decreased gains on the sale of available for sale securities of \$0.5 million between the years 2015 and 2016. In addition, trust, investment, and insurance fees also decreased to \$5.6 million for the year 2016, a decline of \$0.4 million, or 7.2%, from \$6.0 million for the same period in 2015.

Management has set a strategic goal for the percentage of total revenue that noninterest income represents (net interest income plus noninterest income before gains or losses on sales of securities available for sale, premises and equipment, other gains or losses, and impairment of investment securities) to be 25%. In 2016, noninterest income comprised 18.0% of total revenues, compared with 17.9% for 2015 and 20.3% for 2014. The decline between 2015 and 2014 was due to Central having a lower level of noninterest income as a percentage of total revenues than the

pre-merger Company. We expect that continued management focus on increasing the rate of growth in our both trust and investment services revenues and mortgage origination and loan servicing fees as a percentage of noninterest income will gradually improve this ratio going forward.

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 compared to 2014, was in other service charges, commissions and fees, which rose from \$2.3 million for the year ended December 31, 2014, to \$5.2 million for the year ended December 31, 2015, an increase of \$2.9 million, or 126.1%. While the majority of the increase in noninterest income was due to the merger, \$0.7 million represents the gain on the sale of our Ottumwa, Iowa branch, which was completed in early December 2015. Loan origination and 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

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sale of available for sale securities of \$0.2 million between 2014 and 2015.

Noninterest Expense

The following table set forth the various categories of noninterest expense for the years ended December 31, 2016, 2015, and 2014.

	For the Year Ended December 31,				2015	2014	\$ Change	% Change	
	2016	2015	\$ Change	% Change					
(dollars in thousands)									
Salaries and employee benefits	\$49,621	\$41,865	\$7,756	18.5 %	\$41,865	\$24,918	\$16,947	68.0 %	
Net occupancy and equipment expense	13,066	9,975	3,091	31.0	9,975	6,293	3,682	58.5	
Professional fees	4,216	4,929	(713)	(14.5)	4,929	3,606	1,323	36.7	
Data processing expense	4,940	2,659	2,281	85.8	2,659	1,565	1,094	69.9	
FDIC insurance expense	1,563	1,397	166	11.9	1,397	964	433	44.9	
Amortization of intangible assets	3,970	3,271	699	21.4	3,271	547	2,724	498.0	
Other operating expense	10,430	9,080	1,350	14.9	9,080	5,520	3,560	64.5	
Total noninterest expense	\$87,806	\$73,176	\$14,630	20.0 %	\$73,176	\$43,413	\$29,763	68.6 %	

Noninterest expense increased to \$87.8 million for the year ended December 31, 2016 compared with \$73.2 million for the year ended December 31, 2015, an increase of \$14.6 million, or 20.0%. All categories of noninterest expense increased for the year ended December 31, 2016 compared to 2015, with the exception of professional fees, which decreased \$0.7 million, or 14.5%, due to lower merger-related expenses for professional fees of \$0.3 million for the year of 2016 compared with \$1.9 million for the same period last year. Salaries and employee benefits increased \$7.7 million, or 18.5%, from \$41.9 million for the year ended December 31, 2015, to \$49.6 million for the year ended December 31, 2016. This increase includes \$2.1 million of merger-related expenses for the year ended December 31, 2016, compared to \$0.6 million for the same period in 2015. The increase in salaries and employee benefits is primarily due to the increased number of employees after the merger with Central and merger-related stay bonuses and severance costs. We expect lower salaries and employee benefits in the future due to the absence of the merger-related costs. Net occupancy and equipment expense rose from \$10.0 million for the year of 2015 to \$13.1 million for the same period of 2016, an increase of \$3.1 million, or 31.0%. The increase in data processing expense for the year ended December 31, 2016 compared to 2015, of \$2.3 million, or 85.8%, was attributable primarily to one-time contract termination expenses of \$1.9 million in connection with the merger of the Bank and Central Bank. In 2015 noninterest expense increased to \$73.2 million compared with \$43.4 million for the year ended December 31, 2014, an increase of \$29.8 million, or 68.6%. The increase in 2015 compared to 2014 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. 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 in 2014. 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.

Full-time equivalent employee levels were 587, 648 and 374 at December 31, 2016, 2015 and 2014, respectively.

Income Tax Expense

Our effective tax rate, or income taxes divided by income before taxes, was 25.2% for 2016 compared with 23.7% for 2015. The higher effective rate in 2016 was primarily due to a reduction of \$1.9 million in the recognition of rehabilitation and historic tax credits from \$2.3 million in 2015 to \$0.4 million in 2016. Income tax expense decreased by \$1.0 million to \$6.9 million in 2016 compared to tax expense of \$7.8 million for 2015 due primarily to decreased

taxable income, net of the decreased tax credits.

Income taxes increased by \$0.8 million for 2015 compared with 2014 due to increased taxable income. The effective income tax rate as a percentage of income before tax was 23.7% for 2015, compared with 27.5% for 2014. The lower effective

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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.

Financial Condition - December 31, 2016 and 2015

Summary

Our total assets increased \$99.6 million, or 3.3%, to \$3.08 billion as of December 31, 2016 from \$2.98 billion as of December 31, 2015. This growth resulted primarily from an increase in investment securities, which increased \$100.2 million, or 18.4%, and total loans, which increased \$13.2 million, or 0.6%, despite the loss of approximately \$47.2 million of loans related to the sale of our Rice Lake and Barron, Wisconsin, and Davenport, Iowa, branch offices during 2016. These increases were partially offset by decreases in other real estate owned of \$6.7 million, or 76.3%, intangible assets of \$4.0 million, or 20.7%, and cash and cash equivalents of \$3.9 million, or 8.2%, between December 31, 2016 and December 31, 2015. Our loan-to-deposit ratio declined slightly to 87.3% at year-end 2016 compared to 87.4% at year-end 2015, with our target range being between 80% and 90%.

Total liabilities increased by \$90.3 million from December 31, 2015 to December 31, 2016. Our deposits increased \$16.9 million, or 0.7%, to \$2.48 billion as of December 31, 2016 from \$2.46 billion at December 31, 2015, despite the loss of approximately \$39.6 million of deposits from the sale of our Rice Lake and Barron, Wisconsin, and Davenport, Iowa, branch offices in 2016. The mix of deposits saw increases between December 31, 2015 and December 31, 2016 of \$71.9 million, or 6.8%, in interest-bearing checking deposits, \$8.2 million, or 4.3%, in savings deposits, and \$1.8 million, or 0.27%, in certificates of deposit. These increases were partially offset by a decrease in non-interest bearing demand deposits of \$65.0 million, or 11.6% between December 31, 2015 and December 31, 2016. Brokered CDs obtained through participation in the Certificate of Deposit Account Registry Service ("CDARS") program decreased by \$0.2 million in 2016 to \$2.6 million, while brokered business money market accounts obtained through participation in the Insured Cash Sweeps ("ICS") program increased by \$18.8 million to \$39.0 million. We have an internal policy limit on brokered deposits of not more than 10% of our total assets. At December 31, 2016 brokered deposits were 1.4% of our total assets. FHLB borrowings were \$115.0 million at December 31, 2016 compared to \$87.0 million at December 31, 2015, an increase of \$28.0 million, or 32.2%. Junior subordinated notes issued to capital trusts increased from \$23.6 million at December 31, 2015 to \$23.7 million at December 31, 2016 as a result of the discount accretion. The increased borrowings were executed to fund the purchase of investment securities and origination of new loans. The Company initiated new long-term borrowings from an unaffiliated bank of \$25.0 million during the second quarter of 2015 in connection with the closing of the holding company merger. At December 31, 2016, this note had an outstanding balance of \$17.5 million, a decrease of \$5.0 million, or 22.2%, from December 31, 2015, due to normal scheduled repayments. Securities sold under agreement to repurchase rose \$14.7 million between December 31, 2015 and December 31, 2016, and federal funds purchased increased by \$34.2 million between the two dates, both as a result of normal business cash need fluctuations.

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Shareholders' equity increased by \$9.3 million primarily due to net income of \$20.4 million for the year of 2016, and a \$0.6 million decrease in treasury stock due to the issuance of 17,567 shares of Company common stock in connection with stock compensation plans. These increases were partially offset by the payment of \$7.3 million in common stock dividends, and a \$4.5 million decrease in accumulated other comprehensive income due to market value adjustments on investment securities available for sale.

	December 31, 2016	December 31, 2015	\$ Change	% Change	
(dollars in thousands)					
Assets					
Investment securities available for sale	\$477,518	\$427,241	\$50,277	11.8	%
Investment securities held to maturity	168,392	118,423	49,969	42.2	
Net loans	2,143,293	2,132,515	10,778	0.5	
Premises and equipment	75,043	76,202	(1,159)	(1.5))
Goodwill	64,654	64,548	106	NM	
Other intangible assets, net	15,171	19,141	(3,970)	(20.7))
Total Assets	\$3,079,575	\$2,979,975	\$99,600	3.3	%
Liabilities					
Deposits:					
Noninterest bearing	\$494,586	\$559,586	\$(65,000)	(11.6))%
Interest bearing	1,985,862	1,903,935	81,927	4.3	
Total deposits	2,480,448	2,463,521	16,927	0.7	
Federal Home Loan Bank borrowings	115,000	87,000	28,000	32.2	
Junior subordinated notes issued to capital trusts	23,692	23,587	105	0.4	
Long-term debt	17,500	22,500	(5,000)	(22.2))
Total liabilities	\$2,774,119	\$2,683,797	\$90,322	3.4	%
Shareholders' equity	\$305,456	\$296,178	\$9,278	3.1	%

Investment Securities

Our investment securities portfolio is managed to provide both a source of liquidity and earnings. The size of the portfolio varies along with fluctuations in levels of deposits and loans. Our investment securities portfolio totaled \$645.9 million at December 31, 2016 compared to \$545.7 million at December 31, 2015. The increase was due primarily to management's efforts to utilize any excess liquidity to maintain profitable balance sheet leverage. Securities available for sale are carried at fair value. As of December 31, 2016, the fair value of our securities available for sale was \$477.5 million and the amortized cost was \$479.4 million. There were \$4.2 million of gross unrealized gains and \$6.0 million of gross unrealized losses in our investment securities available for sale portfolio for a net unrealized loss of \$1.8 million. The after-tax effect of this unrealized loss has been included in shareholders' equity. The ratio of the fair value as a percentage of amortized cost decreased compared to December 31, 2015, due to an increase in interest rates, particularly in the market for tax-exempt municipal securities, during 2016.

U.S. treasury and U.S. government agency securities as a percentage of total securities decreased to 0.9% at December 31, 2016, from 6.2% at December 31, 2015, and obligations of state and political subdivisions (primarily tax-exempt obligations) as a percentage of total securities also decreased to 42.3% at December 31, 2016, from 45.8% at December 31, 2015. Investments in mortgage-backed securities and collateralized mortgage obligations increased to 40.4% of total securities at December 31, 2016, as compared to 36.3% of total securities at December 31, 2015, and corporate debt securities increased to 16.2% at December 31, 2016, as compared to 11.6% of total securities at December 31, 2015. As of December 31, 2016 and 2015, 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.

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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.

The composition of securities available for sale was as follows:

	December 31,		
	2016	2015	2014
(dollars in thousands)			
Securities available for sale			
U.S. Treasury	\$—	\$6,910	\$—
U.S. Government agency securities and corporations	5,905	26,653	49,375
States and political subdivisions	165,272	183,384	195,199
Mortgage-backed securities	61,354	57,062	32,463
Collateralized mortgage obligations	171,267	106,404	146,132
Corporate debt securities	72,453	45,566	48,741
Other equity securities	1,267	1,262	3,032
Fair value of securities available for sale	\$477,518	\$427,241	\$474,942
Amortized cost	\$479,390	\$421,740	\$466,387
Fair value as a percentage of amortized cost	99.61	% 101.30	% 101.83 %

Securities held to maturity are carried at amortized cost. As of December 31, 2016, the amortized cost of these securities was \$168.4 million and the fair value was \$164.8 million.

The composition of securities held to maturity was as follows:

	December 31,		
	2016	2015	2014
(dollars in thousands)			
Securities held to maturity			
States and political subdivisions	\$107,941	\$66,454	\$39,704
Mortgage-backed securities	2,398	3,920	22
Collateralized mortgage obligations	26,036	30,505	8,531
Corporate debt securities	32,017	17,544	3,267
Amortized cost	\$168,392	\$118,423	\$51,524
Fair value of securities held to maturity	\$164,792	\$118,234	\$51,253
Fair value as a percentage of amortized cost	97.86	% 99.84	% 99.47 %

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.

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The maturities, carrying values and weighted average yields of debt securities as of December 31, 2016 were as follows:

	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. Government agency securities and corporations	\$—	— %	\$5,034	1.59%	\$871	2.04%	\$—	— %
States and political subdivisions ⁽²⁾	6,455	5.22	58,963	4.33	88,175	4.62	11,679	4.86
Mortgage-backed securities ⁽³⁾	15	4.20	3,991	2.10	33,524	2.22	23,824	2.19
Collateralized mortgage obligations ⁽³⁾	—	—	11,840	2.11	3,370	2.84	156,057	2.06
Corporate debt securities	5,013	1.10	59,240	2.07	8,200	2.29	—	—
Total debt securities available for sale	\$11,483	3.42%	\$139,068	3.02%	\$134,140	3.82%	\$191,560	2.25%
Securities held to maturity: ⁽¹⁾								
States and political subdivisions ⁽²⁾	\$—	— %	\$9,780	3.27%	\$44,064	3.94%	\$54,097	3.95%
Mortgage-backed securities ⁽³⁾	—	—	—	—	14	6.00	2,384	3.00
Collateralized mortgage obligations ⁽³⁾	—	—	—	—	—	—	26,036	1.95
Corporate debt securities	2,385	1.26	—	—	27,999	4.20	1,633	3.15
Total debt securities held to maturity	\$2,385	1.26%	\$9,780	3.27%	\$72,077	4.04%	\$84,150	3.29%
Total debt investment securities	\$13,868	3.05%	\$148,848	3.04%	\$206,217	3.90%	\$275,710	2.57%

⁽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, 2016).

⁽³⁾ These securities are presented based upon contractual maturities.

As of December 31, 2016, no non-agency issuer's securities exceeded 10% of the Company's total shareholders' equity.

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Loans

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

	As of December 31,									
	2016		2015		2014		2013		2012	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(dollars in thousands)										
Agricultural	\$113,343	5.2 %	\$121,714	5.7 %	\$104,809	9.3 %	\$97,167	8.9 %	\$84,726	8.2 %
Commercial and industrial	459,481	21.2	467,412	21.7	303,108	26.7	262,368	24.1	237,193	22.9
Credit cards	1,489	0.1	1,377	0.1	1,246	0.1	1,028	0.1	1,001	0.1
Overdrafts ⁽¹⁾	—	—	1,483	0.1	744	0.1	537	0.1	759	0.1
Commercial real estate:										
Construction & development	126,685	5.9	120,753	5.6	59,383	5.2	72,589	6.6	86,794	8.4
Farmland	94,979	4.4	89,084	4.1	83,700	7.4	85,475	7.9	81,063	7.8
Multifamily	136,003	6.3	121,763	5.7	54,886	4.8	55,443	5.1	47,758	4.6
Commercial real estate-other	706,576	32.6	660,341	30.7	228,552	20.2	220,917	20.3	224,369	21.7
Total commercial real estate	1,064,243	49.2	991,941	46.1	426,521	37.6	434,424	39.9	439,984	42.5
Residential real estate:										
One- to four-family first liens	372,233	17.2	428,233	19.9	219,314	19.4	220,668	20.3	197,742	19.1
One- to four-family junior liens	117,763	5.4	102,273	4.7	53,297	4.7	53,458	4.9	55,134	5.3
Total residential real estate	489,996	22.6	530,506	24.6	272,611	24.1	274,126	25.2	252,876	24.4
Consumer	36,591	1.7	37,509	1.7	23,480	2.1	18,762	1.7	18,745	1.8
Total loans	\$2,165,143	100.0%	\$2,151,942	100.0%	\$1,132,519	100.0%	\$1,088,412	100.0%	\$1,035,284	100.0%
Total assets	\$3,079,575		\$2,979,975		\$1,800,302		\$1,755,218		\$1,792,819	
Loans to total assets		70.3 %		72.2 %		62.9 %		62.0 %		57.7 %

(1) - Beginning in 2016, the Company no longer considered overdrafts a separate class of loans, and these balances are now included in commercial and consumer loans, as appropriate.

Our loan portfolio, before allowance for loan losses, increased 0.6% to \$2.17 billion as of December 31, 2016 from \$2.15 billion at December 31, 2015, despite the loss of approximately \$47.2 million of loans related to the sale of our Rice Lake and Barron, Wisconsin, and Davenport, Iowa, branch offices during 2016. Increased balances were primarily concentrated in commercial real estate loans, which increased \$72.3 million, or 7.3%, to \$1.06 billion as of December 31, 2016, from \$991.9 million as of December 31, 2015. Within commercial real estate, other commercial

real estate increased \$46.2 million, or 7.0%, multifamily increased \$14.2 million, or 11.7%, construction and development increased \$5.9 million, or 4.9%, and farmland loans increased \$5.9 million, or 6.6%, between December 31, 2016 and December 31, 2015. The increases were partially offset by decreases in residential real estate loans which decreased \$40.5 million, or 7.6%, between December 31, 2016 and December 31, 2015, and agricultural loans which decreased \$8.4 million, or 6.9%, between December 31, 2016 and December 31, 2015, to \$113.3 million at December 31, 2016. Commercial and industrial loans also decreased \$7.9 million, or 1.7%, to \$459.5 million between December 31, 2016 and December 31, 2015. Commitments under standby letters of credit, unused lines of credit and other conditionally approved credit lines totaled approximately \$487.3 million and \$437.3 million as of December 31, 2016 and 2015, respectively.

Our loan to deposit ratio decreased slightly to 87.3% at year end 2016 from 87.4% at the end of 2015, with our target range for this ratio being between 80% and 90%. The decrease in this ratio is reflective of deposits growing at a greater rate than new loan originations.

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The following table sets forth remaining maturities and rate types of selected loans at December 31, 2016:

	Due In			Total	Total for Loans Due Within One Year Having		Total for Loans Due After One Year Having	
	Due Within One Year	One to Five Years	Due After Five Years		Fixed Rates	Variable Rates	Fixed Rates	Variable Rates
(in thousands)								
Agricultural	\$86,699	\$19,884	\$6,760	\$113,343	\$5,948	\$80,751	\$19,868	\$6,776
Commercial and industrial	222,410	138,492	98,579	459,481	70,102	152,308	150,211	86,860
Credit cards	1,489	—	—	1,489	—	1,489	—	—
Commercial real estate:								
Construction & development	89,612	24,227	12,846	126,685	41,026	48,586	25,685	11,388
Farmland	20,450	44,501	30,028	94,979	17,459	2,991	50,304	24,225
Multifamily	25,279	55,515	55,209	136,003	13,874	11,405	71,067	39,657
Commercial real estate-other	125,917	319,394	261,265	706,576	104,158	21,759	330,133	250,526
Total commercial real estate	261,258	443,637	359,348	1,064,243	176,517	84,741	477,189	325,796
Residential real estate:								
One- to four- family first liens	51,231	90,986	230,016	372,233	37,863	13,368	167,016	153,986
One- to four- family junior liens	20,472	39,093	58,198	117,763	6,210	14,272	33,067	64,214
Total residential real estate	71,703	130,079	288,214	489,996	44,073	27,640	200,083	218,200
Consumer	17,241	17,861	1,489	36,591	15,982	1,259	19,326	24
Total loans	\$660,800	\$749,953	\$754,390	\$2,165,143	\$312,622	\$348,188	\$866,677	\$637,656

Of the \$985.8 million of variable rate loans, approximately \$599.8 million, or 60.8%, are subject to interest rate floors, with a weighted average floor rate of 4.34%.

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,				
	2016	2015	2014	2013	2012
(dollars in thousands)					
90 days or more past due and still accruing interest	\$485	\$284	\$848	\$1,385	\$572
Troubled debt restructure	7,312	7,232	8,918	9,151	7,144
Nonaccrual	20,668	4,012	3,255	3,240	2,938
Total nonperforming loans	28,465	11,528	13,021	13,776	10,654
Other real estate owned	2,097	8,834	1,916	1,770	3,278
Total nonperforming loans and nonperforming other assets	\$30,562	\$20,362	\$14,937	\$15,546	\$13,932
Nonperforming loans to loans, before allowance for loan losses	1.31	% 0.54	% 1.15	% 1.27	% 1.03
Nonperforming loans and nonperforming other assets to loans, before allowance for loan losses	1.41	% 0.95	% 1.32	% 1.43	% 1.35

Total nonperforming assets were \$30.6 million at December 31, 2016, compared to \$20.4 million at December 31, 2015, a \$10.2 million, or 50.1%, increase. Nonperforming loans increased \$16.9 million during 2016, and nonperforming other assets (other real estate owned) decreased \$6.7 million during 2016. The largest category of nonperforming loans was commercial real estate loans, with a balance of \$10.9 million at December 31, 2016. The

remaining nonperforming loans consisted of \$9.0 million in commercial and industrial, \$5.5 million in agricultural, and \$3.1 million in residential real estate. The decrease in other real estate owned (“OREO”) was primarily attributable to the net decrease of 43 properties in other real estate owned during the year ended December 31, 2016, with a portion of the decreased 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, 2016. OREO is carried at the lower of cost or fair value less estimated costs of disposal. Additional discounts could be required to market and sell the properties, resulting in a write down through expense.

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The following table sets forth information concerning nonperforming loans by portfolio class at December 31, 2016 and December 31, 2015:

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

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

Nonperforming loans increased from \$11.5 million, or 0.54% of total loans, at December 31, 2015, to \$28.5 million, or 1.31% of total loans, at December 31, 2016. At December 31, 2016, nonperforming loans consisted of \$20.7 million in nonaccrual loans, \$7.3 million in troubled debt restructures (“TDRs”) and \$0.5 million in loans past due 90 days or more and still accruing interest. This compares to nonaccrual loans of \$4.0 million, TDRs of \$7.2 million,

and loans past due 90 days or more and still accruing interest of \$0.3 million at December 31, 2015. Nonaccrual loans increased \$16.7 million between December 31, 2015, and December 31, 2016, due primarily to the addition of two commercial loan customers with loans totaling \$12.3 million, three commercial real estate customers with loans totaling \$1.6 million, and one agricultural loan customer with loans totaling \$2.6 million. The Company is actively working to resolve the issues associated with these loans, all of which are located within our Iowa market. The increase in nonaccrual loans is one of the primary reasons for the increase in the provision for loan losses in the fourth quarter of 2016. The balance of TDRs increased \$0.1 million between these two dates, as the addition of four loans totaling \$0.5 million were partially offset by payments collected from TDR-status borrowers and the charge-off of two TDRs totaling \$0.2 million. Loans 90 days past due and still accruing interest increased \$0.2 million between December 31, 2015 and December 31,

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2016. Loans past due 30 to 89 days and still accruing interest (not included in the nonperforming loan totals) increased to \$10.7 million at December 31, 2016, compared with \$8.5 million at December 31, 2015. At December 31, 2016, other real estate owned (not included in nonperforming loans) was \$2.1 million, down from \$8.8 million of other real estate owned at December 31, 2015. During the year 2016, the Company had a net decrease of 43 properties in other real estate owned. As of December 31, 2016, the allowance for loan losses was \$21.9 million, or 1.01% of total loans, compared with \$19.4 million, or 0.90% of total loans at December 31, 2015. The allowance for loan losses represented 76.76% of nonperforming loans at December 31, 2016, compared with 168.52% of nonperforming loans at December 31, 2015.

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, 2016, 2015 and 2014 if the nonaccrual and TDRs had been current in accordance with their original terms was \$1.9 million, \$0.8 million, and \$0.9 million, respectively. The amount of interest collected on those loans that was included in interest income was \$0.6 million, \$0.3 million, and \$0.5 million for the years ended December 31, 2016, 2015 and 2014, 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 the Bank:

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

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

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

Depending upon the individual facts and circumstances and the result of the Classified/Watch review process, loan officers and/or loan review personnel may categorize the loan relationship as impaired. Once that determination has occurred, the credit analyst will complete an evaluation of the collateral (for collateral-dependent loans) based upon the estimated collateral value, adjusting for current market conditions and other local factors that may affect collateral value. Loan review personnel may also complete an independent impairment analysis when deemed necessary. These judgmental evaluations may produce an initial specific allowance for placement in the Company's allowance for loan and lease losses calculation. Impairment analysis for the

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underlying collateral value is completed in the last month of the quarter. The impairment analysis worksheets are reviewed by the credit administration department prior to quarter-end. The board of directors of the Bank on a quarterly basis reviews the Classified/Watch reports including changes in credit grades of 5 or higher as well as all impaired loans, the related allowances and OREO.

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

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

Restructured Loans

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

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

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

During the year ended December 31, 2016, the Company restructured five loans by granting concessions to borrowers experiencing financial difficulties.

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

We consider all TDRs, regardless of whether they are performing in accordance with their modified terms, to be impaired loans when determining our allowance for loan losses. A summary of restructured loans as of December 31, 2016 and December 31, 2015 is as follows:

	December 31,	
	2016	2015
(in thousands)		
Restructured Loans (TDRs):		
In compliance with modified terms	\$7,312	\$7,232
Not in compliance with modified terms - on nonaccrual status	1,003	458
Total restructured loans	\$8,315	\$7,690

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Allowance for Loan Losses

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

	Year ended December 31,					
	2016	2015	2014	2013	2012	
(dollars in thousands)						
Amount of loans outstanding at end of period (net of unearned interest) ⁽¹⁾	\$2,165,143	\$2,151,942	\$1,132,519	\$1,088,412	\$1,035,284	
Average amount of loans outstanding for the period (net of unearned interest)	\$2,161,376	\$1,962,846	\$1,092,280	\$1,059,356	\$1,001,259	
Allowance for loan losses at beginning of period ⁽¹⁾	\$19,427	\$16,363	\$16,179	\$15,957	\$15,676	
Charge-offs:						
Agricultural	\$1,204	\$245	\$26	\$39	\$—	
Commercial and industrial	3,024	639	673	695	2,323	
Credit cards	42	53	12	95	22	
Overdrafts	—	44	37	64	41	
Commercial real estate:						
Construction & development	734	193	86	342	23	
Farmland	—	—	—	—	—	
Multifamily	—	—	—	—	—	
Commercial real estate-other	197	660	79	203	106	
Total commercial real estate	931	853	165	545	129	
Residential real estate:						
One- to four- family first liens	462	653	349	170	438	
One- to four- family junior liens	320	87	60	116	99	
Total residential real estate	782	740	409	286	537	
Consumer	98	48	39	83	49	
Total charge-offs	\$6,081	\$2,622	\$1,361	\$1,807	\$3,101	
Recoveries:						
Agricultural	\$33	\$1	\$10	\$36	\$507	
Commercial and industrial	124	372	215	68	423	
Credit cards	—	—	2	2	—	
Overdrafts	—	11	13	6	8	
Commercial real estate:						
Construction & development	54	—	38	—	10	
Farmland	1	4	—	1	1	
Multifamily	—	—	—	4	—	
Commercial real estate-other	137	3	23	474	13	
Total commercial real estate	192	7	61	479	24	
Residential real estate:						
One- to four- family first liens	82	131	18	24	29	
One- to four- family junior liens	75	12	4	43	2	
Total residential real estate	157	143	22	67	31	
Consumer	15	20	22	21	10	
Total recoveries	\$521	\$554	\$345	\$679	\$1,003	
Net loans charged off	\$5,560	\$2,068	\$1,016	\$1,128	\$2,098	
Provision for loan losses	7,983	5,132	1,200	1,350	2,379	
Allowance for loan losses at end of period	\$21,850	\$19,427	\$16,363	\$16,179	\$15,957	
Net loans charged off to average loans	0.26	% 0.11	% 0.09	% 0.11	% 0.21	%

Allowance for loan losses to total loans at end of period	1.01	% 0.90	% 1.44	% 1.49	% 1.54	%
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(1) Loans do not include, and the allowance for loan losses does not include, loan pool participations.

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The following table sets forth the allowance for loan losses by loan portfolio segments compared to the percentage of loans to total loans by loan portfolio segment as of December 31 for each of the years indicated:

	December 31, 2016		2015		2014		2013		2012	
	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	\$2,003	5.2 %	\$1,417	5.7 %	\$1,506	9.3 %	\$1,358	8.9 %	\$1,026	8.2 %
Commercial and industrial	6,274	21.3	5,451	21.9	5,780	26.9	4,980	24.3	4,599	23.1
Commercial real estate	9,860	49.2	8,556	46.1	4,399	37.6	5,294	39.9	5,767	42.5
Residential real estate	3,458	22.6	3,968	24.6	3,167	24.1	3,185	25.2	3,007	24.4
Consumer	255	1.7	409	1.7	323	2.1	275	1.7	356	1.8
Unallocated	—	—	(374)	—	1,188	—	1,087	—	1,202	—
Total	\$21,850	100.0%	\$19,427	100.0%	\$16,363	100.0%	\$16,179	100.0%	\$15,957	100.0%

Our ALLL as of December 31, 2016 was \$21.9 million, which was 1.01% of total loans and 1.27% of purchased non-credit impaired loans as of that date. This compares with an ALLL of \$19.4 million as of December 31, 2015, which was 0.90% of total loans and 1.32% of purchased non-credit impaired loans as of that date. Gross charge-offs for the year of 2016 totaled \$6.1 million, while recoveries of previously charged-off loans totaled \$0.5 million. The ratio of annualized net loan charge offs to average loans for the year of 2016 was 0.26% compared to 0.11% for the year ended December 31, 2015. As of December 31, 2016, the ALLL was 76.8% of nonperforming loans compared with 168.5% as of December 31, 2015. Based on the inherent risk in the loan portfolio, we believed that as of December 31, 2016, the ALLL was adequate; however, there is no assurance losses will not exceed the allowance, and any growth in the loan portfolio or uncertainty in the general economy may require that management continue to evaluate the adequacy of the ALLL and make additional provisions in future periods as deemed necessary. Non-acquired loans with a balance of \$1.68 billion at December 31, 2016, had \$21.2 million of the allowance for loan losses allocated to them, providing an allocated allowance for loan loss to non-acquired loan ratio of 1.27%. Non-acquired loans are total loans minus those loans acquired in the Central merger. New loans and loans renewed after the merger are considered non-acquired loans.

At December 31, 2016

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

As part of the merger between MidWestOne Bank and Central Bank, management developed a single methodology for determining the amount of the ALLL that would be needed at the combined bank. The new methodology is a hybrid of the methods used at MidWestOne Bank and Central Bank prior to the bank merger.

During the first quarter of 2016 we changed the historical charge-off component of the ALLL calculation to include both pre-bank merger Central Bank and MidWestOne Bank in the 20-quarter annual average. A separate qualitative factor table is now being maintained for each region the Bank services (Iowa, Minnesota/Wisconsin, and Florida), all with a similar methodology, but adjusted based on the economic/business conditions in each region. Loans below \$250,000 continue to be evaluated solely based on delinquency status, but no longer receive an increased allocation of between 25% and 50% of the loss given default. Instead they receive the normal ASC 450 allocation based on the type

of loan and the risk rating. To streamline the ALLL process, a number of low-balance loan types that do not have a material impact on the overall calculation are now aggregated. As of the first quarter 2016, overdrafts are no longer included as a separate component in the ALLL calculation. Additionally, the guaranteed portion of government guaranteed loans is no longer being adjusted out of the calculation, and as a result, the entire loan balance is subject to reserve requirements. Special mention/watch and substandard rated credits not individually reviewed for impairment previously received an allocation of 2 times and 6 times, respectively, of the pass allocation. Due to the inherent risks associated with special mention/watch risk rated loans (i.e. early stages of financial deterioration, technical exceptions, etc.), this subset is reserved at a level that will cover losses above a pass allocation for loans that had a loss in the last 20 quarters in which the loan

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was risk rated special mention/watch at the time of the loss. Substandard loans carry greater risk than special mention/watch loans, and as such, this subset is reserved at a level that covers losses above a pass allocation for loans that had a loss in the last 20 quarters in which the loan was risk rated substandard at the time of the loss. Classified and impaired loans are reviewed per the requirements of FASB ASC Topic 310.

We currently track the loan to value (“LTV”) ratio of loans in our portfolio, and those loans in excess of internal and supervisory guidelines are presented to the Bank’s board of directors on a quarterly basis. At December 31, 2016, there were 33 owner-occupied 1-4 family loans with a LTV ratio of 100% or greater. In addition, there were 220 home equity loans without credit enhancement that had a LTV ratio of 100% or greater. We have the first lien on 8 of these equity loans and other financial institutions have the first lien on the remaining 212. There were also 180 commercial real estate loans without credit enhancement that exceed the supervisory LTV guidelines.

We review all impaired and nonperforming loans greater than \$100,000 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 120 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.

Premises and Equipment

As of December 31, 2016, premises and equipment totaled \$75.0 million, a decrease of \$1.2 million, or 1.5%, from \$76.2 million at December 31, 2015. This decrease was primarily due to the sale of our Rice Lake and Barron, Wisconsin, and Davenport, Iowa, branch offices during 2016. We expect the balance of premises and equipment to remain stable in future periods.

Goodwill and Other Intangible Assets

Goodwill increased from \$64.5 million as of December 31, 2015, to \$64.7 million as of December 31, 2016 due to the finalization in early 2016 of merger accounting related to the merger with Central. Other intangible assets decreased \$4.0 million, or 20.7%, to \$15.2 million at December 31, 2016 compared to December 31, 2015, due to normal amortization. See Note 6. “Goodwill and Intangible Assets” to our consolidated financial statements for additional information.

Deposits

Deposits increased \$16.9 million, or 0.7%, during the year ended December 31, 2016, despite the loss of approximately \$39.6 million of deposits from the sale of our Rice Lake and Barron, Wisconsin, and Davenport, Iowa, branch offices in 2016. The mix of deposits saw increases between December 31, 2015 and December 31, 2016 of \$71.9 million, or 6.8%, in interest-bearing checking deposits, \$8.2 million, or 4.3%, in savings deposits, and \$1.8 million, or 0.27%, in certificates of deposit. These increases were partially offset by a decrease in non-interest bearing demand deposits of \$65.0 million, or 11.6%, between December 31, 2015 and December 31, 2016.

The average balance of non-interest-bearing accounts increased \$24.1 million, or 4.9%, from 2015 to 2016. The average balance of interest-bearing demand deposits increased \$227.8 million, or 26.5%, and the average balance of savings accounts decreased by \$84.0 million, or 30.1%, between 2015 and 2016. The aggregate average balance of time deposits increased by \$1.5 million, or 0.2%, from 2015 to 2016, primarily in deposits under \$100,000.

	Year Ended December 31,											
	2016			2015			2014			2013		
	Average	%	Average	Average	%	Average	Average	%	Average	Average	%	Total
(dollars in thousands)	Balance	Total	Rate	Balance	Total	Rate	Balance	Total	Rate	Balance	Total	Total
Non-interest-bearing demand deposits	\$512,383	21.0	% NA	\$488,312	21.4	% NA	\$208,071	15.0	% NA	\$204,185	15.0	
Interest-bearing demand (NOW and money market)	1,087,757	44.5	0.29%	859,945	37.8	0.31%	603,812	43.7	0.36%	581,723	42.8	
Savings	195,237	8.0	0.14	279,230	12.3	0.13	102,850	7.4	0.14	96,034	7.1	
Time deposits	649,986	26.5	0.92	648,516	28.5	0.75	469,351	33.9	1.00	477,537	35.1	

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Total deposits	\$2,445,363	100.0%	0.38%	\$2,276,003	100.0%	0.35%	\$1,384,084	100.0%	0.51%	\$1,359,479	100.0%
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Certificates of deposit and other time deposits of \$100,000 and over at December 31, 2016 had the following maturities:

(in thousands)

Three months or less	\$74,116
Over three through six months	58,388
Over six months through one year	89,702
Over one year	102,844
Total	\$325,050

Federal Home Loan Bank Borrowings

FHLB borrowings totaled \$115.0 million as of December 31, 2016 compared with \$87.0 million as of December 31, 2015. We utilize FHLB borrowings as a supplement to customer deposits to fund earning assets and to assist in managing interest rate risk. Thus, 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 \$23.7 million as of December 31, 2016, an increase of \$0.1 million, or 0.4%, from \$23.6 million at December 31, 2015. This increase was due to purchase accounting amortization on junior subordinated notes that were assumed by us from Central in the 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 \$17.5 million was outstanding as of December 31, 2016. See Note 12. "Long-Term Borrowings" to our consolidated financial statements for additional information related to our long-term debt.

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, 2016		2015		2014	
	Balance	Average Rate	Balance	Average Rate	Balance	Average Rate
(dollars in thousands)						
Federal funds purchased and repurchase agreements	\$117,871	0.40 %	\$67,463	0.31 %	\$78,229	0.28 %
FHLB borrowings	115,000	1.84	87,000	1.64	93,000	1.88
Junior subordinated notes issued to capital trusts	23,692	3.16	23,587	2.71	15,464	1.82
Long-term debt	17,500	2.52	22,500	2.17	—	—
Total	\$274,063	1.38 %	\$200,550	1.38 %	\$186,693	1.20 %

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The following table sets forth the maximum amount of borrowed funds outstanding at any month-end for the years ended December 31, 2016, 2015 and 2014.

	Year Ended December 31,		
	2016	2015	2014
(in thousands)			
Federal funds purchased and repurchase agreements	\$ 117,871	\$ 102,009	\$ 78,229
FHLB borrowings	115,000	93,000	110,900
Junior subordinated notes issued to capital trusts	23,692	23,523	15,464
Subordinated note	—	12,099	—
Long-term debt	22,500	25,000	—
Total	\$ 279,063	\$ 255,631	\$ 204,593

The following table sets forth the average amount of and the average rate paid on borrowed funds for the years ended December 31, 2016, 2015 and 2014:

	Year Ended December 31,					
	2016		2015		2014	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
(dollars in thousands)						
Federal funds purchased and repurchase agreements	\$ 74,566	0.27 %	\$ 69,498	0.30 %	\$ 59,012	0.22 %
FHLB borrowings	104,954	1.74	86,614	1.68	103,515	2.02
Junior subordinated notes issued to capital trusts	23,641	3.49	20,868	2.84	15,464	1.82
Subordinated note	—	—	1,805	8.98	—	—
Long-term debt	20,604	2.27	16,527	2.26	—	—
Total	\$ 223,765	1.48 %	\$ 195,312	1.43 %	\$ 177,991	1.41 %

Contractual Obligations

The following table summarizes contractual obligations payments due by period, as of December 31, 2016:

	Total	Less than	1 to 3	3 to 5	More
		1 year	years	years	than
					5 years
Contractual obligations					
(in thousands)					
Time certificates of deposit	\$ 651,882	\$ 402,316	\$ 181,353	\$ 67,460	\$ 753
Federal funds purchased and repurchase agreements	117,871	117,871	—	—	—
FHLB borrowings	115,000	30,000	46,000	39,000	—
Junior subordinated notes issued to capital trusts	23,692	—	—	—	23,692
Long-term debt	17,500	5,000	10,000	2,500	—
Noncancelable operating leases and capital lease obligations	1,385	91	220	281	793
Total	\$ 927,330	\$ 555,278	\$ 237,573	\$ 109,241	\$ 25,238

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.

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The following table summarizes our off-balance-sheet commitments by expiration period, as of December 31, 2016:

	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Contractual obligations (in thousands)					
Commitments to extend credit	\$473,725	\$307,377	\$166,348	\$—	\$ —
Commitments to sell loans	4,241	4,241	—	—	—
Standby letters of credit	9,320	7,639	1,426	248	7
Total	\$487,286	\$319,257	\$167,774	\$248	\$ 7

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. Pursuant to the Basel III Rule, the Company and the Bank, respectively, are subject to new regulatory capital adequacy requirements promulgated by the Federal Reserve and the FDIC. Failure by the Company or the Bank 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. Under the capital requirements and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and the Bank's 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 Bank 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, 2016, both the Bank 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 Bank 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.

In order to be a "well-capitalized" depository institution under the new regime, a bank must maintain a Common Equity Tier 1 capital ratio of 6.5% or more; a Tier 1 capital ratio of 8% or more; a Total capital ratio of 10% or more; and a leverage ratio of 5% or more. A new capital conservation buffer, comprised of Common Equity Tier 1 capital, is also established above the regulatory minimum capital requirements. This capital conservation buffer is being phased in, which began January 1, 2016, at 0.625% of risk-weighted assets and increases each subsequent year by an additional 0.625% until reaching the final level of 2.5% on January 1, 2019. Generally, financial institutions became subject to the new Basel III Rules on January 1, 2015, with phase-in periods for many of the changes.

On May 1, 2015, as consideration for 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 February 15, 2016, 30,200 restricted stock units were granted to certain officers of the Company. Additionally, during the year of 2016, 16,133 shares of common stock were issued in connection with the vesting of previously awarded grants of restricted stock units, of which 1,466 shares were surrendered by grantees to satisfy tax requirements, and 6,875 nonvested restricted stock units were forfeited. During 2016, 2,900 shares of common stock

were issued in connection with the exercise of previously issued stock options, and 950 options expired.

On May 15, 2016, 6,000 restricted stock units were granted to the directors of the Company, and on November 15, 2016, 2,000 restricted stock units were granted to Mr. Kevin Kramer related to his hiring as Chief Operating Officer of the Company. See Note 15. "Stock Compensation Plans" to our consolidated financial statements for additional information related to our stock compensation program.

On July 21, 2016, the board of directors of the Company approved a share repurchase program, allowing for the repurchase of up to \$5.0 million of stock through December 31, 2018. During the fourth quarter of 2016 the Company repurchased no common

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stock. Of the \$5.0 million of stock authorized under the repurchase plan, \$5.0 million remained available for possible future repurchases as of December 31, 2016.

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,		
	2016	2015	2014
(dollars in thousands)			
Cash and due from banks	\$41,464	\$44,199	\$23,028
Interest-bearing deposits	1,764	2,731	381
Federal funds sold	—	167	—
Total	\$43,228	\$47,097	\$23,409
Percentage of average total assets	1.4	% 1.7	% 1.3

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, 2016, we had \$17.5 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 \$23.7 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 \$38.2 million for the year ended December 31, 2016 and \$32.7 million for the year ended December 31, 2015.

As of December 31, 2016, we had outstanding commitments to extend credit to borrowers of \$473.7 million, standby letters of credit of \$9.3 million, and commitments to sell loans of \$4.2 million. Certificates of deposit maturing in one year or less totaled \$402.3 million as of December 31, 2016. 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,

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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 \$38.2 million during 2016, compared with \$32.7 million in 2015 and \$23.3 million in 2014. Proceeds from loans held for sale, net of funds used to originate loans held for sale, represented a \$1.1 million outflow for 2016, compared to an outflow of \$2.4 million for 2015 and a \$0.4 million net outflow for 2014.

Net cash used in investing activities was \$123.6 million during 2016, compared with net cash provided by investing activities of \$5.0 million in 2015 and \$47.4 million used in 2014. During 2016, securities transactions accounted for a net cash outflows of \$108.8 million, while they resulted in net cash inflows for both 2015 and 2014 of \$137.7 million, and \$11.3 million, respectively. Net origination of loans and principal received from loan pools resulted in \$20.6 million in cash outflows for 2016, compared to a \$86.9 million outflows for 2015 and \$39.7 million outflows in 2014. Net cash used to acquire Central, Inc. in 2015 was \$35.6 million.

Net cash provided by financing activities was \$81.5 million during 2016, compared with net cash used in financing activities of \$14.0 million in 2015, and net cash provided of \$22.7 million in 2014. Sources of cash from financing activities for 2016 included a net increase of \$34.2 million in federal funds purchased, \$28.0 million net proceeds from FHLB borrowings, and a \$16.9 million increase in net deposits, partially offset by \$7.3 million cash dividends paid, and \$5.0 million in payments on long-term debt. In 2015, our main sources of cash from financing activities were a \$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, our main sources of cash from financing activities 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. To further mitigate liquidity risk, the Bank has several sources of liquidity in place to maximize funding availability and increase the diversification of funding sources. The criteria for evaluating the use of these sources include volume concentration (percentage of liabilities), cost, volatility, and the fit with the current asset/liability management plan.

These acceptable sources of liquidity include:

- Federal funds lines;
- FHLB borrowings;
- Brokered deposits;
- Brokered repurchase agreements; and
- Federal Reserve Bank Discount Window.

Federal Funds Lines: Routine liquidity requirements are met by fluctuations in the federal funds position of the Bank. The principal function of these funds is to maintain short-term liquidity. Unsecured federal funds purchased lines are

viewed as a volatile liability and are not used as a long-term funding solution, especially when used to fund long-term assets. Multiple correspondent relationships are preferable and federal funds sold exposure to any one customer is continuously monitored. The current federal funds purchased limit is 10% of total assets, or the amount of established federal funds lines, whichever is smaller. Currently, the Bank has unsecured federal funds lines totaling \$110.0 million, which lines are tested annually to ensure availability.

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FHLB Borrowings: FHLB borrowings provide both a source of liquidity and long-term funding for the Bank. Use of this type of funding is coordinated with both the strategic balance sheet growth projections and interest rate risk profile of the Bank. Factors that are taken into account when contemplating use of FHLB borrowings are the effective interest rate, the collateral requirements, community investment program credits, and the implications and cost of having to purchase incremental FHLB stock. The current FHLB borrowing limit is 35% of total assets. As of December 31, 2016, the Bank had \$115.0 million in outstanding FHLB borrowings, leaving \$229.6 million available for liquidity needs, based on collateral capacity. These borrowings are secured by various real estate loans (residential, commercial and agricultural).

Brokered Deposits: The Bank has brokered certificate of deposit lines/deposit relationships available to help diversify its various funding sources. Brokered deposits offer several benefits relative to other funding sources, such as: maturity structures which cannot be duplicated in the current deposit market, deposit gathering which does not cannibalize the existing deposit base, the unsecured nature of these liabilities, and the ability to quickly generate funds. However, brokered deposits are often viewed as a volatile liability by banking regulators and market participants. This viewpoint, and the desire to not develop a large funding concentration in any one area outside of the Bank's core market area, is reflected in an internal policy stating that the Bank limit the use of brokered deposits as a funding source to no more than 10% of total assets. Board approval is required to exceed this limit. The Bank will also have to maintain a "well capitalized" standing to access brokered deposits, as an "adequately capitalized" rating would require an FDIC waiver to do so, and an "undercapitalized" rating would prohibit 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, 2016.

Federal Reserve Bank Discount Window: The Federal Reserve Bank Discount Window is another source of liquidity, particularly during difficult economic times. The Bank has a borrowing capacity with the Federal Reserve Bank of Chicago limited by the amount of municipal securities pledged against the line. As of December 31, 2016, the Bank had municipal securities with an approximate market value of \$12.8 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, 2015 and December 31, 2016 is largely attributable to the growth in the investment securities portfolio.

The Bank's asset and liability committee meets regularly and is responsible for reviewing its interest rate sensitivity position and establishing policies to monitor and limit exposure to interest rate risk. Our asset and liability committee seeks to manage interest rate risk under a variety of rate environments by structuring our balance sheet and off-balance-sheet positions in such a way that changes in interest rates do not have a large negative impact. The risk is monitored and managed within approved policy limits.

We use a third-party service to model and measure our exposure to potential interest rate changes. For various assumed hypothetical changes in market interest rates, numerous other assumptions are made, such as prepayment speeds on loans and securities backed by mortgages, the slope of the Treasury yield-curve, the rates and volumes of our deposits, and the rates and volumes of our loans. There are two primary tools used to evaluate interest rate risk: net interest income simulation and economic value of equity ("EVE"). In addition, interest rate gap is reviewed to monitor asset and liability repricing over various time periods.

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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.

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, 2016				
Dollar change	\$ 157	\$ 453		
Percent change	0.2 %	0.5 %		

December 31, 2015

Dollar change	\$ 636	\$ 1,616		
Percent change	0.7 %	1.7 %		

As of December 31, 2016, 37.9% of the Company's earning asset balances will reprice or are expected to pay down in the next 12 months and 65.8% 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.

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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, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. 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 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, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, 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, 2016, 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 2, 2017 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 2, 2017

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CONSOLIDATED BALANCE SHEETS

December 31, 2016 and 2015

(dollars in thousands)

	2016	2015
ASSETS		
Cash and due from banks	\$41,464	\$44,199
Interest-bearing deposits in banks	1,764	2,731
Federal funds sold	—	167
Cash and cash equivalents	43,228	47,097
Investment securities:		
Available for sale	477,518	427,241
Held to maturity (fair value of \$164,792 as of December 31, 2016 and \$118,234 as of December 31, 2015)	168,392	118,423
Loans held for sale	4,241	3,187
Loans	2,165,143	2,151,942
Allowance for loan losses	(21,850)	(19,427)
Net loans	2,143,293	2,132,515
Premises and equipment, net	75,043	76,202
Accrued interest receivable	13,871	13,736
Goodwill	64,654	64,548
Other intangible assets, net	15,171	19,141
Bank-owned life insurance	47,231	46,295
Other real estate owned	2,097	8,834
Deferred income taxes	6,523	947
Other assets	18,313	21,809
Total assets	\$3,079,575	\$2,979,975
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand	\$494,586	\$559,586
Interest-bearing checking	1,136,282	1,064,350
Savings	197,698	189,489
Certificates of deposit under \$100,000	326,832	348,268
Certificates of deposit \$100,000 and over	325,050	301,828
Total deposits	2,480,448	2,463,521
Federal funds purchased	35,684	1,500
Securities sold under agreements to repurchase	82,187	67,463
Federal Home Loan Bank borrowings	115,000	87,000
Junior subordinated notes issued to capital trusts	23,692	23,587
Long-term debt	17,500	22,500
Deferred compensation liability	5,180	5,132
Accrued interest payable	1,472	1,507
Other liabilities	12,956	11,587
Total liabilities	2,774,119	2,683,797
Commitments and contingencies (Note 18)		
Shareholders' equity:		
Preferred stock, no par value; authorized 500,000 shares; no shares issued and outstanding at December 31, 2016 and December 31, 2015	—	—
	11,713	11,713

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Common stock, \$1.00 par value; authorized 15,000,000 shares at December 31, 2016 and December 31, 2015; issued 11,713,481 shares at December 31, 2016 and at December 31, 2015; outstanding 11,436,360 shares at December 31, 2016 and 11,408,773 shares at December 31, 2015

Additional paid-in capital	163,667	163,487
Treasury stock at cost, 277,121 shares as of December 31, 2016 and 304,708 shares at December 31, 2015	(5,766) (6,331
Retained earnings	136,975	123,901
Accumulated other comprehensive income	(1,133) 3,408
Total shareholders' equity	305,456	296,178
Total liabilities and shareholders' equity	\$3,079,575	\$2,979,975

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2016, 2015, and 2014

(in thousands, except per share amounts)

	2016	2015	2014
Interest income:			
Interest and fees on loans	\$98,162	\$86,544	\$48,466
Interest and discount on loan pool participations	—	798	1,516
Interest on bank deposits	161	70	38
Interest on federal funds sold	5	1	8
Interest on investment securities:			
Taxable securities	8,297	7,734	8,921
Tax-exempt securities	5,703	5,553	5,455
Total interest income	112,328	100,700	64,404
Interest expense:			
Interest on deposits:			
Interest-bearing checking	3,151	2,627	2,168
Savings	267	360	145
Certificates of deposit under \$100,000	2,929	2,445	2,701
Certificates of deposit \$100,000 and over	3,032	2,406	2,013
Total interest expense on deposits	9,379	7,838	7,027
Interest on federal funds purchased	47	34	8
Interest on securities sold under agreements to repurchase	158	176	119
Interest on Federal Home Loan Bank borrowings	1,827	1,451	2,092
Interest on other borrowings	19	22	24
Interest on junior subordinated notes issued to capital trusts	825	592	281
Interest on subordinated notes	—	162	—
Interest on long-term debt	467	373	—
Total interest expense	12,722	10,648	9,551
Net interest income	99,606	90,052	54,853
Provision for loan losses	7,983	5,132	1,200
Net interest income after provision for loan losses	91,623	84,920	53,653
Noninterest income:			
Trust, investment, and insurance fees	5,574	6,005	5,771
Service charges and fees on deposit accounts	5,219	4,401	3,279
Loan origination and servicing fees	3,771	2,756	1,554
Other service charges and fees	5,951	5,215	2,307
Bank-owned life insurance income	1,366	1,307	1,102
Gain on sale or call of available for sale securities	464	1,011	1,227
Loss on sale of premises and equipment	(44)	(29)	(1)
Other gain	1,133	527	74
Total noninterest income	23,434	21,193	