

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

MidWestOne Financial Group, Inc.

Form 10-Q

November 05, 2018

false--12-31Q320182018-09-3010-Q000141266512221547YesfalseAccelerated FilerMIDWESTONE FINANCIAL GROUP,

INC.falseMOFG132800001.001.003000000030000000124634811246348112219611122211070.02150.03500.0159Three-mon

LIBORThree-month LIBORThree-month

LIBOR00115360000.000.005000005000000007500000268752852582509700243870242374033998 0001412665

2018-01-01 2018-09-30 0001412665 2018-10-31 0001412665 2017-12-31 0001412665 2018-09-30 0001412665

2018-07-01 2018-09-30 0001412665 2017-01-01 2017-09-30 0001412665 2017-07-01 2017-09-30 0001412665

us-gaap:TreasuryStockMember 2018-01-01 2018-09-30 0001412665 us-gaap:RetainedEarningsMember 2018-01-01

2018-09-30 0001412665 us-gaap:PreferredStockMember 2017-01-01 2017-09-30 0001412665

us-gaap:TreasuryStockMember 2017-01-01 2017-09-30 0001412665 us-gaap:CommonStockMember 2018-01-01

2018-09-30 0001412665 us-gaap:RetainedEarningsMember 2017-09-30 0001412665

us-gaap:AdditionalPaidInCapitalMember 2017-01-01 2017-09-30 0001412665

us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-01-01 2018-09-30 0001412665

us-gaap:CommonStockMember 2017-01-01 2017-09-30 0001412665 us-gaap:TreasuryStockMember 2017-12-31

0001412665 us-gaap:TreasuryStockMember 2018-09-30 0001412665 us-gaap:PreferredStockMember 2018-01-01

2018-09-30 0001412665 us-gaap:AdditionalPaidInCapitalMember 2018-01-01 2018-09-30 0001412665

us-gaap:RetainedEarningsMember 2017-01-01 2017-09-30 0001412665

us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-01-01 2017-09-30 0001412665

us-gaap:CommonStockMember 2017-09-30 0001412665 2016-12-31 0001412665 us-gaap:PreferredStockMember

2016-12-31 0001412665 us-gaap:PreferredStockMember 2017-09-30 0001412665 us-gaap:TreasuryStockMember

2016-12-31 0001412665 us-gaap:CommonStockMember 2016-12-31 0001412665 us-gaap:RetainedEarningsMember

2018-09-30 0001412665 us-gaap:RetainedEarningsMember 2017-12-31 0001412665

us-gaap:AdditionalPaidInCapitalMember 2017-12-31 0001412665

us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-12-31 0001412665 us-gaap:TreasuryStockMember

2017-09-30 0001412665 us-gaap:AdditionalPaidInCapitalMember 2018-09-30 0001412665

us-gaap:PreferredStockMember 2018-09-30 0001412665 us-gaap:AccumulatedOtherComprehensiveIncomeMember

2016-12-31 0001412665 us-gaap:AdditionalPaidInCapitalMember 2017-09-30 0001412665

us-gaap:RetainedEarningsMember 2016-12-31 0001412665 us-gaap:CommonStockMember 2017-12-31 0001412665

us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-09-30 0001412665 2017-09-30 0001412665

us-gaap:PreferredStockMember 2017-12-31 0001412665 us-gaap:AccumulatedOtherComprehensiveIncomeMember

2017-09-30 0001412665 us-gaap:CommonStockMember 2018-09-30 0001412665

us-gaap:AdditionalPaidInCapitalMember 2016-12-31 0001412665 us-gaap:CommonStockMember 2018-01-01

2018-09-30 0001412665 us-gaap:CommonStockMember 2017-01-01 2017-09-30 0001412665

us-gaap:AccountingStandardsUpdate201601Member 2018-01-01 2018-09-30 0001412665

us-gaap:AccountingStandardsUpdate201601Member 2017-01-01 2017-09-30 0001412665 mofg:ATBancorpMember

us-gaap:CommonStockMember 2018-01-01 2018-09-30 0001412665 mofg:ATBancorpMember 2018-01-01

2018-09-30 0001412665 mofg:CommunityReinvestmentActQualifiedInvestmentMember 2018-09-30 0001412665

us-gaap:BanksTrustAndInsuranceEquitiesMember us-gaap:EquitySecuritiesMember 2018-09-30 0001412665

strpr:MN mofg:TotalObligationsOfStateAndPoliticalSubdivisionsMember

us-gaap:GeographicConcentrationRiskMember us-gaap:USStatesAndPoliticalSubdivisionsMember 2018-01-01

2018-09-30 0001412665 strpr:IA mofg:TotalObligationsOfStateAndPoliticalSubdivisionsMember

us-gaap:GeographicConcentrationRiskMember us-gaap:USStatesAndPoliticalSubdivisionsMember 2018-01-01

2018-09-30 0001412665 2017-01-01 2017-03-31 0001412665 us-gaap:CollateralizedMortgageObligationsMember

2018-09-30 0001412665 us-gaap:DomesticCorporateDebtSecuritiesMember 2018-09-30 0001412665

us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2018-09-30 0001412665

us-gaap:USGovernmentCorporationsAndAgenciesSecuritiesMember 2018-09-30 0001412665

us-gaap:USStatesAndPoliticalSubdivisionsMember 2018-09-30 0001412665 us-gaap:DebtSecuritiesMember

2017-01-01 2017-09-30 0001412665 us-gaap:DebtSecuritiesMember 2017-07-01 2017-09-30 0001412665

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

us-gaap:DebtSecuritiesMember 2018-01-01 2018-09-30 0001412665 us-gaap:DebtSecuritiesMember 2018-07-01
2018-09-30 0001412665 us-gaap:ResidentialMortgageBackedSecuritiesMember 2018-09-30 0001412665
us-gaap:USStatesAndPoliticalSubdivisionsMember 2017-12-31 0001412665
us-gaap:ResidentialMortgageBackedSecuritiesMember 2017-12-31 0001412665
us-gaap:DomesticCorporateDebtSecuritiesMember 2017-12-31 0001412665
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2017-12-31 0001412665
us-gaap:CollateralizedMortgageObligationsMember 2017-12-31 0001412665
us-gaap:USGovernmentCorporationsAndAgenciesSecuritiesMember 2017-12-31 0001412665
us-gaap:EquitySecuritiesMember 2017-12-31 0001412665 us-gaap:ConsumerPortfolioSegmentMember 2018-09-30
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember 2018-09-30 0001412665
us-gaap:CommercialPortfolioSegmentMember 2018-09-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember
2018-09-30 0001412665 us-gaap:FinancialAssetAcquiredWithCreditDeteriorationMember
us-gaap:CommercialPortfolioSegmentMember 2018-09-30 0001412665
us-gaap:FinancialAssetAcquiredWithCreditDeteriorationMember 2018-09-30 0001412665
mofg:AgriculturalPortfolioSegmentMember 2018-09-30 0001412665
us-gaap:FinancialAssetAcquiredWithCreditDeteriorationMember us-gaap:ResidentialPortfolioSegmentMember
2018-09-30 0001412665 us-gaap:FinancialAssetAcquiredWithCreditDeteriorationMember
us-gaap:CommercialRealEstatePortfolioSegmentMember 2018-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember mofg:FarmlandLoanFinancingReceivableMember
2018-09-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember 2017-12-31 0001412665
us-gaap:ResidentialPortfolioSegmentMember 2017-12-31 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember 2017-12-31 0001412665
us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember 2018-09-30
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:FarmlandLoanFinancingReceivableMember 2017-12-31 0001412665
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember
2018-09-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember 2017-12-31 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember 2018-09-30 0001412665
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember
2017-12-31 0001412665 us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember 2018-09-30 0001412665
us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember 2017-12-31
0001412665 mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember
2018-09-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember 2017-12-31 0001412665
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember 2017-12-31
0001412665 us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember 2018-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember 2017-12-31
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember 2018-09-30
0001412665 us-gaap:CommercialPortfolioSegmentMember 2017-07-01 2017-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember 2018-07-01 2018-09-30 0001412665
us-gaap:ResidentialPortfolioSegmentMember 2017-09-30 0001412665 us-gaap:CommercialPortfolioSegmentMember
2018-07-01 2018-09-30 0001412665 mofg:AgriculturalPortfolioSegmentMember 2018-07-01 2018-09-30
0001412665 us-gaap:ResidentialPortfolioSegmentMember 2017-07-01 2017-09-30 0001412665
us-gaap:ResidentialPortfolioSegmentMember 2018-06-30 0001412665 us-gaap:CommercialPortfolioSegmentMember

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

2018-06-30 0001412665 us-gaap:ConsumerPortfolioSegmentMember 2018-07-01 2018-09-30 0001412665
mofg:AgriculturalPortfolioSegmentMember 2017-07-01 2017-09-30 0001412665
us-gaap:ConsumerPortfolioSegmentMember 2017-06-30 0001412665 us-gaap:ConsumerPortfolioSegmentMember
2017-09-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember 2018-07-01 2018-09-30 0001412665
2018-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember 2017-07-01 2017-09-30
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember 2018-06-30 0001412665
us-gaap:CommercialPortfolioSegmentMember 2017-09-30 0001412665 us-gaap:ConsumerPortfolioSegmentMember
2018-06-30 0001412665 mofg:AgriculturalPortfolioSegmentMember 2018-06-30 0001412665
mofg:AgriculturalPortfolioSegmentMember 2017-09-30 0001412665 mofg:AgriculturalPortfolioSegmentMember
2017-06-30 0001412665 us-gaap:ConsumerPortfolioSegmentMember 2017-07-01 2017-09-30 0001412665
us-gaap:ResidentialPortfolioSegmentMember 2017-06-30 0001412665 us-gaap:CommercialPortfolioSegmentMember
2017-06-30 0001412665 2017-06-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
2017-09-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember 2017-06-30 0001412665
us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember
us-gaap:DoubtfulMember 2017-12-31 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember us-gaap:PassMember
2017-12-31 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember us-gaap:SpecialMentionMember 2017-12-31
0001412665 us-gaap:SpecialMentionMember 2017-12-31 0001412665
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember
us-gaap:SubstandardMember 2017-12-31 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:MultifamilyRealEstateLoanFinancingReceivableMember us-gaap:SubstandardMember 2017-12-31 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember mofg:FarmlandLoanFinancingReceivableMember
us-gaap:SubstandardMember 2017-12-31 0001412665 us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember us-gaap:SubstandardMember 2017-12-31
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember
us-gaap:SubstandardMember 2017-12-31 0001412665 us-gaap:ResidentialPortfolioSegmentMember
us-gaap:PassMember 2017-12-31 0001412665 mofg:AgriculturalPortfolioSegmentMember
mofg:AgriculturalLoanFinancingReceivableMember us-gaap:PassMember 2017-12-31 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:MultifamilyRealEstateLoanFinancingReceivableMember us-gaap:SpecialMentionMember 2017-12-31
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember us-gaap:SubstandardMember 2017-12-31
0001412665 us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember us-gaap:SpecialMentionMember 2017-12-31
0001412665 us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember us-gaap:PassMember 2017-12-31
0001412665 us-gaap:CommercialPortfolioSegmentMember
mofg:CommercialandIndustrialLoanFinancingReceivableMember us-gaap:SpecialMentionMember 2017-12-31
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember us-gaap:PassMember 2017-12-31 0001412665
us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember
us-gaap:SubstandardMember 2017-12-31 0001412665 us-gaap:DoubtfulMember 2017-12-31 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember mofg:FarmlandLoanFinancingReceivableMember
us-gaap:PassMember 2017-12-31 0001412665 us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember us-gaap:SpecialMentionMember
2017-12-31 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember us-gaap:SpecialMentionMember
2017-12-31 0001412665 us-gaap:SubstandardMember 2017-12-31 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember us-gaap:PassMember 2017-12-31 0001412665
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember

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

us-gaap:SpecialMentionMember 2017-12-31 0001412665 mofg:AgriculturalPortfolioSegmentMember
mofg:AgriculturalLoanFinancingReceivableMember us-gaap:SubstandardMember 2017-12-31 0001412665
us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember us-gaap:PassMember 2017-12-31
0001412665 us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember us-gaap:SubstandardMember 2017-12-31
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember
us-gaap:SpecialMentionMember 2017-12-31 0001412665 us-gaap:ConsumerPortfolioSegmentMember
mofg:ConsumerLoanFinancingReceivableMember us-gaap:PassMember 2017-12-31 0001412665
us-gaap:ResidentialPortfolioSegmentMember us-gaap:SubstandardMember 2017-12-31 0001412665
us-gaap:PassMember 2017-12-31 0001412665 us-gaap:CommercialPortfolioSegmentMember
mofg:CommercialandIndustrialLoanFinancingReceivableMember us-gaap:DoubtfulMember 2017-12-31 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember us-gaap:SubstandardMember 2017-12-31 0001412665
us-gaap:ResidentialPortfolioSegmentMember us-gaap:SpecialMentionMember 2017-12-31 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:MultifamilyRealEstateLoanFinancingReceivableMember 2017-12-31 0001412665
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember
us-gaap:PassMember 2017-12-31 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:FarmlandLoanFinancingReceivableMember us-gaap:SpecialMentionMember 2017-12-31 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:MultifamilyRealEstateLoanFinancingReceivableMember us-gaap:PassMember 2017-12-31 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:MultifamilyRealEstateLoanFinancingReceivableMember
us-gaap:FinancingReceivables60To89DaysPastDueMember 2017-12-31 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember mofg:FarmlandLoanFinancingReceivableMember
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember us-gaap:FinancingReceivables30To59DaysPastDueMember
2018-09-30 0001412665 us-gaap:FinancingReceivables60To89DaysPastDueMember 2018-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember us-gaap:FinancingReceivables30To59DaysPastDueMember
2017-12-31 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-09-30 0001412665
mofg:PurchasedCreditImpairedLoansReceivableMember us-gaap:FinancingReceivables30To59DaysPastDueMember
2017-12-31 0001412665 us-gaap:CommercialPortfolioSegmentMember
mofg:CommercialandIndustrialLoanFinancingReceivableMember
us-gaap:FinancingReceivables60To89DaysPastDueMember 2018-09-30 0001412665
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember
us-gaap:FinancingReceivables30To59DaysPastDueMember 2017-12-31 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-09-30 0001412665
us-gaap:ResidentialPortfolioSegmentMember
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665
mofg:PurchasedCreditImpairedLoansReceivableMember
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665

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

us-gaap:ResidentialPortfolioSegmentMember us-gaap:FinancingReceivables60To89DaysPastDueMember
2017-12-31 0001412665 mofg:AgriculturalPortfolioSegmentMember
mofg:AgriculturalLoanFinancingReceivableMember us-gaap:FinancingReceivables30To59DaysPastDueMember
2017-12-31 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:FarmlandLoanFinancingReceivableMember
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-09-30 0001412665
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember
us-gaap:FinancingReceivables60To89DaysPastDueMember 2018-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember
us-gaap:FinancingReceivables60To89DaysPastDueMember 2018-09-30 0001412665
us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember
us-gaap:FinancingReceivables60To89DaysPastDueMember 2018-09-30 0001412665
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-09-30 0001412665
us-gaap:FinancingReceivables30To59DaysPastDueMember 2017-12-31 0001412665
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember
us-gaap:FinancingReceivables60To89DaysPastDueMember 2017-12-31 0001412665
us-gaap:ResidentialPortfolioSegmentMember mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember
us-gaap:FinancingReceivables30To59DaysPastDueMember 2017-12-31 0001412665
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember
us-gaap:FinancingReceivables30To59DaysPastDueMember 2017-12-31 0001412665
us-gaap:FinancingReceivables30To59DaysPastDueMember 2018-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-09-30 0001412665
us-gaap:ResidentialPortfolioSegmentMember mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember
us-gaap:FinancingReceivables60To89DaysPastDueMember 2018-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember us-gaap:FinancingReceivables60To89DaysPastDueMember
2017-12-31 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:MultifamilyRealEstateLoanFinancingReceivableMember 2018-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember
us-gaap:FinancingReceivables30To59DaysPastDueMember 2017-12-31 0001412665
us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember
us-gaap:FinancingReceivables60To89DaysPastDueMember 2017-12-31 0001412665
us-gaap:ResidentialPortfolioSegmentMember
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-09-30 0001412665
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember
us-gaap:FinancingReceivables30To59DaysPastDueMember 2018-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember
us-gaap:FinancingReceivables60To89DaysPastDueMember 2018-09-30 0001412665

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

us-gaap:ResidentialPortfolioSegmentMember us-gaap:FinancingReceivables30To59DaysPastDueMember
2018-09-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember
us-gaap:FinancingReceivables60To89DaysPastDueMember 2018-09-30 0001412665
us-gaap:ResidentialPortfolioSegmentMember mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember
us-gaap:FinancingReceivables30To59DaysPastDueMember 2018-09-30 0001412665
us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember
us-gaap:FinancingReceivables30To59DaysPastDueMember 2018-09-30 0001412665
us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember
us-gaap:FinancingReceivables30To59DaysPastDueMember 2018-09-30 0001412665
us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-09-30 0001412665
mofg:PurchasedCreditImpairedLoansReceivableMember 2017-12-31 0001412665
us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember
us-gaap:FinancingReceivables30To59DaysPastDueMember 2017-12-31 0001412665
us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember
us-gaap:FinancingReceivables30To59DaysPastDueMember 2018-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember
us-gaap:FinancingReceivables60To89DaysPastDueMember 2017-12-31 0001412665
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-09-30 0001412665
mofg:PurchasedCreditImpairedLoansReceivableMember us-gaap:FinancingReceivables60To89DaysPastDueMember
2017-12-31 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:FarmlandLoanFinancingReceivableMember us-gaap:FinancingReceivables30To59DaysPastDueMember
2017-12-31 0001412665 us-gaap:CommercialPortfolioSegmentMember
mofg:CommercialandIndustrialLoanFinancingReceivableMember
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-09-30 0001412665
mofg:PurchasedCreditImpairedLoansReceivableMember 2018-09-30 0001412665
us-gaap:ResidentialPortfolioSegmentMember us-gaap:FinancingReceivables30To59DaysPastDueMember
2017-12-31 0001412665 us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember
us-gaap:FinancingReceivables60To89DaysPastDueMember 2017-12-31 0001412665
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember
us-gaap:FinancingReceivables60To89DaysPastDueMember 2017-12-31 0001412665
us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember
us-gaap:FinancingReceivables60To89DaysPastDueMember 2017-12-31 0001412665
us-gaap:ResidentialPortfolioSegmentMember mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember
us-gaap:FinancingReceivables30To59DaysPastDueMember 2018-09-30 0001412665
us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2017-12-31 0001412665
us-gaap:ResidentialPortfolioSegmentMember us-gaap:FinancingReceivables60To89DaysPastDueMember
2018-09-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember

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

mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember us-gaap:FinancingReceivables60To89DaysPastDueMember
2018-09-30 0001412665 us-gaap:ConsumerPortfolioSegmentMember
mofg:ConsumerLoanFinancingReceivableMember us-gaap:FinancingReceivables30To59DaysPastDueMember
2017-12-31 0001412665 us-gaap:FinancingReceivables60To89DaysPastDueMember 2017-12-31 0001412665
us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember
us-gaap:FinancingReceivablesEqualToGreaterThan90DaysPastDueMember 2018-09-30 0001412665
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember 2017-07-01
2017-09-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember 2018-01-01 2018-09-30 0001412665
us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember 2018-01-01
2018-09-30 0001412665 us-gaap:CommercialPortfolioSegmentMember
mofg:CommercialandIndustrialLoanFinancingReceivableMember 2018-01-01 2018-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember 2017-01-01 2017-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:MultifamilyRealEstateLoanFinancingReceivableMember 2018-01-01 2018-09-30 0001412665
us-gaap:ResidentialPortfolioSegmentMember mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember
2017-01-01 2017-09-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:FarmlandLoanFinancingReceivableMember 2018-01-01 2018-09-30 0001412665
us-gaap:ResidentialPortfolioSegmentMember mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember
2018-01-01 2018-09-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember 2017-01-01 2017-09-30 0001412665
mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember 2017-01-01
2017-09-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember 2018-07-01 2018-09-30 0001412665
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember
2017-07-01 2017-09-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:FarmlandLoanFinancingReceivableMember 2017-01-01 2017-09-30 0001412665
us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember 2017-07-01 2017-09-30 0001412665
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember
2017-01-01 2017-09-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember 2017-07-01 2017-09-30 0001412665
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember
2018-07-01 2018-09-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember 2018-01-01
2018-09-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:FarmlandLoanFinancingReceivableMember 2018-07-01 2018-09-30 0001412665
us-gaap:ResidentialPortfolioSegmentMember 2018-01-01 2018-09-30 0001412665
us-gaap:ResidentialPortfolioSegmentMember mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember
2017-07-01 2017-09-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember 2018-07-01 2018-09-30 0001412665
us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember 2018-07-01 2018-09-30 0001412665
us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember 2018-07-01
2018-09-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember 2017-07-01
2017-09-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:FarmlandLoanFinancingReceivableMember 2017-07-01 2017-09-30 0001412665
us-gaap:ResidentialPortfolioSegmentMember 2017-01-01 2017-09-30 0001412665

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

mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember 2018-07-01
2018-09-30 0001412665 mofg:AgriculturalPortfolioSegmentMember
mofg:AgriculturalLoanFinancingReceivableMember 2018-01-01 2018-09-30 0001412665
us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember 2018-01-01 2018-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember 2018-01-01
2018-09-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:MultifamilyRealEstateLoanFinancingReceivableMember 2018-07-01 2018-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember 2017-01-01
2017-09-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember 2018-07-01
2018-09-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember 2017-01-01 2017-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember mofg:FarmlandLoanFinancingReceivableMember
us-gaap:SubstandardMember 2018-09-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember
us-gaap:PassMember 2018-09-30 0001412665 us-gaap:PassMember 2018-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember us-gaap:PassMember 2018-09-30 0001412665
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember
us-gaap:PassMember 2018-09-30 0001412665 us-gaap:DoubtfulMember 2018-09-30 0001412665
us-gaap:ResidentialPortfolioSegmentMember us-gaap:SpecialMentionMember 2018-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:MultifamilyRealEstateLoanFinancingReceivableMember us-gaap:SpecialMentionMember 2018-09-30
0001412665 us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember us-gaap:SubstandardMember 2018-09-30
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember us-gaap:SpecialMentionMember 2018-09-30
0001412665 us-gaap:SubstandardMember 2018-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember
us-gaap:SubstandardMember 2018-09-30 0001412665 us-gaap:ConsumerPortfolioSegmentMember
mofg:ConsumerLoanFinancingReceivableMember us-gaap:PassMember 2018-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:MultifamilyRealEstateLoanFinancingReceivableMember us-gaap:PassMember 2018-09-30 0001412665
us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember us-gaap:SpecialMentionMember
2018-09-30 0001412665 mofg:AgriculturalPortfolioSegmentMember
mofg:AgriculturalLoanFinancingReceivableMember us-gaap:SpecialMentionMember 2018-09-30 0001412665
us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember
us-gaap:DoubtfulMember 2018-09-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember
us-gaap:SubstandardMember 2018-09-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember us-gaap:SubstandardMember 2018-09-30
0001412665 us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember us-gaap:SpecialMentionMember 2018-09-30
0001412665 us-gaap:SpecialMentionMember 2018-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:MultifamilyRealEstateLoanFinancingReceivableMember us-gaap:SubstandardMember 2018-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember
us-gaap:SpecialMentionMember 2018-09-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember

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

us-gaap:PassMember 2018-09-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
us-gaap:SubstandardMember 2018-09-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateJuniorLienLoanFinancingReceivableMember us-gaap:PassMember 2018-09-30
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember us-gaap:SpecialMentionMember 2018-09-30
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:FarmlandLoanFinancingReceivableMember us-gaap:PassMember 2018-09-30 0001412665
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember
us-gaap:SpecialMentionMember 2018-09-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember us-gaap:SubstandardMember 2018-09-30
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:FarmlandLoanFinancingReceivableMember us-gaap:SpecialMentionMember 2018-09-30 0001412665
us-gaap:CommercialPortfolioSegmentMember mofg:CommercialandIndustrialLoanFinancingReceivableMember
us-gaap:DoubtfulMember 2018-09-30 0001412665 us-gaap:CommercialPortfolioSegmentMember
mofg:CommercialandIndustrialLoanFinancingReceivableMember us-gaap:SubstandardMember 2018-09-30
0001412665 us-gaap:ConsumerPortfolioSegmentMember mofg:ConsumerLoanFinancingReceivableMember
us-gaap:SpecialMentionMember 2018-09-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateConstructionAndDevelopmentLoanFinancingReceivableMember us-gaap:PassMember
2018-09-30 0001412665 us-gaap:ResidentialPortfolioSegmentMember
mofg:ResidentialRealEstateFirstLienLoanFinancingReceivableMember us-gaap:PassMember 2018-09-30
0001412665 mofg:AgriculturalPortfolioSegmentMember mofg:AgriculturalLoanFinancingReceivableMember
us-gaap:PassMember 2018-09-30 0001412665 mofg:AgriculturalPortfolioSegmentMember
mofg:AgriculturalLoanFinancingReceivableMember us-gaap:SubstandardMember 2018-09-30 0001412665
us-gaap:ConsumerPortfolioSegmentMember 2018-01-01 2018-09-30 0001412665
us-gaap:CommercialPortfolioSegmentMember 2017-01-01 2017-09-30 0001412665
mofg:AgriculturalPortfolioSegmentMember 2017-01-01 2017-09-30 0001412665
mofg:AgriculturalPortfolioSegmentMember 2018-01-01 2018-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember 2016-12-31 0001412665
us-gaap:CommercialPortfolioSegmentMember 2018-01-01 2018-09-30 0001412665
us-gaap:CommercialPortfolioSegmentMember 2016-12-31 0001412665 us-gaap:ConsumerPortfolioSegmentMember
2017-12-31 0001412665 us-gaap:ConsumerPortfolioSegmentMember 2017-01-01 2017-09-30 0001412665
mofg:AgriculturalPortfolioSegmentMember 2017-12-31 0001412665 mofg:AgriculturalPortfolioSegmentMember
2016-12-31 0001412665 us-gaap:ResidentialPortfolioSegmentMember 2016-12-31 0001412665
us-gaap:ConsumerPortfolioSegmentMember 2016-12-31 0001412665 us-gaap:CommercialPortfolioSegmentMember
2017-12-31 0001412665 us-gaap:FinancialAssetAcquiredWithCreditDeteriorationMember
us-gaap:CommercialPortfolioSegmentMember 2017-12-31 0001412665
us-gaap:FinancialAssetAcquiredWithCreditDeteriorationMember
us-gaap:CommercialRealEstatePortfolioSegmentMember 2017-12-31 0001412665
us-gaap:FinancialAssetAcquiredWithCreditDeteriorationMember 2017-12-31 0001412665
us-gaap:FinancialAssetAcquiredWithCreditDeteriorationMember us-gaap:ResidentialPortfolioSegmentMember
2017-12-31 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember us-gaap:ExtendedMaturityMember 2017-01-01
2017-09-30 0001412665 us-gaap:CommercialPortfolioSegmentMember
mofg:CommercialandIndustrialLoanFinancingReceivableMember us-gaap:ExtendedMaturityMember 2017-01-01
2017-09-30 0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:FarmlandLoanFinancingReceivableMember us-gaap:ExtendedMaturityMember 2017-01-01 2017-09-30
0001412665 us-gaap:CommercialRealEstatePortfolioSegmentMember
mofg:CommercialRealEstateLoanOtherFinancingReceivableMember mofg:OtherConcessionMember 2017-01-01
2017-09-30 0001412665 mofg:CommercialandIndustrialLoanFinancingReceivableMember
us-gaap:ExtendedMaturityMember 2017-01-01 2017-09-30 0001412665
us-gaap:CommercialRealEstatePortfolioSegmentMember mofg:FarmlandLoanFinancingReceivableMember

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

us-gaap:ExtendedMaturityMember 2018-01-01 2018-09-30 0001412665 mofg:HedgedItemLoansMember
us-gaap:InterestRateSwapMember us-gaap:FairValueHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember 2018-09-30 0001412665 us-gaap:CreditRiskContractMember
us-gaap:NondesignatedMember mofg:OtherGainLossMember 2017-07-01 2017-09-30 0001412665
us-gaap:NondesignatedMember mofg:OtherGainLossMember 2018-07-01 2018-09-30 0001412665
us-gaap:InterestRateSwapMember us-gaap:NondesignatedMember mofg:OtherGainLossMember 2017-01-01
2017-09-30 0001412665 us-gaap:CreditRiskContractMember us-gaap:NondesignatedMember
mofg:OtherGainLossMember 2018-07-01 2018-09-30 0001412665 us-gaap:NondesignatedMember
mofg:OtherGainLossMember 2018-01-01 2018-09-30 0001412665 us-gaap:CreditRiskContractMember
us-gaap:NondesignatedMember mofg:OtherGainLossMember 2017-01-01 2017-09-30 0001412665
us-gaap:NondesignatedMember mofg:OtherGainLossMember 2017-01-01 2017-09-30 0001412665
us-gaap:CreditRiskContractMember us-gaap:NondesignatedMember mofg:OtherGainLossMember 2018-01-01
2018-09-30 0001412665 us-gaap:InterestRateSwapMember us-gaap:NondesignatedMember
mofg:OtherGainLossMember 2018-07-01 2018-09-30 0001412665 us-gaap:InterestRateSwapMember
us-gaap:NondesignatedMember mofg:OtherGainLossMember 2017-07-01 2017-09-30 0001412665
us-gaap:InterestRateSwapMember us-gaap:NondesignatedMember mofg:OtherGainLossMember 2018-01-01
2018-09-30 0001412665 us-gaap:NondesignatedMember mofg:OtherGainLossMember 2017-07-01 2017-09-30
0001412665 us-gaap:CreditRiskContractMember us-gaap:NondesignatedMember 2017-12-31 0001412665
us-gaap:CreditRiskContractMember us-gaap:NondesignatedMember 2018-09-30 0001412665
us-gaap:InterestRateSwapMember us-gaap:FairValueHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember us-gaap:InterestIncomeMember 2018-01-01 2018-09-30
0001412665 us-gaap:InterestRateSwapMember us-gaap:FairValueHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember us-gaap:InterestIncomeMember 2017-01-01 2017-09-30
0001412665 us-gaap:InterestRateSwapMember us-gaap:FairValueHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember mofg:OtherGainLossMember 2017-01-01 2017-09-30 0001412665
us-gaap:InterestRateSwapMember us-gaap:FairValueHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember mofg:OtherGainLossMember 2017-07-01 2017-09-30 0001412665
us-gaap:InterestRateSwapMember us-gaap:FairValueHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember mofg:OtherGainLossMember 2018-01-01 2018-09-30 0001412665
us-gaap:InterestRateSwapMember us-gaap:FairValueHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember us-gaap:InterestIncomeMember 2017-07-01 2017-09-30
0001412665 us-gaap:InterestRateSwapMember us-gaap:FairValueHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember us-gaap:InterestIncomeMember 2018-07-01 2018-09-30
0001412665 us-gaap:InterestRateSwapMember us-gaap:FairValueHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember mofg:OtherGainLossMember 2018-07-01 2018-09-30 0001412665
us-gaap:DerivativeFinancialInstrumentsAssetsMember us-gaap:InterestRateSwapMember
us-gaap:DesignatedAsHedgingInstrumentMember 2017-12-31 0001412665
us-gaap:DerivativeFinancialInstrumentsLiabilitiesMember us-gaap:InterestRateSwapMember
us-gaap:NondesignatedMember 2017-12-31 0001412665 us-gaap:DerivativeFinancialInstrumentsLiabilitiesMember
us-gaap:InterestRateSwapMember us-gaap:NondesignatedMember 2018-09-30 0001412665
us-gaap:DerivativeFinancialInstrumentsLiabilitiesMember us-gaap:CreditRiskContractMember
us-gaap:NondesignatedMember 2018-09-30 0001412665 us-gaap:InterestRateSwapMember
us-gaap:NondesignatedMember 2017-12-31 0001412665 us-gaap:DerivativeFinancialInstrumentsAssetsMember
us-gaap:InterestRateSwapMember us-gaap:DesignatedAsHedgingInstrumentMember 2018-09-30 0001412665
us-gaap:DerivativeFinancialInstrumentsLiabilitiesMember us-gaap:InterestRateSwapMember
us-gaap:DesignatedAsHedgingInstrumentMember 2018-09-30 0001412665
us-gaap:DerivativeFinancialInstrumentsAssetsMember us-gaap:InterestRateSwapMember
us-gaap:NondesignatedMember 2018-09-30 0001412665 us-gaap:DerivativeFinancialInstrumentsLiabilitiesMember
us-gaap:InterestRateSwapMember us-gaap:DesignatedAsHedgingInstrumentMember 2017-12-31 0001412665
us-gaap:DerivativeFinancialInstrumentsAssetsMember us-gaap:NondesignatedMember 2017-12-31 0001412665
us-gaap:DerivativeFinancialInstrumentsLiabilitiesMember us-gaap:NondesignatedMember 2017-12-31 0001412665

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

us-gaap:NondesignatedMember 2018-09-30 0001412665 us-gaap:DerivativeFinancialInstrumentsAssetsMember
us-gaap:CreditRiskContractMember us-gaap:NondesignatedMember 2017-12-31 0001412665
us-gaap:DerivativeFinancialInstrumentsLiabilitiesMember us-gaap:NondesignatedMember 2018-09-30 0001412665
us-gaap:DerivativeFinancialInstrumentsAssetsMember us-gaap:NondesignatedMember 2018-09-30 0001412665
us-gaap:DerivativeFinancialInstrumentsLiabilitiesMember us-gaap:CreditRiskContractMember
us-gaap:NondesignatedMember 2017-12-31 0001412665 us-gaap:InterestRateSwapMember
us-gaap:DesignatedAsHedgingInstrumentMember 2017-12-31 0001412665 us-gaap:InterestRateSwapMember
us-gaap:DesignatedAsHedgingInstrumentMember 2018-09-30 0001412665 us-gaap:NondesignatedMember
2017-12-31 0001412665 us-gaap:DerivativeFinancialInstrumentsAssetsMember us-gaap:CreditRiskContractMember
us-gaap:NondesignatedMember 2018-09-30 0001412665 us-gaap:InterestRateSwapMember
us-gaap:NondesignatedMember 2018-09-30 0001412665 us-gaap:DerivativeFinancialInstrumentsAssetsMember
us-gaap:InterestRateSwapMember us-gaap:NondesignatedMember 2017-12-31 0001412665
mofg:CustomerCounterpartiesMember us-gaap:InterestRateSwapMember us-gaap:NondesignatedMember
2018-09-30 0001412665 mofg:FinancialCounterpartiesMember us-gaap:InterestRateSwapMember
us-gaap:NondesignatedMember 2018-09-30 0001412665 mofg:CustomerCounterpartiesMember
us-gaap:InterestRateSwapMember us-gaap:NondesignatedMember 2017-12-31 0001412665
mofg:FinancialCounterpartiesMember us-gaap:InterestRateSwapMember us-gaap:NondesignatedMember 2017-12-31
0001412665 us-gaap:TradeNamesMember 2018-09-30 0001412665 us-gaap:TradeNamesMember 2018-09-30
0001412665 us-gaap:CoreDepositsMember 2018-01-01 2018-09-30 0001412665 us-gaap:TradeNamesMember
2017-12-31 0001412665 us-gaap:TradeNamesMember 2018-01-01 2018-09-30 0001412665
us-gaap:CustomerListsMember 2018-09-30 0001412665 us-gaap:CustomerContractsMember 2018-09-30
0001412665 us-gaap:CoreDepositsMember 2018-09-30 0001412665 us-gaap:CustomerListsMember 2018-01-01
2018-09-30 0001412665 us-gaap:CustomerContractsMember 2018-01-01 2018-09-30 0001412665
us-gaap:CoreDepositsMember 2017-12-31 0001412665 us-gaap:CustomerContractsMember 2017-12-31 0001412665
us-gaap:TradeNamesMember 2018-01-01 2018-09-30 0001412665 us-gaap:CustomerListsMember 2017-12-31
0001412665 us-gaap:TradeNamesMember 2017-12-31 0001412665 us-gaap:FederalReserveBankAdvancesMember
2018-09-30 0001412665 us-gaap:LineOfCreditMember 2018-01-01 2018-09-30 0001412665
us-gaap:LineOfCreditMember 2018-09-30 0001412665 us-gaap:LineOfCreditMember
us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-09-30 0001412665
us-gaap:FederalFundsPurchasedMember 2017-12-31 0001412665 us-gaap:FederalFundsPurchasedMember
2018-09-30 0001412665 us-gaap:FederalReserveBankAdvancesMember 2017-12-31 0001412665
us-gaap:SecuritiesSoldUnderAgreementsToRepurchaseMember 2018-09-30 0001412665
us-gaap:SecuritiesSoldUnderAgreementsToRepurchaseMember 2017-12-31 0001412665
mofg:MidWestOneStatutoryTrustIIMember us-gaap:JuniorSubordinatedDebtMember 2018-09-30 0001412665
mofg:MidWestOneStatutoryTrustIIMember us-gaap:JuniorSubordinatedDebtMember 2018-01-01 2018-09-30
0001412665 mofg:BarronInvestmentCapitalTrustIIMember us-gaap:JuniorSubordinatedDebtMember 2018-09-30
0001412665 mofg:CBICapitalTrustIIMember us-gaap:JuniorSubordinatedDebtMember 2018-09-30 0001412665
mofg:CBICapitalTrustIIMember us-gaap:JuniorSubordinatedDebtMember 2018-01-01 2018-09-30 0001412665
us-gaap:JuniorSubordinatedDebtMember 2018-09-30 0001412665 mofg:BarronInvestmentCapitalTrustIIMember
us-gaap:JuniorSubordinatedDebtMember 2018-01-01 2018-09-30 0001412665
mofg:BarronInvestmentCapitalTrustIIMember us-gaap:JuniorSubordinatedDebtMember 2017-01-01 2017-12-31
0001412665 mofg:MidWestOneStatutoryTrustIIMember us-gaap:JuniorSubordinatedDebtMember 2017-01-01
2017-12-31 0001412665 us-gaap:JuniorSubordinatedDebtMember 2017-12-31 0001412665
mofg:CBICapitalTrustIIMember us-gaap:JuniorSubordinatedDebtMember 2017-01-01 2017-12-31 0001412665
mofg:BarronInvestmentCapitalTrustIIMember us-gaap:JuniorSubordinatedDebtMember 2017-12-31 0001412665
mofg:CBICapitalTrustIIMember us-gaap:JuniorSubordinatedDebtMember 2017-12-31 0001412665
mofg:MidWestOneStatutoryTrustIIMember us-gaap:JuniorSubordinatedDebtMember 2017-12-31 0001412665
srt:MaximumMember 2018-01-01 2018-09-30 0001412665 mofg:MidWestOneStatutoryTrustIIMember
us-gaap:JuniorSubordinatedDebtMember us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01
2018-09-30 0001412665 mofg:CBICapitalTrustIIMember us-gaap:JuniorSubordinatedDebtMember
us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-09-30 0001412665

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

mofg:BarronInvestmentCapitalTrustIMember us-gaap:JuniorSubordinatedDebtMember
us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-09-30 0001412665
us-gaap:NotesPayableToBanksMember 2018-09-30 0001412665 us-gaap:NotesPayableToBanksMember 2017-12-31
0001412665 us-gaap:FederalHomeLoanBankAdvancesMember 2017-12-31 0001412665
us-gaap:FederalHomeLoanBankAdvancesMember 2018-09-30 0001412665 us-gaap:NotesPayableToBanksMember
2018-01-01 2018-09-30 0001412665 us-gaap:NotesPayableToBanksMember 2015-06-30 0001412665
us-gaap:NotesPayableToBanksMember 2017-01-01 2017-12-31 0001412665 us-gaap:NotesPayableToBanksMember
2015-04-30 0001412665 us-gaap:FederalHomeLoanBankAdvancesMember 2018-01-01 2018-09-30 0001412665
us-gaap:DebtSecuritiesMember 2018-09-30 0001412665 us-gaap:FairValueInputsLevel3Member
us-gaap:FairValueMeasurementsNonrecurringMember 2017-12-31 0001412665
us-gaap:FairValueMeasurementsNonrecurringMember 2017-12-31 0001412665
us-gaap:CarryingReportedAmountFairValueDisclosureMember 2018-09-30 0001412665
us-gaap:FairValueInputsLevel2Member 2018-09-30 0001412665
us-gaap:EstimateOfFairValueFairValueDisclosureMember 2018-09-30 0001412665
us-gaap:FairValueInputsLevel1Member 2018-09-30 0001412665 us-gaap:FairValueInputsLevel3Member 2018-09-30
0001412665 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:USGovernmentCorporationsAndAgenciesSecuritiesMember 2017-12-31 0001412665
us-gaap:FairValueMeasurementsRecurringMember us-gaap:DomesticCorporateDebtSecuritiesMember 2017-12-31
0001412665 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:USStatesAndPoliticalSubdivisionsMember 2017-12-31 0001412665
us-gaap:FairValueMeasurementsRecurringMember us-gaap:ResidentialMortgageBackedSecuritiesMember
2017-12-31 0001412665 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:DomesticCorporateDebtSecuritiesMember 2017-12-31 0001412665 us-gaap:FairValueInputsLevel2Member
us-gaap:FairValueMeasurementsRecurringMember us-gaap:ResidentialMortgageBackedSecuritiesMember
2017-12-31 0001412665 us-gaap:FairValueMeasurementsRecurringMember
us-gaap:USStatesAndPoliticalSubdivisionsMember 2017-12-31 0001412665
us-gaap:FairValueMeasurementsRecurringMember
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2017-12-31 0001412665
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2017-12-31 0001412665
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:DebtSecuritiesMember 2017-12-31 0001412665 us-gaap:FairValueMeasurementsRecurringMember
us-gaap:DebtSecuritiesMember 2017-12-31 0001412665 us-gaap:FairValueMeasurementsRecurringMember
us-gaap:USGovernmentCorporationsAndAgenciesSecuritiesMember 2017-12-31 0001412665
us-gaap:FairValueMeasurementsNonrecurringMember 2018-09-30 0001412665
us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsNonrecurringMember 2018-09-30
0001412665 us-gaap:FairValueInputsLevel1Member 2017-12-31 0001412665
us-gaap:FairValueInputsLevel2Member 2017-12-31 0001412665
us-gaap:CarryingReportedAmountFairValueDisclosureMember 2017-12-31 0001412665
us-gaap:EstimateOfFairValueFairValueDisclosureMember 2017-12-31 0001412665
us-gaap:FairValueInputsLevel3Member 2017-12-31 0001412665 us-gaap:FairValueInputsLevel1Member
us-gaap:FairValueMeasurementsRecurringMember 2018-09-30 0001412665
us-gaap:FairValueMeasurementsRecurringMember us-gaap:CreditRiskContractMember 2018-09-30 0001412665
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2018-09-30 0001412665
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:InterestRateSwapMember 2018-09-30 0001412665 us-gaap:FairValueMeasurementsRecurringMember
us-gaap:ResidentialMortgageBackedSecuritiesMember 2018-09-30 0001412665
us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:InterestRateSwapMember 2018-09-30 0001412665 us-gaap:FairValueInputsLevel1Member
us-gaap:FairValueMeasurementsRecurringMember us-gaap:CreditRiskContractMember 2018-09-30 0001412665

us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember 2018-09-30 0001412665
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:USGovernmentCorporationsAndAgenciesSecuritiesMember 2018-09-30 0001412665
us-gaap:FairValueMeasurementsRecurringMember us-gaap:DebtSecuritiesMember 2018-09-30 0001412665
us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:InterestRateSwapMember 2018-09-30 0001412665 us-gaap:FairValueInputsLevel3Member
us-gaap:FairValueMeasurementsRecurringMember us-gaap:CreditRiskContractMember 2018-09-30 0001412665
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:DomesticCorporateDebtSecuritiesMember 2018-09-30 0001412665
us-gaap:FairValueMeasurementsRecurringMember
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2018-09-30 0001412665
us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsRecurringMember 2018-09-30 0001412665
us-gaap:FairValueMeasurementsRecurringMember
us-gaap:USGovernmentCorporationsAndAgenciesSecuritiesMember 2018-09-30 0001412665
us-gaap:FairValueMeasurementsRecurringMember us-gaap:InterestRateSwapMember 2018-09-30 0001412665
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:USStatesAndPoliticalSubdivisionsMember 2018-09-30 0001412665
us-gaap:FairValueMeasurementsRecurringMember us-gaap:DomesticCorporateDebtSecuritiesMember 2018-09-30
0001412665 us-gaap:FairValueMeasurementsRecurringMember us-gaap:USStatesAndPoliticalSubdivisionsMember
2018-09-30 0001412665 us-gaap:FairValueMeasurementsRecurringMember 2018-09-30 0001412665
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:CreditRiskContractMember 2018-09-30 0001412665 us-gaap:FairValueInputsLevel2Member
us-gaap:FairValueMeasurementsRecurringMember us-gaap:DebtSecuritiesMember 2018-09-30 0001412665
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:ResidentialMortgageBackedSecuritiesMember 2018-09-30 0001412665 2017-01-01 2017-12-31 0001412665
mofg:October162018ShareRepurchaseProgramMember us-gaap:CommonStockMember
us-gaap:SubsequentEventMember 2018-10-16 0001412665 us-gaap:CommonStockMember
us-gaap:SubsequentEventMember 2018-10-16 0001412665 us-gaap:CommonStockMember
us-gaap:SubsequentEventMember 2018-10-16 2018-10-16 iso4217:USD xbrli:shares xbrli:pure xbrli:shares
iso4217:USD mofg:count mofg:quarters

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

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _____ to _____

Commission file number 001-35968

MIDWESTONE FINANCIAL GROUP, INC.

(Exact name of Registrant as specified in its charter)

Iowa

(State or other jurisdiction of incorporation or organization)

42-1206172

(I.R.S. Employer Identification No.)

102 South Clinton Street

Iowa City, IA 52240

(Address of principal executive offices, including zip code)

319-356-5800

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

As of October 31, 2018, there were 12,221,547 shares of common stock, \$1.00 par value per share, outstanding.

Table of Contents**MIDWESTONE FINANCIAL GROUP, INC.****Form 10-Q Quarterly Report**

Table of Contents

	Page No.
<u>PART I</u>	
Item 1. <u>Financial Statements</u>	<u>1</u>
<u>Consolidated Balance Sheets</u>	<u>1</u>
<u>Consolidated Statements of Income</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>3</u>
<u>Consolidated Statements of Shareholders' Equity</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>7</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>39</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>62</u>
Item 4. <u>Controls and Procedures</u>	<u>64</u>
<u>Part II</u>	
Item 1. <u>Legal Proceedings</u>	<u>65</u>
Item 1A. <u>Risk Factors</u>	<u>65</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>65</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>65</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>65</u>
Item 5. <u>Other Information</u>	<u>66</u>
Item 6. <u>Exhibits</u>	<u>67</u>
<u>Signatures</u>	<u>68</u>

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

	September 30, 2018	December 31, 2017
	(unaudited)	
(dollars in thousands)		
ASSETS		
Cash and due from banks	\$ 49,229	\$ 44,818
Interest-earning deposits in banks	4,150	5,474
Federal funds sold	—	680
Total cash and cash equivalents	53,379	50,972
Equity securities at fair value	2,797	2,336
Debt securities available for sale at fair value	407,766	445,324
Held to maturity securities at amortized cost (fair value of \$186,057 at September 30, 2018 and \$194,343 at December 31, 2017)	191,733	195,619
Loans held for sale	1,124	856
Loans held for investment, net of unearned income	2,377,649	2,286,695
Allowance for loan losses	(31,278)	(28,059)
Total loans held for investment, net	2,346,371	2,258,636
Premises and equipment, net	76,497	75,969
Interest receivable	14,800	14,732
Goodwill	64,654	64,654
Other intangible assets, net	10,378	12,046
Bank-owned life insurance	60,609	59,831
Foreclosed assets, net	549	2,010
Deferred income taxes, net	9,993	6,525
Other assets	27,315	22,761
Total assets	\$ 3,267,965	\$ 3,212,271
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand	\$ 458,576	\$ 461,969
Interest-bearing checking	1,236,922	1,228,112
Savings	211,591	213,430
Certificates of deposit under \$100,000	348,099	324,681
Certificates of deposit \$100,000 and over	377,071	377,127
Total deposits	2,632,259	2,605,319
Federal funds purchased	19,056	1,000
Securities sold under agreements to repurchase	68,922	96,229
Federal Home Loan Bank borrowings	143,000	115,000
Junior subordinated notes issued to capital trusts	23,865	23,793
Long-term debt	8,750	12,500
Deferred compensation liability	5,305	5,199
Interest payable	2,054	1,428
Other liabilities	15,565	11,499
Total liabilities	2,918,776	2,871,967
Shareholders' equity:		
Preferred stock, no par value; authorized 500,000 shares; no shares issued and outstanding at September 30, 2018 and December 31, 2017	\$ —	\$ —
	12,463	12,463

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

Common stock, \$1.00 par value; authorized 30,000,000 shares at September 30, 2018 and December 31, 2017; issued 12,463,481 shares at September 30, 2018 and December 31, 2017; 12,221,107 outstanding shares at September 30, 2018 and 12,219,611 shares at December 31, 2017

Additional paid-in capital	187,581	187,486	
Treasury stock at cost, 242,374 shares as of September 30, 2018 and 243,870 shares as of December 31, 2017	(5,474) (5,121)
Retained earnings	163,709	148,078	
Accumulated other loss	(9,090) (2,602)
Total shareholders' equity	349,189	340,304	
Total liabilities and shareholders' equity	\$ 3,267,965	\$ 3,212,271	

See accompanying notes to consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(unaudited) (dollars in thousands, except per share amounts)	2018	2017	2018	2017
Interest income:				
Loans	\$28,088	\$26,206	\$82,141	\$76,135
Bank deposits	12	19	38	50
Federal funds sold	—	—	1	1
Taxable securities	2,965	2,589	8,793	7,897
Tax-exempt securities	1,395	1,547	4,452	4,699
Total interest income	32,460	30,361	95,425	88,782
Interest expense:				
Interest on deposits:				
Interest-bearing checking	1,622	913	3,998	2,623
Savings	63	53	189	155
Certificates of deposit under \$100,000	1,270	893	3,399	2,638
Certificates of deposit \$100,000 and over	1,670	1,041	4,584	2,953
Total interest expense on deposits	4,625	2,900	12,170	8,369
Federal funds purchased	144	81	480	152
Securities sold under agreements to repurchase	173	53	451	125
Federal Home Loan Bank borrowings	741	474	1,873	1,321
Other borrowings	3	3	9	9
Junior subordinated notes issued to capital trusts	313	243	878	704
Long-term debt	100	115	309	338
Total interest expense	6,099	3,869	16,170	11,018
Net interest income	26,361	26,492	79,255	77,764
Provision for loan losses	950	4,384	4,050	6,665
Net interest income after provision for loan losses	25,411	22,108	75,205	71,099
Noninterest income:				
Trust, investment, and insurance fees	1,526	1,454	4,703	4,594
Service charges and fees on deposit accounts	1,148	1,295	3,474	3,835
Loan origination and servicing fees	891	1,012	2,738	2,532
Other service charges and fees	1,502	1,625	4,464	4,580
Bank-owned life insurance income	399	344	1,229	990
Gain on sale or call of debt securities	192	176	197	239
Other gain	326	10	338	66
Total noninterest income	5,984	5,916	17,143	16,836
Noninterest expense:				
Salaries and employee benefits	13,051	12,039	37,647	35,712
Occupancy and equipment, net	3,951	2,986	10,440	9,323
Professional fees	1,861	933	3,614	2,991
Data processing	697	723	2,076	1,982
FDIC insurance	393	238	1,104	957
Amortization of intangibles	547	759	1,793	2,412
Other	2,311	2,066	7,026	6,666
Total noninterest expense	22,811	19,744	63,700	60,043

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

Income before income tax expense	8,584	8,280	28,648	27,892
Income tax expense	1,806	1,938	5,921	7,603
Net income	\$ 6,778	\$ 6,342	\$ 22,727	\$ 20,289

Per share information:

Earnings per common share - basic	\$ 0.55	\$ 0.52	\$ 1.86	\$ 1.69
Earnings per common share - diluted	0.55	0.52	1.86	1.69
Dividends paid per common share	0.195	0.170	0.585	0.500

See accompanying notes to consolidated financial statements.

2

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

(unaudited) (dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$6,778	\$6,342	\$22,727	\$20,289
Other comprehensive income, available for sale debt securities:				
Unrealized holding gains (losses) arising during period	(2,085)	(1,158)	(8,501)	3,154
Reclassification adjustment for gains included in net income	(192)	(176)	(201)	(196)
Income tax (expense) benefit	594	526	2,271	(1,160)
Other comprehensive income (loss) on available for sale debt securities	(1,683)	(808)	(6,431)	1,798
Other comprehensive income (loss), net of tax	(1,683)	(808)	(6,431)	1,798
Comprehensive income	\$5,095	\$5,534	\$16,296	\$22,087
See accompanying notes to consolidated financial statements.				

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

(unaudited) (dollars in thousands, except per share amounts)	Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2016	\$	—\$11,713	\$163,667	\$(5,766)	\$136,975	\$(1,133)	\$305,456
Net income	—	—	—	—	20,289	—	20,289
Issuance of common stock (750,000 shares), net of expenses of \$1,328	—	750	23,610	—	—	—	24,360
Dividends paid on common stock (\$0.50 per share)	—	—	—	—	(5,984)	—	(5,984)
Stock options exercised (8,250 shares)	—	—	(81)	172	—	—	91
Release/lapse of restriction on RSUs (26,875 shares)	—	—	(560)	453	—	—	(107)
Stock compensation	—	—	660	—	—	—	660
Other comprehensive income, net of tax	—	—	—	—	—	1,798	1,798
Balance at September 30, 2017	\$	—\$12,463	\$187,296	\$(5,141)	\$151,280	\$665	\$346,563
Balance at December 31, 2017	\$	—\$12,463	\$187,486	\$(5,121)	\$148,078	\$(2,602)	\$340,304
Cumulative effect of changes in accounting principles ⁽¹⁾	—	—	—	—	57	(57)	—
Net income	—	—	—	—	22,727	—	22,727
Dividends paid on common stock (\$0.585 per share)	—	—	—	—	(7,153)	—	(7,153)
Stock options exercised (9,700 shares)	—	—	(68)	204	—	—	136
Release/lapse of restriction on RSUs (28,525 shares)	—	—	(609)	524	—	—	(85)
Repurchase of common stock (33,998 shares)	—	—	—	(1,081)	—	—	(1,081)
Stock compensation	—	—	772	—	—	—	772
Other comprehensive loss, net of tax	—	—	—	—	—	(6,431)	(6,431)
Balance at September 30, 2018	\$	—\$12,463	\$187,581	\$(5,474)	\$163,709	\$(9,090)	\$349,189

(1) See [Note 2. "Effect of New Financial Accounting Standards"](#) for additional information.

See accompanying notes to consolidated financial statements.

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

(unaudited) (dollars in thousands)	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 22,727	\$ 20,289
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	4,050	6,665
Depreciation of premises and equipment	3,217	3,088
Amortization of other intangibles	1,793	2,412
Amortization of premiums and discounts on investment securities, net	729	913
(Gain) loss on sale of premises and equipment	616	(2)
Deferred income taxes	(1,184)	(554)
Excess tax benefit from share-based award activity	(14)	(91)
Stock-based compensation	772	660
Net losses on equity securities	34	—
Net gain on sale or call of debt securities available for sale	(201)	(196)
Net (gain) loss on sale or call of debt securities held to maturity	4	(43)
Net gain on sale of other real estate owned	(240)	(45)
Net gain on sale of loans held for sale	(1,214)	(1,337)
Writedown of other real estate owned	5	23
Origination of loans held for sale	(49,091)	(65,078)
Proceeds from sales of loans held for sale	50,037	70,044
Increase in interest receivable	(68)	—
Increase in cash surrender value of bank-owned life insurance	(1,229)	(990)
Increase in other assets	(4,554)	(2,224)
Increase (decrease) in deferred compensation liability	106	(22)
Increase in interest payable, accounts payable, accrued expenses, and other liabilities	4,692	445
Net cash provided by operating activities	30,987	33,957
Cash flows from investing activities:		
Purchases of equity securities	(508)	(7)
Proceeds from sales of debt securities available for sale	16,494	22,546
Proceeds from maturities and calls of debt securities available for sale	51,338	53,171
Purchases of debt securities available for sale	(39,289)	(23,038)
Proceeds from sales of debt securities held to maturity	—	1,153
Proceeds from maturities and calls of debt securities held to maturity	4,220	12,370
Purchase of debt securities held to maturity	(553)	(28,546)
Net increase in loans	(92,320)	(100,880)
Purchases of premises and equipment	(5,196)	(3,035)
Proceeds from sale of other real estate owned	2,231	983
Proceeds from sale of premises and equipment	906	32
Proceeds of principal and earnings from bank-owned life insurance	452	—
Purchases of bank owned life insurance	—	(11,211)
Payments to acquire intangible assets	(125)	—
Net cash used in investing activities	(62,350)	(76,462)
Cash flows from financing activities:		
Net increase in deposits	26,940	9,967
Increase (decrease) in federal funds purchased	18,056	(18,976)
Increase (decrease) in securities sold under agreements to repurchase	(27,307)	5,777
Proceeds from Federal Home Loan Bank borrowings	110,000	145,000

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

Repayment of Federal Home Loan Bank borrowings	(82,000)	(115,000)
Proceeds from stock options exercised	136	1
Excess tax benefit from share-based award activity	14	91
Taxes paid relating to net share settlement of equity awards	(85)	(108)
Payments on long-term debt	(3,750)	(3,750)
Dividends paid	(7,153)	(5,984)
Proceeds from issuance of common stock	—	25,688
Payment of stock issuance costs	—	(1,328)
Repurchase of common stock	(1,081)	—
Net cash provided by financing activities	33,770	41,378
Net increase (decrease) in cash and cash equivalents	2,407	(1,127)
Cash and cash equivalents at beginning of period	50,972	43,228
Cash and cash equivalents at end of period	\$53,379	\$42,101

Table of Contents

(unaudited) (dollars in thousands)	Nine Months Ended September 30, 2018 2017	
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$ 15,544	\$ 11,041
Cash paid during the period for income taxes	\$ 4,420	\$ 8,460
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	\$ 535	\$ 207
Transfer due to cumulative effective of change in accounting principles. See Note 2. "Effect of New Financial Accounting Standards" for additional information.	\$ 57	\$ —
See accompanying notes to consolidated financial statements.		

6

Table of Contents

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

1. Principles of Consolidation and Presentation

MidWestOne Financial Group, Inc. (the “Company,” which is also referred to herein as “we,” “our” or “us”) is an Iowa corporation incorporated in 1983, a bank holding company under the Bank Holding Company Act of 1956, as amended, and a financial holding company under the Gramm-Leach-Bliley Act of 1999. Our principal executive offices are located at 102 South Clinton Street, Iowa City, Iowa 52240.

On August 21, 2018, the Company entered into a merger agreement with ATBancorp, an Iowa corporation, pursuant to which ATBancorp will merge with and into the Company. In connection with the merger, American Trust & Savings Bank, an Iowa state chartered bank and wholly owned subsidiary of ATBancorp, and American Bank & Trust Wisconsin, a Wisconsin state chartered bank and wholly owned subsidiary of ATBancorp, will merge with and into MidWestOne Bank, which will continue as the surviving bank. The merger agreement also provides that each of the outstanding shares of ATBancorp common stock will be converted into the right of ATBancorp shareholders to receive 117.5500 shares of Company common stock and \$992.51 in cash. The corporate headquarters of the combined company will be in Iowa City, Iowa. The merger is anticipated to be completed in the first quarter of 2019. For further information, please refer to the Current Report on Form 8-K filed by the Company with the SEC on August 22, 2018.

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all the information and notes necessary for complete financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”). The information in this Quarterly Report on Form 10-Q is written with the presumption that the users of the interim financial statements have read or have access to the most recent Annual Report on Form 10-K of the Company, filed with the Securities and Exchange Commission (SEC) on March 1, 2018, which contains the latest audited financial statements and notes thereto, together with Management’s Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2017 and for the year then ended. Management believes that the disclosures in this Form 10-Q are adequate to make the information presented not misleading. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the Company’s financial position as of September 30, 2018 and December 31, 2017, and the results of operations and cash flows for the three and nine months ended September 30, 2018 and 2017. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

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

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

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

2. Effect of New Financial Accounting Standards

Accounting Guidance Adopted in 2018

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contract with Customers (Topic 606)*. Subsequent to the issuance of ASU 2014-09, the FASB

7

Table of Contents

issued targeted updates to clarify specific implementation issues including ASU No. 2016-08, “*Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*,” ASU No. 2016-10, “*Identifying Performance Obligations and Licensing*,” ASU No. 2016-12, “*Narrow-Scope Improvements and Practical Expedients*,” and ASU No. 2016-20 “*Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*.” For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. Since the guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other sections of GAAP, the new guidance did not have a material impact on revenue most closely associated with financial instruments, including interest income and expense. The Company completed its overall assessment of revenue streams and review of related contracts potentially affected by the ASU, including trust and asset management fees, service charges on deposit accounts, sales of other real estate, and debit card interchange fees. Based on this assessment, the Company concluded that ASU 2014-09 did not materially change the method in which the Company currently recognizes revenue for these revenue streams. The Company also completed its evaluation of certain costs related to these revenue streams to determine whether such costs should be presented as expenses or contra-revenue (i.e., gross versus net). Based on its evaluation, the Company determined that ASU 2014-09 also did not materially change the method in which the Company currently recognizes costs for these revenue streams. The Company adopted this update on January 1, 2018, utilizing the modified retrospective transition method. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary. See Note 14 “Revenue Recognition” for more information.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The guidance in this update makes changes to the current GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The treatment of gains and losses for all equity securities, including those without a readily determinable market value, is expected to result in additional volatility in the income statement, with the loss of mark to market via equity for these investments. Additionally, changes in the allowable method for determining the fair value of financial instruments in the financial statement footnotes (“exit price” only) require changes to current methodologies of determining these values, and how they are disclosed in the financial statement footnotes. The new standard applies to public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this update on January 1, 2018. With the elimination of the classification of available for sale equity securities, the net unrealized gain or loss on these securities that had been included in accumulated other comprehensive income at December 31, 2017, in the amount of \$57,000, has been transferred to retained earnings, as shown in the consolidated statements of shareholders’ equity. Changes in the fair value of equity securities with readily determinable fair values are now reflected in the noninterest income portion of the consolidated statements of income, in the other gains (losses) line item. In accordance with the ASU requirements, the Company measured the fair value of its loan portfolio as of September 30, 2018 using an exit price notion. See Note 13. “Estimated Fair Value of Financial Instruments and Fair Value Measurements” to our consolidated financial statements.

Accounting Guidance Pending Adoption at September 30, 2018

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. The guidance in this update is meant to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. All leases create an asset

and a liability for the lessee in accordance with FASB Concepts Statement No. 6, *Elements of Financial Statements*, and, therefore, recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. Disclosures are required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. To meet that objective, qualitative disclosures along with specific quantitative disclosures are required. The new standard applies to public business entities in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company has several lease agreements, such as branch locations, which are currently considered operating leases, and therefore not recognized on the Company's consolidated balance sheets. The Company expects the new guidance will require these lease agreements to now be recognized on the consolidated balance sheets as right-of-use assets and a corresponding lease liability. Therefore, the Company's preliminary evaluation indicates the provisions of ASU No. 2016-02 are expected to impact the Company's consolidated statements of income, along with the Company's regulatory capital ratios. However, the Company continues

Table of Contents

to evaluate the extent of potential impact the new guidance will have on the Company's consolidated financial statements, and does not expect to early adopt the standard.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, *Financial Instruments-Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments*. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The amendment requires the use of a new model covering current expected credit losses (CECL), which will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. Upon initial recognition of the exposure, the CECL model requires an entity to estimate the credit losses expected over the life of an exposure (or pool of exposures). The estimate of expected credit losses (ECL) should consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments. The new guidance also amends the current available for sale (AFS) security other-than-temporary impairment (OTTI) model for debt securities. The new model will require an estimate of ECL only when the fair value is below the amortized cost of the asset. The length of time the fair value of an AFS debt security has been below the amortized cost will no longer impact the determination of whether a credit loss exists. As such, it is no longer an other-than-temporary model. Finally, the purchased financial assets with credit deterioration (PCD) model applies to purchased financial assets (measured at amortized cost or AFS) that have experienced more than insignificant credit deterioration since origination. This represents a change from the scope of what are considered purchased credit-impaired assets under today's model. Different than the accounting for originated or purchased assets that do not qualify as PCD, the initial estimate of expected credit losses for a PCD would be recognized through an allowance for loan and lease losses with an offset to the cost basis of the related financial asset at acquisition. The new standard applies to public business entities that are SEC filers in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted for fiscal years beginning after December 31, 2018, including interim periods within those fiscal years, and is expected to increase the allowance for loan losses upon adoption. The Company has formed a working group to evaluate the impact of the standard's adoption on the Company's consolidated financial statements, and has selected a software vendor to assist with implementation. The team meets periodically to discuss the latest developments, ensure progress is being made, and keep current on evolving interpretations and industry practices related to ASU 2016-13. The Company's preliminary evaluation indicates the provisions of ASU No. 2016-13 are expected to impact the Company's consolidated financial statements, in particular the level of the reserve for credit losses. The Company is continuing to evaluate the extent of the potential impact.

In August 2018, the FASB issued Accounting Standards Update No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, including the consideration of costs and benefits. Four disclosure requirements were removed, three were modified, and two were added. In addition, the amendments eliminate "at a minimum" from the phrase "an entity shall disclose at a minimum" to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments in this update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective date. The Company is considering the early adoption of removed and modified disclosures. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements.

Table of Contents**3. Investment Securities**

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

(in thousands)	As of September 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations	\$5,561	\$ —	\$ 42	\$5,519
State and political subdivisions	115,251	716	831	115,136
Mortgage-backed securities	53,664	112	1,880	51,896
Collateralized mortgage obligations	179,748	3	8,874	170,877
Corporate debt securities	65,842	8	1,512	64,338
Total	\$420,066	\$ 839	\$ 13,139	\$407,766

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

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

(in thousands)	As of September 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
State and political subdivisions	\$125,783	\$ 155	\$ 3,743	\$122,195
Mortgage-backed securities	11,467	1	564	10,904
Collateralized mortgage obligations	19,373	—	1,104	18,269
Corporate debt securities	35,110	98	519	34,689
Total	\$191,733	\$ 254	\$ 5,930	\$186,057

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

Investment securities with a carrying value of \$217.8 million and \$237.4 million at September 30, 2018 and December 31, 2017, respectively, were pledged on public deposits, securities sold under agreements to repurchase and for other purposes, as required or permitted by law.

As of September 30, 2018, the Company owned \$0.4 million of equity securities in banks and financial service-related companies, and \$2.4 million of mutual funds invested in debt securities and other debt instruments that will cause units of the fund to be deemed to be qualified under the Community Reinvestment Act. Prior to January 1, 2018, we accounted for our marketable equity securities at fair value with unrealized gains and losses recognized in accumulated other comprehensive income on the balance sheet. Realized gains and losses on marketable equity securities sold or impaired were recognized in noninterest income. Effective with the January 1, 2018 adoption of ASU 2016-01, both the realized

Table of Contents

and unrealized net gains and losses on equity securities are required to be recognized in the statement of income. A breakdown between net realized and unrealized gains and losses is provided later in this financial statement footnote. These net changes are included in the other gains line item in the noninterest income section of the Consolidated Statements of Income.

The summary of investment securities shows that some of the securities in the available for sale and held to maturity investment portfolios had unrealized losses, or were temporarily impaired, as of September 30, 2018 and December 31, 2017. This temporary impairment represents the estimated amount of loss that would be realized if the securities were sold on the valuation date.

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

As of September 30, 2018							
<u>Available for Sale</u>	Number of Securities	Less than 12 Months		12 Months or More		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(in thousands, except number of securities)</i>							
U.S. Government agencies and corporations	2	\$ 539	\$ 14	\$ 4,980	\$ 28	\$ 5,519	\$ 42
State and political subdivisions	115	46,374	697	5,350	134	51,724	831
Mortgage-backed securities	26	40,039	1,613	7,591	267	47,630	1,880
Collateralized mortgage obligations	41	44,912	1,269	116,814	7,605	161,726	8,874
Corporate debt securities	12	50,439	1,149	12,230	363	62,669	1,512
Total	196	\$ 182,303	\$ 4,742	\$ 146,965	\$ 8,397	\$ 329,268	\$ 13,139

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

As of September 30, 2018							
<u>Held to Maturity</u>	Number of Securities	Less than 12 Months		12 Months or More		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(in thousands, except number of securities)</i>							
State and political subdivisions	257	\$ 54,969	\$ 1,271	\$ 33,512	\$ 2,472	\$ 88,481	\$ 3,743
Mortgage-backed securities	6	10,016	524	820	40	10,836	564
Collateralized mortgage obligations	7	—	—	18,259	1,104	18,259	1,104
Corporate debt securities	13	18,126	345	2,722	174	20,848	519
Total	283	\$ 83,111	\$ 2,140	\$ 55,313	\$ 3,790	\$ 138,424	\$ 5,930

Table of Contents

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

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

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

At September 30, 2018, approximately 53% of the municipal bonds held by the Company were Iowa-based, and approximately 24% were Minnesota-based. The Company does not intend to sell these municipal obligations, and it is more likely than not that the Company will not be required to sell them until the recovery of their cost. Due to the issuers' continued satisfaction of their obligations under the securities in accordance with their contractual terms and the expectation that they will continue to do so, management's intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value, as well as the evaluation of the fundamentals of the issuers' financial conditions and other objective evidence, the Company believed that the municipal obligations identified in the tables above were temporarily impaired as of September 30, 2018 and December 31, 2017.

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

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

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

debt securities in March 2017. The Company believes the sale was in accordance with applicable accounting guidance and did not taint the remainder of the held to maturity portfolio.

Table of Contents

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

(in thousands)	Available For Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$27,913	\$27,866	\$734	\$736
Due after one year through five years	99,630	98,105	24,275	23,867
Due after five years through ten years	55,757	55,700	97,511	95,353
Due after ten years	3,354	3,322	38,373	36,928
Debt securities without a single maturity date	233,412	222,773	30,840	29,173
Total	\$420,066	\$407,766	\$191,733	\$186,057

Mortgage-backed securities and collateralized mortgage obligations are collateralized by mortgage loans and guaranteed by U.S. government agencies. Our experience has indicated that principal payments will be collected sooner than scheduled because of prepayments. Therefore, these securities are not scheduled in the maturity categories indicated above.

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

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Debt securities available for sale:				
Gross realized gains	\$194	\$179	203	199
Gross realized losses	(2)	(3)	(2)	(3)
Net realized gain	\$192	\$176	\$201	\$196
Debt securities held to maturity:				
Gross realized gains	\$—	\$—	\$—	\$43
Gross realized losses	—	—	(4)	—
Net realized gain (loss)	\$—	\$—	\$(4)	\$43
Total net realized gain on sale or call of debt securities	\$192	\$176	\$197	\$239

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

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net losses recognized	\$ (10)	\$ —	—	—
Less: Net gains and losses recognized due to sales	—	—	—	—
Unrealized losses on securities still held at the reporting date	\$ (10)	\$ —	—	—

Gains and losses on equity securities is included in other gain (loss) on the consolidated statements of income.

Table of Contents**4. Loans Receivable and the Allowance for Loan Losses**

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

Allowance for Loan Losses and Recorded Investment in Loan Receivables						
As of September 30, 2018 and December 31, 2017						
(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Total
September 30, 2018						
Loans receivable						
Individually evaluated for impairment	\$ 6,711	\$ 12,924	\$ 17,375	\$ 3,981	\$ 8	\$ 40,999
Collectively evaluated for impairment	96,496	510,357	1,223,311	450,246	38,788	2,319,198
Purchased credit impaired loans	—	52	13,104	4,296	—	17,452
Total	\$ 103,207	\$ 523,333	\$ 1,253,790	\$ 458,523	\$ 38,796	\$ 2,377,649
Allowance for loan losses:						
Individually evaluated for impairment	\$ 195	\$ 3,059	\$ 4,183	\$ 143	\$ —	\$ 7,580
Collectively evaluated for impairment	2,532	5,183	12,563	2,356	251	22,885
Purchased credit impaired loans	—	—	343	470	—	813
Total	\$ 2,727	\$ 8,242	\$ 17,089	\$ 2,969	\$ 251	\$ 31,278
December 31, 2017						
Loans receivable						
Individually evaluated for impairment	\$ 2,969	\$ 9,734	\$ 10,386	\$ 3,722	\$ —	\$ 26,811
Collectively evaluated for impairment	102,543	493,844	1,147,133	460,475	36,158	2,240,153
Purchased credit impaired loans	—	46	14,452	5,233	—	19,731
Total	\$ 105,512	\$ 503,624	\$ 1,171,971	\$ 469,430	\$ 36,158	\$ 2,286,695
Allowance for loan losses:						
Individually evaluated for impairment	\$ 140	\$ 1,126	\$ 2,157	\$ 226	\$ —	\$ 3,649
Collectively evaluated for impairment	2,650	7,392	11,144	2,182	244	23,612
Purchased credit impaired loans	—	—	336	462	—	798
Total	\$ 2,790	\$ 8,518	\$ 13,637	\$ 2,870	\$ 244	\$ 28,059

As of September 30, 2018, the gross purchased credit impaired loans included above were \$18.3 million, with a discount of \$0.9 million.

Loans with unpaid principal in the amount of \$459.1 million and \$477.6 million at September 30, 2018 and December 31, 2017, respectively, were pledged to the Federal Home Loan Bank (the "FHLB") as collateral for borrowings.

Table of Contents

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

Allowance for Loan Loss Activity						
For the Three Months Ended September 30, 2018 and 2017						
(in thousands)	Agricultural	Commercial Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Total
2018						
Beginning balance	\$2,656	\$ 8,557	\$ 16,341	\$ 2,990	\$ 256	\$ 30,800
Charge-offs	(365)	(108)	(17)	—	(327)	(817)
Recoveries	41	78	77	131	18	345
Provision	395	(285)	688	(152)	304	950
Ending balance	\$ 2,727	\$ 8,242	\$ 17,089	\$ 2,969	\$ 251	\$ 31,278
2017						
Beginning balance	\$2,666	\$ 7,959	\$ 9,013	\$ 2,650	\$ 222	\$ 22,510
Charge-offs	(318)	(534)	—	(75)	(51)	(978)
Recoveries	150	113	201	126	4	594
Provision	67	2,157	1,166	915	79	4,384
Ending balance	\$ 2,565	\$ 9,695	\$ 10,380	\$ 3,616	\$ 254	\$ 26,510

Allowance for Loan Loss Activity						
For the Nine Months Ended September 30, 2018 and 2017						
(in thousands)	Agricultural	Commercial Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Total
2018						
Beginning balance	\$2,790	\$ 8,518	\$ 13,637	\$ 2,870	\$ 244	\$ 28,059
Charge-offs	(633)	(198)	(281)	(107)	(365)	(1,584)
Recoveries	56	260	193	208	36	753
Provision	514	(338)	3,540	(2)	336	4,050
Ending balance	\$ 2,727	\$ 8,242	\$ 17,089	\$ 2,969	\$ 251	\$ 31,278
2017						
Beginning balance	\$2,003	\$ 6,274	\$ 9,860	\$ 3,458	\$ 255	\$ 21,850
Charge-offs	(1,202)	(1,063)	(106)	(155)	(211)	(2,737)
Recoveries	164	215	216	126	11	732
Provision	1,600	4,269	410	187	199	6,665
Ending balance	\$ 2,565	\$ 9,695	\$ 10,380	\$ 3,616	\$ 254	\$ 26,510

Loan Portfolio Segment Risk Characteristics

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

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

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

Table of Contents

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

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

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

Purchased Loans Policy

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

Individual loans acquired through the completion of a transfer, including loans that have evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable, are referred to herein as "purchased credit impaired loans." In determining the acquisition date fair value and estimated credit losses of purchased credit impaired loans, and in subsequent accounting, the Company accounts for loans individually. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "nonaccretable difference," are not recognized as a yield adjustment or as a loss accrual or valuation allowance. Expected cash flows at the purchase date in excess of the fair value of loans, if any, are recorded as interest income over the expected life of the loans if the timing and amount of future cash flows are reasonably estimable. Subsequent to the purchase date, increases in cash flows over those expected at the purchase date are recognized as interest income prospectively. The present value of any decreases in expected cash flows after the purchase date is recognized by recording an allowance for loan losses and a provision for loan losses. If the Company does not have the information necessary to reasonably estimate cash flows to be expected, it may use the cost-recovery method or cash-basis method of income recognition.

Charge-off Policy

The Company requires a loan to be charged-off, in whole or in part, as soon as it becomes apparent that some loss will be incurred, or when its collectability is sufficiently questionable that it no longer is considered a bankable asset. The primary considerations when determining if and how much of a loan should be charged-off are as follows: (1) the potential for future cash flows; (2) the value of any collateral; and (3) the strength of any co-makers or guarantors.

When it is determined that a loan requires a partial or full charge-off, a request for approval of a charge-off is submitted to the Company's President, Executive Vice President and Chief Credit Officer, and the Senior Regional Loan officer. The Bank's board of directors formally approves all loan charge-offs. Once a loan is charged-off, it cannot be restructured and returned to the Company's books.

Table of Contents

Allowance for Loan and Lease Losses

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

Loans Reviewed Individually for Impairment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

• The borrower receives a reduction of the accrued interest.

Table of Contents

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

	Three Months Ended September 30,			
	2018		2017	
(dollars in thousands)	Pre-Modification Number of Outstanding Recorded Contracts Investment	Post-Modification Outstanding Recorded Investment	Pre-Modification Number of Outstanding Recorded Contracts Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings ⁽¹⁾ :				
Total	—\$	— \$	— —\$	— \$

	Nine Months Ended September 30,			
	2018		2017	
(dollars in thousands)	Pre-Modification Number of Outstanding Recorded Contracts Investment	Post-Modification Outstanding Recorded Investment	Pre-Modification Number of Outstanding Recorded Contracts Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings ⁽¹⁾ :				
Commercial and industrial				
Extended maturity date	—\$	— \$	6 \$	2,037 \$
Commercial real estate:				
Farmland				
Extended maturity date	1 86	86	2 176	176
Commercial real estate-other				
Extended maturity date	—	—	1 968	968
Other	—	—	1 10,546	10,923
Total	1 \$ 86	\$ 86	10 \$ 13,727	\$ 14,150

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(dollars in thousands)	Number of Recorded Investment Contracts	Number of Recorded Investment Contracts	Number of Recorded Investment Contracts	Number of Recorded Investment Contracts
Troubled Debt Restructurings ⁽¹⁾ That Subsequently Defaulted:				
Commercial and industrial				
Extended maturity date	—\$	— \$	—\$	— 4 \$ 1,504
Commercial real estate:				
Commercial real estate-other				
Extended maturity date	—	—	—	1 968
Total	—\$	— \$	—\$	— 5 \$ 2,472

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

Loans Reviewed Collectively for Impairment

All loans not evaluated individually for impairment will be separated into homogeneous pools to be collectively evaluated. Loans will be first grouped into the various loan types (i.e. commercial, agricultural, consumer, etc.) and further segmented within each subset by risk classification (i.e. pass, special mention/watch, and substandard).

Homogeneous loans past due 60-89 days and 90 days or more are classified special mention/watch and substandard, respectively, for allocation purposes.

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

(in thousands)	Pass	Special Mention/ Watch	Substandard	Doubtful	Loss	Total
September 30, 2018						
Agricultural	\$ 78,007	\$ 17,266	\$ 7,934	\$ —	\$ —	\$ 103,207
Commercial and industrial	482,136	21,166	20,027	4	—	523,333
Commercial real estate:						
Construction and development	221,114	1,078	1,132	—	—	223,324
Farmland	69,824	6,970	8,941	—	—	85,735
Multifamily	124,092	1,391	1,180	—	—	126,663
Commercial real estate-other	748,837	44,603	24,628	—	—	818,068
Total commercial real estate	1,163,867	54,042	35,881	—	—	1,253,790
Residential real estate:						
One- to four- family first liens	333,974	2,289	6,492	—	—	342,755
One- to four- family junior liens	113,526	687	1,555	—	—	115,768
Total residential real estate	447,500	2,976	8,047	—	—	458,523
Consumer	38,621	148	—	27	—	38,796
Total	\$ 2,210,131	\$ 95,598	\$ 71,889	\$ 31	\$ —	\$ 2,377,649

Table of Contents

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

Included within the special mention/watch, substandard, and doubtful categories at September 30, 2018 and December 31, 2017 are purchased credit impaired loans totaling \$11.1 million and \$12.6 million, respectively. Below are descriptions of the risk classifications of our loan portfolio.

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

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

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

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

Table of Contents

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

(in thousands)	September 30, 2018			December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Agricultural	\$ 5,161	\$ 5,661	\$ —	\$ 1,523	\$ 2,023	\$ —
Commercial and industrial	3,796	3,990	—	7,588	7,963	—
Commercial real estate:						
Construction and development	84	84	—	84	84	—
Farmland	3,539	3,539	—	287	287	—
Multifamily	821	821	—	—	—	—
Commercial real estate-other	6,290	6,800	—	5,746	6,251	—
Total commercial real estate	10,734	11,244	—	6,117	6,622	—
Residential real estate:						
One- to four- family first liens	2,677	2,737	—	2,449	2,482	—
One- to four- family junior liens	344	345	—	26	26	—
Total residential real estate	3,021	3,082	—	2,475	2,508	—
Consumer	8	8	—	—	—	—
Total	\$ 22,720	\$ 23,985	\$ —	\$ 17,703	\$ 19,116	\$ —
With an allowance recorded:						
Agricultural	\$ 1,550	\$ 1,920	\$ 195	\$ 1,446	\$ 1,446	\$ 140
Commercial and industrial	9,128	9,258	3,059	2,146	2,177	1,126
Commercial real estate:						
Construction and development	—	—	—	—	—	—
Farmland	2,123	2,123	662	—	—	—
Multifamily	—	—	—	—	—	—
Commercial real estate-other	4,518	12,184	3,521	4,269	11,536	2,157
Total commercial real estate	6,641	14,307	4,183	4,269	11,536	2,157
Residential real estate:						
One- to four- family first liens	960	960	143	979	979	185
One- to four- family junior liens	—	—	—	268	268	41
Total residential real estate	960	960	143	1,247	1,247	226
Consumer	—	—	—	—	—	—
Total	\$ 18,279	\$ 26,445	\$ 7,580	\$ 9,108	\$ 16,406	\$ 3,649
Total:						
Agricultural	\$ 6,711	\$ 7,581	\$ 195	\$ 2,969	\$ 3,469	\$ 140
Commercial and industrial	12,924	13,248	3,059	9,734	10,140	1,126
Commercial real estate:						
Construction and development	84	84	—	84	84	—
Farmland	5,662	5,662	662	287	287	—
Multifamily	821	821	—	—	—	—
Commercial real estate-other	10,808	18,984	3,521	10,015	17,787	2,157
Total commercial real estate	17,375	25,551	4,183	10,386	18,158	2,157
Residential real estate:						
One- to four- family first liens	3,637	3,697	143	3,428	3,461	185
One- to four- family junior liens	344	345	—	294	294	41
Total residential real estate	3,981	4,042	143	3,722	3,755	226
Consumer	8	8	—	—	—	—

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

Total	\$40,999	\$ 50,430	\$ 7,580	\$26,811	\$ 35,522	\$ 3,649
-------	----------	-----------	----------	----------	-----------	----------

21

Table of Contents

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

(in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
With no related allowance recorded:								
Agricultural	\$4,864	\$ 71	\$881	\$ 17	\$3,480	\$ 180	\$674	\$ 50
Commercial and industrial	3,961	36	2,878	77	3,563	150	2,899	124
Commercial real estate:								
Construction and development	84	—	423	—	84	—	434	2
Farmland	3,274	44	212	—	1,745	86	1,193	58
Multifamily	822	10	—	—	618	30	—	—
Commercial real estate-other	6,326	77	2,148	18	5,428	201	1,894	63
Total commercial real estate	10,506	131	2,783	18	7,875	317	3,521	123
Residential real estate:								
One- to four- family first liens	2,578	34	2,183	23	1,942	53	2,197	69
One- to four- family junior liens	323	1	13	—	301	1	13	—
Total residential real estate	2,901	35	2,196	23	2,243	54	2,210	69
Consumer	4	—	—	—	2	—	—	—
Total	\$22,236	\$ 273	\$8,738	\$ 135	\$17,163	\$ 701	\$9,304	\$ 366
With an allowance recorded:								
Agricultural	\$1,974	\$ —	\$1,446	\$ 11	\$2,108	\$ —	\$1,460	\$ 33
Commercial and industrial	8,905	43	8,458	85	7,778	89	8,423	163
Commercial real estate:								
Construction and development	—	—	311	—	—	—	232	—
Farmland	2,123	—	—	—	1,584	—	—	—
Multifamily	—	—	—	—	—	—	—	—
Commercial real estate-other	4,536	16	12,863	—	4,443	—	12,881	44
Total commercial real estate	6,659	16	13,174	—	6,027	—	13,113	44
Residential real estate:								
One- to four- family first liens	963	9	1,361	9	969	27	1,392	26
One- to four- family junior liens	—	—	—	—	—	—	—	—
Total residential real estate	963	9	1,361	9	969	27	1,392	26
Consumer	—	—	—	—	—	—	—	—
Total	\$18,501	\$ 68	\$24,439	\$ 105	\$16,882	\$ 116	\$24,388	\$ 266
Total:								
Agricultural	\$6,838	\$ 71	\$2,327	\$ 28	\$5,588	\$ 180	\$2,134	\$ 83
Commercial and industrial	12,866	79	11,336	162	11,341	239	11,322	287
Commercial real estate:								
Construction and development	84	—	734	—	84	—	666	2
Farmland	5,397	44	212	—	3,329	86	1,193	58
Multifamily	822	10	—	—	618	30	—	—
Commercial real estate-other	10,862	93	15,011	18	9,871	201	14,775	107
Total commercial real estate	17,165	147	15,957	18	13,902	317	16,634	167
Residential real estate:								
One- to four- family first liens	3,541	43	3,544	32	2,911	80	3,589	95
One- to four- family junior liens	323	1	13	—	301	1	13	—
Total residential real estate	3,864	44	3,557	32	3,212	81	3,602	95

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

Consumer	4	—	—	—	2	—	—	—
Total	\$40,737	\$ 341	\$33,177	\$ 240	\$34,045	\$ 817	\$33,692	\$ 632

Table of Contents

The following table presents the contractual aging of the recorded investment in past due loans by class of loans at September 30, 2018 and December 31, 2017:

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable
September 30, 2018						
Agricultural	\$72	\$100	\$230	\$402	\$102,805	\$103,207
Commercial and industrial	1,206	315	6,701	8,222	515,111	523,333
Commercial real estate:						
Construction and development	—	10	83	93	223,231	223,324
Farmland	—	—	141	141	85,594	85,735
Multifamily	—	—	—	—	126,663	126,663
Commercial real estate-other	4,198	101	3,814	8,113	809,955	818,068
Total commercial real estate	4,198	111	4,038	8,347	1,245,443	1,253,790
Residential real estate:						
One- to four- family first liens	3,381	313	965	4,659	338,096	342,755
One- to four- family junior liens	225	94	377	696	115,072	115,768
Total residential real estate	3,606	407	1,342	5,355	453,168	458,523
Consumer	138	3	31	172	38,624	38,796
Total	\$9,220	\$936	\$12,342	\$22,498	\$2,355,151	\$2,377,649
Included in the totals above are the following purchased credit impaired loans	\$—	\$—	\$—	\$—	\$17,452	\$17,452
December 31, 2017						
Agricultural	\$95	\$118	\$168	\$381	\$105,131	\$105,512
Commercial and industrial	1,434	1,336	1,576	4,346	499,278	503,624
Commercial real estate:						
Construction and development	57	97	82	236	165,040	165,276
Farmland	217	—	373	590	87,278	87,868
Multifamily	—	25	—	25	134,481	134,506
Commercial real estate-other	74	—	1,852	1,926	782,395	784,321
Total commercial real estate	348	122	2,307	2,777	1,169,194	1,171,971
Residential real estate:						
One- to four- family first liens	3,854	756	1,019	5,629	346,597	352,226
One- to four- family junior liens	325	770	271	1,366	115,838	117,204
Total residential real estate	4,179	1,526	1,290	6,995	462,435	469,430
Consumer	79	15	29	123	36,035	36,158
Total	\$6,135	\$3,117	\$5,370	\$14,622	\$2,272,073	\$2,286,695
Included in the totals above are the following purchased credit impaired loans	\$164	\$756	\$553	\$1,473	\$18,258	\$19,731

Non-accrual and Delinquent Loans

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

A non-accrual asset may be restored to an accrual status when (1) all past due principal and interest has been paid

(excluding renewals and modifications that involve the capitalizing of interest) or (2) the loan becomes well secured with marketable collateral and is in the process of collection. An established track record of performance is also considered when determining accrual status.

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

Table of Contents

The following table sets forth the composition of the Company's recorded investment in loans on nonaccrual status and past due 90 days or more and still accruing by class of loans, excluding purchased credit impaired loans, as of September 30, 2018 and December 31, 2017:

(in thousands)	September 30, 2018		December 31, 2017	
	Non-Accrual	Loans Past Due 90 Days or More and Still Accruing	Non-Accrual	Loans Past Due 90 Days or More and Still Accruing
Agricultural	\$662	\$ —	\$168	\$ —
Commercial and industrial	11,208	—	7,124	—
Commercial real estate:				
Construction and development	100	—	188	—
Farmland	2,367	—	386	—
Multifamily	—	—	—	—
Commercial real estate-other	4,816	—	5,279	—
Total commercial real estate	7,283	—	5,853	—
Residential real estate:				
One- to four- family first liens	1,277	171	1,228	205
One- to four- family junior liens	413	—	346	2
Total residential real estate	1,690	171	1,574	207
Consumer	86	—	65	—
Total	\$20,929	\$ 171	\$14,784	\$ 207

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

As of September 30, 2018, the Company had \$0.1 million in commitments to lend additional funds to borrowers who have a nonperforming loan.

Purchased Loans

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

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

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

For purchased non-credit impaired loans the accretable discount is the discount applied to the expected cash flows of the portfolio to account for the differences between the interest rates at acquisition and rates currently expected on similar portfolios in the marketplace. As the accretable discount is accreted to interest income over the expected average life of the portfolio, the result will be interest income on loans at the estimated current market rate. We record a provision for the acquired portfolio as the loans acquired in the Central Bancshares, Inc. ("Central") merger, which occurred in 2015, renew and the discount is accreted.

For purchased credit impaired loans the difference between contractually required payments at acquisition and the

cash flows expected to be collected is referred to as the non-accretable difference. Further, any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized into interest income over the expected remaining life of the loan if the timing and amount of the future cash flows are reasonably estimable. This discount includes an adjustment on loans that are not accruing or paying contractual interest so that interest income will be recognized at the estimated current market rate.

Table of Contents

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

Changes in the accretible yield for loans acquired and accounted for under ASC 310-30 were as follows for the three and nine months ended September 30, 2018 and 2017:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Balance at beginning of period	\$311	\$1,371	\$840	\$1,961
Accretion	(223)	(350)	(873)	(1,241)
Reclassification (to) from nonaccretible difference	(7)	63	114	364
Balance at end of period	\$81	\$1,084	\$81	\$1,084

5. Derivatives and Hedging Activities

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

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

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

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

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

Table of Contents

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

(in thousands)	As of September 30, 2018			As of December 31, 2017		
	Fair Value			Fair Value		
	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:						
Fair value hedges:						
Interest rate swaps	\$7,855	\$100	\$ —	\$ —	\$ —	\$ —
Derivatives not designated as hedging instruments:						
Interest rate swaps	\$13,840	\$105	\$ 125	\$ —	\$ —	\$ —
Risk participation agreements (RPAs)	10,112	—	53	—	—	—
Total derivatives not designated as hedging instruments	\$23,952	\$105	\$ 178	\$ —	\$ —	\$ —

Derivatives Designated as Hedging Instruments

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

(in thousands)	Location and Amount of Gain or Loss Recognized in Income on Fair Value Hedging Relationships							
	For the Three Months Ended September 30, 2018				For the Nine Months Ended September 30, 2017			
	Interest Income (Expense)	Other Income (Expense)	Interest Income (Expense)	Other Income (Expense)	Interest Income (Expense)	Other Income (Expense)	Interest Income (Expense)	Other Income (Expense)
Total amounts of income and expense line items presented in the Consolidated Statements of Income in which the effects of fair value hedges are recorded	\$ —	\$ —	\$ —	\$ —	\$(1)	\$ —	\$ —	\$ —
The effects of fair value hedging:								
Gain (Loss) on fair value hedging relationships in subtopic 815-20:								
Interest contracts:								
Hedged items	(126)	—	—	—	(101)	—	—	—
Derivative designated as hedging instruments	126	—	—	—	100	—	—	—

Table of Contents

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

Line Item in the Balance Sheet in Which the Hedged Item is Included	Carrying Amount of the Hedged Assets	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Asset
(in thousands)		
Loans	\$ 7,754	\$ (101)

Derivatives Not Designated as Hedging Instruments

Interest Rate Swaps -The Company enters into interest rate derivatives, including interest rate swaps with its customers, to allow them to hedge against the risk of rising interest rates by providing fixed rate loans. To economically hedge against the interest rate risks in the products offered to its customers, the Company enters into mirrored interest rate contracts with institutional counterparties, with one designated as a central counterparty. The following table represents the notional amounts and the gross fair values of interest rate derivative contracts outstanding as of September 30, 2018 and December 31, 2017 respectively.

September 30, 2018

(in thousands)	Customer Counterparties		Financial Counterparties	
	Fair Value		Fair Value	
	Notional Amount	Assets Liabilities	Notional Amount	Assets Liabilities
Swaps	\$6,920	\$105 \$	—\$6,920	\$— \$125

December 31, 2017

(in thousands)	Customer Counterparties		Financial Counterparties	
	Fair Value		Fair Value	
	Notional Amount	Assets Liabilities	Notional Amount	Assets Liabilities
Swaps	\$—	\$— \$	—\$—	\$— \$—

Credit Risk Participation Agreements -The Company may periodically enter into RPAs to manage the credit exposure on interest rate contracts associated with a syndicated loan. The Company may enter into protection purchased RPAs with institutional counterparties to decrease or increase its exposure to a borrower. Under the RPA, the Company will receive or make payment if a borrower defaults on the related interest rate contract. The Company manages its credit risk on RPAs by monitoring the creditworthiness of the borrowers and institutional counterparties, which is based on the normal credit review process. The notional amount of the RPAs reflects the Company's pro-rata share of the derivative instrument. The following table represents the notional amounts and the gross fair values of RPAs purchased and sold outstanding as of September 30, 2018 and December 31, 2017 respectively.

September 30, 2018 December 31, 2017

(in thousands)	Notional Amount	Fair Value		Fair Value	
		Assets	Liabilities	Assets	Liabilities
RPAs - protection purchased	\$ 10,112	\$—	\$ 53	\$ —	\$ —

The following table presents the net gains (losses) recognized on the consolidated statements of income related to the derivatives not designated as hedging instruments for the three and nine months ended September 30, 2018 and

September 30, 2017:

		For the Three		For the Nine		
		Months	Months	Months	Months	
		Ended	Ended	Ended	Ended	
		September	September	September 30,	September 30,	
		30,	2018	2017	2018	2017
(in thousands)						
Interest rate swaps	Other gain (loss)	\$ —	\$ —	—	—	\$ —
RPA	Other gain (loss)	147	—	147	—	—
	Total	\$ 147	\$ —	—	\$ —	—

Table of ContentsOffsetting of Derivatives

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

(in thousands)	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets (Liabilities) presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		Net Assets (Liabilities)
				Financial Instruments	Cash Collateral Received (Paid)	
As of September 30, 2018						
Asset Derivatives	\$ 205	\$ —	\$ 205	\$ 100	\$ —	\$ 105
Liability Derivatives	(178)	—	(178)	100	—	(78)
As of December 31, 2017						
Derivatives	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Liability Derivatives	—	—	—	—	—	—

Credit-risk-related Contingent Features

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

As of September 30, 2018, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$179,000. As of September 30, 2018, the Company has minimum collateral posting thresholds with certain of its derivative counterparties, and has not posted any collateral related to these agreements. If the Company had breached any of these provisions at September 30, 2018, it could have been required to settle its obligations under the agreements at their termination value of \$179,000.

6. Goodwill and Intangible Assets

The excess of the cost of an acquisition over the fair value of the net assets acquired, including core deposit, trade name, and client relationship intangibles, consists of goodwill. Under ASC Topic 350, goodwill and the non-amortizing portion of the trade name intangible are subject to at least annual assessments for impairment by applying a fair value based test. The Company reviews goodwill and the non-amortizing portion of the trade name intangible at the reporting unit level to determine potential impairment annually on October 1, or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable, by comparing the carrying value of the reporting unit with the fair value of the reporting unit. No impairment was recorded on either the goodwill or the trade name intangible assets during the nine months ended September 30, 2018. The carrying amount of

goodwill was \$64.7 million at September 30, 2018, the same as at December 31, 2017.

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

Table of Contents

The following table presents the changes in the carrying amount of intangibles (excluding goodwill), gross carrying amount, accumulated amortization, and net book value as of and for the nine months ended September 30, 2018:

(in thousands)	Insurance Agency Intangible	Core Deposit Intangible	Indefinite-Lived Trade Name Intangible	Finite-Lived Trade Name Intangible	Customer List Intangible	Total
September 30, 2018						
Balance, beginning of period	\$ 148	\$ 4,011	\$ 7,040	\$ 744	\$ 103	\$ 12,046
Finite-lived intangible assets acquired	—	—	—	—	125	125
Amortization expense	(28)	(1,600)	—	(143)	(22)	(1,793)
Balance at end of period	\$ 120	\$ 2,411	\$ 7,040	\$ 601	\$ 206	\$ 10,378
Gross carrying amount	\$ 1,320	\$ 18,206	\$ 7,040	\$ 1,380	\$ 455	\$ 28,401
Accumulated amortization	(1,200)	(15,795)	—	(779)	(249)	(18,023)
Net book value	\$ 120	\$ 2,411	\$ 7,040	\$ 601	\$ 206	\$ 10,378

7. Other Assets

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

(in thousands)	September 30, 2018	December 31, 2017
Federal Home Loan Bank Stock	\$ 13,260	\$ 11,324
Prepaid expenses	2,286	2,992
Mortgage servicing rights	2,711	2,316
Assets held for sale	895	—
Federal & state income taxes receivable, current	322	3,120
Accounts receivable & other miscellaneous assets	7,841	3,009
	\$ 27,315	\$ 22,761

The Bank is a member of the FHLB of Des Moines, and ownership of FHLB stock is a requirement for such membership. The amount of FHLB stock the Bank is required to hold is directly related to the amount of FHLB advances borrowed. Because this security is not readily marketable and there are no available market values, this security is carried at cost and evaluated for potential impairment each quarter. Redemption of this investment is at the option of the FHLB.

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

In the third quarter of 2018, the Company listed a former branch facility for sale as well as a former building used in the past for overflow office capacity. As such, these assets were marked down to fair value after selling costs and moved on the balance sheet from premises and equipment to assets held for sale.

8. Short-Term Borrowings

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

(in thousands)	September 30, 2018	December 31, 2017
	Weighted Average Balance Cost	Weighted Average Balance Cost
Federal funds purchased	2.39 % \$ 19,056	1.77 % \$ 1,000
Securities sold under agreements to repurchase	0.97 68,922	0.71 96,229

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

Total 1.28% \$87,978 0.73% \$97,229

At September 30, 2018 and December 31, 2017, the Company had no borrowings through the Federal Reserve Discount Window, while the borrowing capacity was \$11.4 million as of September 30, 2018 and December 31, 2017. As of September 30, 2018 and December 31, 2017, the Bank had municipal securities pledged with a market value of \$12.6 million and \$12.8 million, respectively, to the Federal Reserve to secure potential borrowings. The Company also has various other unsecured federal funds agreements with correspondent banks as well as the FHLB. As of September 30,

29

Table of Contents

2018 and December 31, 2017, there were \$19.1 million and \$1.0 million of borrowings through these correspondent bank federal funds agreements, respectively.

Securities sold under agreements to repurchase are agreements in which the Company acquires funds by selling assets to another party under a simultaneous agreement to repurchase the same assets at a specified price and date. The Company enters into repurchase agreements and also offers a demand deposit account product to customers that sweeps their balances in excess of an agreed upon target amount into overnight repurchase agreements. All securities sold under agreements to repurchase are recorded on the face of the balance sheet.

On April 30, 2015, the Company entered into a \$5.0 million unsecured line of credit with a correspondent bank. Interest is payable at a rate of one-month LIBOR plus 2.00%. The line was renewed in May 2018, and matures on April 30, 2019. The Company had no balance outstanding under this agreement as of September 30, 2018.

9. Junior Subordinated Notes Issued to Capital Trusts

The Company has established three statutory business trusts under the laws of the state of Delaware: Central Bancshares Capital Trust II, Barron Investment Capital Trust I, and MidWestOne Statutory Trust II. The trusts exist for the exclusive purposes of (i) issuing trust securities representing undivided beneficial interests in the assets of the respective trust; (ii) investing the gross proceeds of the trust securities in junior subordinated deferrable interest debentures (junior subordinated notes issued by the Company); and (iii) engaging in only those activities necessary or incidental thereto. For regulatory capital purposes, these trust securities qualify as a component of Tier 1 capital. The table below summarizes the outstanding junior subordinated notes and the related trust preferred securities issued by each trust as of September 30, 2018 and December 31, 2017:

(in thousands)	Face Value	Book Value	Interest Rate	Interest Rate at 9/30/2018	Maturity Date	Callable Date
September 30, 2018						
Central Bancshares Capital Trust II ^{(1) (2)}	\$7,217	\$6,716	Three-month LIBOR + 3.50%	5.83 %	03/15/2038	03/15/2013
Barron Investment Capital Trust I ^{(1) (2)}	2,062	1,685	Three-month LIBOR + 2.15%	4.52 %	09/23/2036	09/23/2011
MidWestOne Statutory Trust II ⁽¹⁾	15,464	15,464	Three-month LIBOR + 1.59%	3.92 %	12/15/2037	12/15/2012
Total	\$24,743	\$23,865				
(in thousands)	Face Value	Book Value	Interest Rate	Interest Rate at 12/31/2017	Maturity Date	Callable Date
December 31, 2017						
Central Bancshares Capital Trust II ^{(1) (2)}	\$7,217	\$6,674	Three-month LIBOR + 3.50%	5.09 %	03/15/2038	03/15/2013
Barron Investment Capital Trust I ^{(1) (2)}	2,062	1,655	Three-month LIBOR + 2.15%	3.82 %	09/23/2036	09/23/2011
MidWestOne Statutory Trust II ⁽¹⁾	15,464	15,464	Three-month LIBOR + 1.59%	3.18 %	12/15/2037	12/15/2012
Total	\$24,743	\$23,793				

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

(2) Central Bancshares Capital Trust II and Barron Investment Capital Trust I were established by Central prior to the Company's merger with Central, and the junior subordinated notes issued by Central were assumed by the Company.

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

Table of Contents**10. Federal Home Loan Bank Borrowings and Long-Term Debt**

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

(in thousands)	September 30, 2018		December 31, 2017	
	Weighted Average Balance Cost		Weighted Average Balance Cost	
FHLB Borrowings	2.20 %	\$ 143,000	1.72 %	\$ 115,000
Note payable to unaffiliated bank	3.85	8,750	3.32	12,500
Total	2.30 %	\$ 151,750	1.88 %	\$ 127,500

The Company utilizes FHLB borrowings as a supplement to customer deposits to fund interest-earning assets and to assist in managing interest rate risk. As a member of the Federal Home Loan Bank of Des Moines, the Bank may borrow funds from the FHLB in amounts up to 35% of the Bank's total assets, provided the Bank is able to pledge an adequate amount of qualified assets to secure the borrowings. Advances from the FHLB are collateralized primarily by one- to four-family residential, commercial and agricultural real estate first mortgages equal to various percentages of the total outstanding notes. See Note 4 "Loans Receivable and the Allowance for Loan Losses" of the notes to the consolidated financial statements.

On April 30, 2015, the Company entered into a \$35.0 million unsecured note payable with a correspondent bank with a maturity date of June 30, 2020. The Company drew \$25.0 million on the note prior to June 30, 2015, at which time the ability to obtain additional advances ceased. Payments of principal and interest are payable quarterly, which began on September 30, 2015. As of September 30, 2018, \$8.8 million of that note was outstanding.

11. Income Taxes

Income tax expense for the three and nine months ended September 30, 2018 and 2017 was equal to or less than the amount computed by applying the maximum effective federal income tax rate of 21% and 35%, respectively, to the income before income taxes, because of the following items:

(in thousands)	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2018	% of Pretax Income	2017	% of Pretax Income	2018	% of Pretax Income	2017	% of Pretax Income
Income tax based on statutory rate	\$ 1,803	21.0 %	\$ 2,898	35.0 %	\$ 6,016	21.0 %	\$ 9,762	35.0 %
Tax-exempt interest	(468)	(5.4)	(808)	(9.7)	(1,459)	(5.0)	(2,389)	(8.6)
Bank-owned life insurance	(84)	(1.0)	(121)	(1.5)	(257)	(0.9)	(346)	(1.2)
State income taxes, net of federal income tax benefit	445	5.2	366	4.4	1,540	5.4	1,214	4.4
Non-deductible acquisition expenses	124	1.4	—	—	124	0.4	—	—
General business credits	(22)	(0.2)	(405)	(4.9)	(62)	(0.2)	(445)	(1.6)
Other	8	—	8	0.1	19	—	(193)	(0.7)
Total income tax expense	\$ 1,806	21.0 %	\$ 1,938	23.4 %	\$ 5,921	20.7 %	\$ 7,603	27.3 %

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

12. Earnings per Share

Basic per-share amounts are computed by dividing net income (the numerator) by the weighted-average number of

common shares outstanding (the denominator). Diluted per-share amounts assume issuance of all common stock issuable upon conversion or exercise of other securities, unless the effect is to reduce the loss or increase the income per common share from continuing operations.

Table of Contents

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

(dollars in thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Basic earnings per common share computation				
Numerator:				
Net income	\$6,778	\$ 6,342	\$22,727	\$ 20,289
Denominator:				
Weighted average shares outstanding	12,221,107	12,218,528	12,220,671	11,977,579
Basic earnings per common share	\$0.55	\$ 0.52	\$ 1.86	\$ 1.69
Diluted earnings per common share computation				
Numerator:				
Net income	\$6,778	\$ 6,342	\$22,727	\$ 20,289
Denominator:				
Weighted average shares outstanding, including all dilutive potential shares	12,239,864	12,238,991	12,237,462	11,999,608
Diluted earnings per common share	\$0.55	\$ 0.52	\$ 1.86	\$ 1.69

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

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Market participants are defined as buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics: 1) an unrelated party; 2) knowledgeable (having a reasonable understanding about the asset or liability and the transaction based on all available information; including information that might be obtained through due diligence efforts that are usual or customary); 3) able to transact; and 4) willing to transact (motivated but not forced or otherwise compelled to do so).

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

Level 1 Inputs – Quoted prices (unadjusted) for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and is used to measure fair value whenever available. A contractually binding sales price also provides reliable evidence of fair value.

Level 2 Inputs – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that utilize model-based techniques for which all significant assumptions are observable in the market.

Level 3 Inputs – Inputs to the valuation methodology are unobservable and significant to the fair value measurement; inputs to the valuation methodology that utilize model-based techniques for which significant assumptions are not observable in the market; or inputs to the valuation methodology that require significant management judgment or estimation, some of which may be internally developed.

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

It is the Company's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements. The Company is required to use observable inputs, to the extent available, in the fair value estimation process unless that data results from forced liquidations or distressed sales. The Company used the following methods and significant assumptions to estimate fair value:

32

Table of Contents

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

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

Loans, Net - The estimated fair value of loans, net, was performed using the income approach, with the market approach used for certain nonperforming loans, resulting in a Level 3 fair value classification. The application of the income approach establishes value by methods that discount or capitalize earnings and/or cash flow, by a discount or capitalization rate that reflects market rate of return expectations, market conditions, and the relative risk of the investment. Generally, this can be accomplished by the discounted cash flow method. For loans that exhibited some characteristics of performance and where it appears that the borrower may have adequate cash flows to service the loan, a discounted cash flow analysis was used. The discounted cash flow analysis was based on the contractual maturity of the loan and market indications of rates, prepayment speeds, defaults and credit risk. For loans with balloon or interest only payment structures, the repayment was extended by assuming a renewal period beyond the current contractual maturity date. For loans analyzed using the asset approach, the fair value was determined based on the estimated values of the underlying collateral. For impaired loans, the estimated net sales proceeds was used to determine the fair value of the loans when deemed appropriate. The implied sales proceeds value provides a better indication of value than the income stream as these loans are not performing or exhibit strong signs indicative of nonperformance.

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

Other Real Estate Owned ("OREO") - OREO represents property acquired through foreclosures and settlements of loans. Property acquired through or in lieu of foreclosure are initially recorded at fair value less estimated selling cost at the date of foreclosure, establishing a new cost basis. These assets are subsequently accounted for at the lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than every 18 months. These appraisals may utilize a single valuation approach or a combination of approaches, including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income

data available for similar loans and the collateral underlying such loans, resulting in a Level 3 classification for inputs for determining fair value. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

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

Table of Contents

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

Credit Risk Participation Agreements — The Company enters into credit risk participation agreements (“RPAs”) with institutional counterparties, under which the Company assumes its pro-rata share of the credit exposure associated with a borrower’s performance related to interest rate derivative contracts. The fair value of RPAs is calculated by determining the total expected asset or liability exposure of the derivatives to the borrowers and applying the borrowers’ credit spread to that exposure. Total expected exposure incorporates both the current and potential future exposure of the derivatives, derived from using observable inputs, such as yield curves and volatilities. Accordingly, RPAs fall within Level 2.

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

Fair Value Measurement at September 30, 2018 Using

(in thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale debt securities:				
U.S. Government agencies and corporations	\$5,519	\$ —	\$5,519	\$ —
State and political subdivisions	115,136	—	115,136	—
Mortgage-backed securities	51,896	—	51,896	—
Collateralized mortgage obligations	170,877	—	170,877	—
Corporate debt securities	64,338	—	64,338	—
Total available for sale debt securities	\$407,766	\$ —	\$407,766	\$ —
Derivatives:				
Interest rate swaps	\$205	\$ —	\$205	\$ —
RPAs	—	—	—	—
Total derivative assets	\$205	\$ —	\$205	\$ —
Liabilities:				
Derivatives:				
Interest rate swaps	\$125	\$ —	\$125	\$ —
RPAs	53	—	53	—
Total derivative liabilities	\$178	\$ —	\$178	\$ —

Fair Value Measurement at December 31, 2017 Using

(in thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale debt securities:				
U.S. Government agencies and corporations	\$15,626	\$ —	\$15,626	\$ —
State and political subdivisions	141,839	—	141,839	—
Mortgage-backed securities	48,497	—	48,497	—

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

Collateralized mortgage obligations	168,196	—	168,196	—
Corporate debt securities	71,166	—	71,166	—
Total available for sale debt securities	\$445,324	\$	— \$ 445,324	\$ —

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

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

Table of Contents

The following table discloses the Company's estimated fair value amounts of its assets recorded at fair value on a nonrecurring basis. It is management's belief that the fair values presented below are reasonable based on the valuation techniques and data available to the Company as of September 30, 2018 and December 31, 2017, as more fully described above.

(in thousands)	Fair Value Measurement at September 30, 2018			
	Fair Value	Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Collateral dependent impaired loans	\$8,362	\$ —	\$ —	\$ 8,362
Other real estate owned	\$ 549	\$ —	\$ —	\$ 549

(in thousands)	Fair Value Measurement at December 31, 2017 Using			
	Fair Value	Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Collateral dependent impaired loans	\$3,927	\$ —	\$ —	\$ 3,927
Other real estate owned	\$2,010	\$ —	\$ —	\$ 2,010

The following presents the valuation technique(s), unobservable inputs, and quantitative information about the unobservable inputs used for fair value measurements of the financial instruments held by the Company at September 30, 2018, categorized within Level 3 of the fair value hierarchy:

(dollars in thousands)	Quantitative Information About Level 3 Fair Value Measurements				
	Fair Value at September 30, 2018	Valuation Techniques(s)	Unobservable Input	Range of Inputs	Weighted Average
Collateral dependent impaired loans	\$ 8,362	Modified appraised value	Third party appraisal	NM * - NM *	NM *
			Appraisal discount	NM * - NM *	NM *
Other real estate owned	\$ 549	Modified appraised value	Third party appraisal	NM * - NM *	NM *
			Appraisal discount	NM * - NM *	NM *

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

Table of Contents

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

September 30, 2018

(in thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	\$53,379	\$ 53,379	\$ 53,379	\$ —	\$ —
Investment securities:					
Equity securities	2,797	2,797	2,797	—	—
Debt securities available for sale	407,766	407,766	—	407,766	—
Debt securities held to maturity	191,733	186,057	—	186,057	—
Total investment securities	602,296	596,620	2,797	593,823	—
Loans held for sale	1,124	1,145	—	1,145	—
Loans held for investment, net	2,346,371	2,283,363	—	—	2,283,363
Interest receivable	14,800	14,800	14,800	—	—
Federal Home Loan Bank stock	13,260	13,260	—	13,260	—
Derivative assets	205	205	—	205	—
Financial liabilities:					
Deposits:					
Non-interest bearing demand	458,576	458,576	458,576	—	—
Interest-bearing checking	1,236,922	1,236,922	1,236,922	—	—
Savings	211,591	211,591	211,591	—	—
Certificates of deposit under \$100,000	348,099	342,998	—	342,998	—
Certificates of deposit \$100,000 and over	377,071	373,313	—	373,313	—
Total deposits	2,632,259	2,623,400	1,907,089	716,311	—
Federal funds purchased and securities sold under agreements to repurchase	87,978	87,978	87,978	—	—
Federal Home Loan Bank borrowings	143,000	141,110	—	141,110	—
Junior subordinated notes issued to capital trusts	23,865	21,058	—	21,058	—
Long-term debt	8,750	8,750	—	8,750	—
Derivative liabilities	178	178	—	178	—

Table of Contents

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

14. Revenue Recognition

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

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

Trust and Asset Management

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

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

Table of Contents

Service Charges on Deposit Accounts

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

Fees, Exchange, and Other Service Charges

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

Gains/Losses on Sales of OREO

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

Other

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

Contract Balances

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

Contract Acquisition Costs

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

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

15. Operating Segments

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

38

Table of Contents

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

16. Proposed Merger

On August 21, 2018, the Company entered into a merger agreement with ATBancorp, an Iowa corporation, pursuant to which ATBancorp will merge with and into the Company. In connection with the merger, American Trust & Savings Bank, an Iowa state chartered bank and wholly owned subsidiary of ATBancorp, and American Bank & Trust Wisconsin, a Wisconsin state chartered bank and wholly owned subsidiary of ATBancorp, will merge with and into MidWestOne Bank, which will continue as the surviving bank. The merger agreement also provides that each of the outstanding shares of ATBancorp common stock will be converted into the right of ATBancorp shareholders to receive 117.5500 shares of Company common stock and \$992.51 in cash. The corporate headquarters of the combined company will be in Iowa City, Iowa. The merger is anticipated to be completed in the first quarter of 2019. For further information, please refer to the Current Report on Form 8-K filed by the Company with the SEC on August 22, 2018.

17. Subsequent Events

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

On October 16, 2018, the Board of Directors of the Company approved a new share repurchase program, allowing for the repurchase of up to \$5.0 million of common stock through December 31, 2020. The new repurchase program replaces the Company's prior repurchase program, pursuant to which the Company had repurchased 33,998 shares of common stock for approximately \$1.1 million since the plan was announced in July 2016. The prior program had authorized the repurchase of \$5.0 million of stock and was due to expire on December 31, 2018.

On October 16, 2018, the board of directors of the Company declared a cash dividend of \$0.195 per share payable on December 15, 2018 to shareholders of record as of the close of business on December 1, 2018.

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

OVERVIEW

The Company provides financial services to individuals, businesses, governmental units and institutional customers located primarily in the upper Midwest through its bank subsidiary, MidWestOne Bank (the "Bank"). The Bank has locations in central and east-central Iowa, the Twin Cities area of Minnesota, Wisconsin, Florida, and Denver, Colorado. The Bank is actively engaged in many areas of commercial banking, including: acceptance of demand, savings and time deposits; making commercial, real estate, agricultural and consumer loans; and other banking services tailored for its individual customers. The Wealth Management Division of the Bank administers estates, personal trusts, conservatorships, and pension and profit-sharing accounts along with providing brokerage and other investment management services to customers. MidWestOne Insurance Services, Inc., a wholly-owned subsidiary of the Company, provides personal and business insurance services in Iowa. During the second quarter of 2018, the Company purchased a registered investment adviser in Denver, Colorado, which operates through the Bank. We operate as an independent community bank that offers a broad range of customer-focused financial services as an alternative to large regional banks in our market areas. Management has invested in infrastructure and staffing to support our strategy of serving the financial needs of businesses, individuals and municipalities in our market areas. We focus our efforts on core deposit generation, especially transaction accounts, and quality loan growth with an emphasis on growing commercial loan balances. We seek to maintain a disciplined pricing strategy on deposit

generation that will allow us to compete for high quality loans while maintaining an appropriate spread over funding costs.

Our results of operations depend primarily on our net interest income, which is the difference between the interest income on our interest-earning assets, such as loans and securities, and the interest expense paid on our deposits and borrowings. Results of operations are also affected by non-interest income and expense, the provision for loan losses and income tax expense. Significant

Table of Contents

external factors that impact our results of operations include general economic and competitive conditions, as well as changes in market interest rates, government policies, and actions of regulatory authorities.

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes and the statistical information and financial data appearing in this report as well as our Annual Report on Form 10-K for the year ended December 31, 2017. Results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of results to be attained for any other period.

On August 21, 2018, the Company entered into a merger agreement with ATBancorp, an Iowa corporation, pursuant to which ATBancorp will merge with and into the Company. In connection with the merger, American Trust & Savings Bank, an Iowa state chartered bank and wholly owned subsidiary of ATBancorp, and American Bank & Trust Wisconsin, a Wisconsin state chartered bank and wholly owned subsidiary of ATBancorp, will merge with and into MidWestOne Bank, which will continue as the surviving bank. The merger agreement also provides that each of the outstanding shares of ATBancorp common stock will be converted into the right to receive 117.5500 shares of Company common stock and \$992.51 in cash. The corporate headquarters of the combined company will be in Iowa City, Iowa. The merger is anticipated to be completed in the first quarter of 2019. For further information, please refer to the Current Report on Form 8-K filed by the Company with the SEC on August 22, 2018.

Critical Accounting Estimates

Critical accounting estimates are those which are both most important to the portrayal of our financial condition and results of operations, and require our management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting estimates relate to the allowance for loan losses, application of purchase accounting, goodwill and intangible assets, and fair value of available for sale investment securities, all of which involve significant judgment by our management. Information about our critical accounting estimates is included under Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" in our Annual Report on Form 10-K for the year ended December 31, 2017.

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

For the quarter ended September 30, 2018, we earned net income of \$6.8 million, which was an increase of \$0.5 million from \$6.3 million for the quarter ended September 30, 2017. The increase in net income was due primarily to a \$3.4 million, or 78.3%, decrease in the allowance for loan losses between the two comparable periods, an increase of \$0.1 million, or 1.1%, in noninterest income, and a \$0.1 million, or 6.8%, decrease in income tax expense, stemming from the reduction in the maximum corporate federal income tax rate to 21% for 2018 compared to 35% for 2017. These increases were partially offset by an increase of \$3.1 million, or 15.5%, in noninterest expense, due primarily to increased salaries and employee benefits of \$1.0 million, or 8.4%, and a \$0.1 million, or 0.5%, decrease in net interest income, due primarily to an increase of \$2.2 million in interest expense partially offset by an increase of \$2.1 million in interest income. Both basic and diluted earnings per common share for the third quarter of 2018 were \$0.55, versus \$0.52 for the third quarter of 2017. Our annualized return on average assets for the third quarter of 2018 was 0.83% compared with 0.81% for the same period in 2017. Our annualized return on average shareholders' equity was 7.72% for the three months ended September 30, 2018 compared with 7.29% for the three months ended September 30, 2017. The annualized return on average tangible equity was 10.45% for the third quarter of 2018 compared with 10.06% for the same period in 2017.

Table of Contents

The following table presents selected financial results and measures as of and for the quarters ended September 30, 2018 and 2017.

(dollars in thousands, except per share amounts)	As of and for the Three Months Ended September 30,	
	2018	2017
Net Income	\$6,778	\$6,342
Average Assets	3,258,283	3,102,348
Average Shareholders' Equity	348,131	344,961
Return on Average Assets*	0.83 %	0.81 %
Return on Average Shareholders' Equity*	7.72	7.29
Return on Average Tangible Equity* ⁽¹⁾	10.45	10.06
Total Equity to Assets (end of period)	10.69	11.02
Tangible Equity to Tangible Assets (end of period) ⁽¹⁾	8.61	8.84
Book Value per Share	\$28.57	\$28.36
Tangible Book Value per Share ⁽¹⁾	22.50	22.20

* Annualized

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

We have traditionally disclosed certain non-GAAP ratios, including our return on average tangible equity and the ratio of our tangible equity to tangible assets, as well as adjusted noninterest income as a percentage of total revenue and tangible book value per share. We believe these financial measures provide investors with information regarding our financial condition and results of operations and how we evaluate them internally, such as presenting how management tracks adjusted noninterest income as a percentage of total revenue against its goal of 25%.

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

(dollars in thousands)	For the Three Months Ended September 30,	
	2018	2017
Net Income:		
Net income	\$6,778	\$6,342
Plus: Intangible amortization, net of tax ⁽¹⁾	432	493
<i>Adjusted net income</i>	\$7,210	\$6,835
Average Tangible Equity:		
Average total shareholders' equity	\$348,131	\$344,961
Plus: Average deferred tax liability associated with intangibles	852	2,282
Less: Average intangibles, net of amortization	(75,292)	(77,775)
<i>Average tangible equity</i>	\$273,691	\$269,468
Return on Average Tangible Equity (annualized)	10.45 %	10.06 %

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

(dollars in thousands)	For the Three Months Ended September 30,	
	2018	2017
Adjusted Noninterest Income:		
Noninterest income	\$5,984	\$5,916
Less: Gain on sale of debt securities	(192)	(176)
Other gain	(326)	(10)
<i>Adjusted noninterest income</i>	\$5,466	\$5,730
Total Revenue:		
Net interest income	\$26,361	\$26,492
Plus: Noninterest income	5,984	5,916
Less: Gain on sale of debt securities	(192)	(176)

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

Other gain	(326)	(10)
<i>Total Revenue</i>	\$31,827	\$32,222
Adjusted Noninterest Income as a Percentage of Total Revenue⁽¹⁾	17.2 %	17.8 %

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

Table of Contents

(dollars in thousands, except per share amounts)	As of September 30,		
	2018	2017	
Tangible Equity:			
Total shareholders' equity	\$349,189	\$346,563	
Plus: Deferred tax liability associated with intangibles	786	2,141	
Less: Intangible assets, net	(75,032)	(77,413)	
<i>Tangible equity</i>	\$274,943	\$271,291	
Tangible Assets:			
Total assets	\$3,267,965	\$3,144,199	
Plus: Deferred tax liability associated with intangibles	786	2,141	
Less: Intangible assets, net	(75,032)	(77,413)	
<i>Tangible assets</i>	\$3,193,719	\$3,068,927	
<i>Common shares outstanding</i>	12,221,107	12,218,528	
Tangible Book Value Per Share	\$22.50	\$22.20	
Tangible Equity/Tangible Assets	8.61	% 8.84	%

Net Interest Income

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

Certain assets with tax favorable treatment are evaluated on a tax-equivalent basis. Tax-equivalent basis assumes a federal income tax rate of 21% for 2018 and 35% for 2017. Tax-favorable assets generally have lower contractual yields than fully taxable assets. A tax-equivalent analysis is performed by adding the tax savings to the earnings on tax-favorable assets. After factoring in the tax-favorable effects of these assets, the yields may be more appropriately evaluated against alternative earning assets. In addition to yield, various other risks are factored into the evaluation process.

Net interest income of \$26.4 million for the third quarter of 2018 was down \$0.1 million, or 0.5%, from \$26.5 million for the third quarter of 2017. An increase in interest income of \$2.1 million, or 6.9%, was more than offset by increased interest expense of \$2.2 million, or 57.6%. Loan interest income increased \$1.9 million, or 7.2%, to \$28.1 million for the third quarter of 2018 compared to the third quarter of 2017, as a 2 basis point decrease in loan yield was more than offset by a \$155.7 million, or 7.0%, increase in average loan balances between the two periods. Merger-related loan discount accretion saw a decrease of \$0.7 million to \$0.6 million for the third quarter of 2018. Interest income from investment securities was \$4.4 million for the third quarter of 2018, up from \$4.1 million for the third quarter of 2017.

Interest expense increased \$2.2 million, or 57.6%, to \$6.1 million for the third quarter of 2018, compared to \$3.9 million for the same period in 2017, primarily due to an increase in the cost of interest-bearing deposits of 28 basis points and an increase in the average balance of \$133.9 million between the two periods. Interest expense on borrowed funds was \$1.5 million for the third quarter of 2018, up from \$1.0 million for the third quarter of 2017, an increase of \$0.5 million, or 52.1%. This increase resulted from an increase of 55 basis points in cost, combined with a higher average balance of borrowed funds of \$277.7 million for the third quarter of 2018 compared to \$247.0 million for the same period last year, an increase of \$30.7 million, or 12.4%, between the comparative periods.

Our net interest margin for the third quarter of 2018, calculated on a fully tax-equivalent basis, was 3.56%, or 29 basis points lower than the net interest margin of 3.85% for the third quarter of 2017. The yield on loans decreased 2 basis points and the tax equivalent yield on investment securities decreased by 10 basis points, primarily due to the reduction in the federal income tax rate, resulting in the yield on interest-earning assets for the third quarter of 2018 being 2 basis points lower compared to the third quarter of 2017. The cost of deposits increased 28 basis points, while the average cost of borrowings was higher by 55 basis points for the third quarter of 2018, compared to the third quarter of 2017, reflecting the increasing interest rate environment. We expect further net interest margin compression

pressure in the future as rates on deposits are expected to increase more rapidly than yields on loans.

42

Table of Contents

The following table shows consolidated average balance sheets, detailing the major categories of assets and liabilities, the interest income earned on interest-earning assets, the interest expense paid for interest-bearing liabilities, and the related yields and interest rates for the quarters ended September 30, 2018 and 2017, reported on a fully tax-equivalent basis assuming a 21% tax rate for 2018 and a 35% tax rate for 2017. Dividing annualized income or expense by the average balances of assets or liabilities results in average yields or costs. Average information is provided on a daily average basis.

	Three Months Ended September 30,					
	2018			2017		
	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⁾	\$2,375,100	\$28,358	4.74 %	\$2,219,355	\$26,652	4.76 %
Investment securities:						
Taxable investments	426,674	2,965	2.76	417,896	2,589	2.46
Tax exempt investments ⁽²⁾	200,577	1,760	3.48	217,535	2,367	4.32
Total investment securities	627,251	4,725	2.99	635,431	4,956	3.09
Federal funds sold and interest-bearing balances	2,541	12	1.87	3,929	19	1.92
Total interest-earning assets	\$3,004,892	\$33,095	4.37 %	\$2,858,715	\$31,627	4.39 %
Cash and due from banks	36,759			35,774		
Premises and equipment	77,476			74,962		
Allowance for loan losses	(31,441)			(23,054)		
Other assets	170,597			155,951		
Total assets	\$3,258,283			\$3,102,348		
Average Interest-Bearing Liabilities:						
Savings and interest-bearing demand deposits	\$1,425,768	\$1,685	0.47 %	\$1,345,525	\$966	0.28 %
Certificates of deposit	729,795	2,940	1.60	676,143	1,934	1.13
Total deposits	2,155,563	4,625	0.85	2,021,668	2,900	0.57
Federal funds purchased and repurchase agreements	99,254	317	1.27	95,387	134	0.56
Federal Home Loan Bank borrowings	143,326	741	2.05	111,576	474	1.69
Long-term debt and other	35,109	416	4.70	40,057	361	3.58
Total borrowed funds	277,689	1,474	2.11	247,020	969	1.56
Total interest-bearing liabilities	\$2,433,252	\$6,099	0.99 %	\$2,268,688	\$3,869	0.68 %
Net interest spread ⁽²⁾			3.38 %			3.71 %
Demand deposits	453,124			466,485		
Other liabilities	23,776			22,214		
Shareholders' equity	348,131			344,961		
Total liabilities and shareholders' equity	\$3,258,283			\$3,102,348		
Interest income/earning assets ⁽²⁾	\$3,004,892	\$33,095	4.37 %	\$2,858,715	\$31,627	4.39 %
Interest expense/earning assets	\$3,004,892	\$6,099	0.81 %	\$2,858,715	\$3,869	0.54 %
Net interest margin ⁽²⁾⁽³⁾		\$26,996	3.56 %		\$27,758	3.85 %

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

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

Loans	\$ 270	\$ 446
Securities	365	820
Total tax equivalent adjustment	635	1,266
Net Interest Income	\$ 26,361	\$ 26,492

Non-accrual loans have been included in average loans, net of unearned income. Amortized net deferred loans and net unearned discounts on acquired loans were included in the interest income calculations. The amortization of net deferred loans fees was \$(128) thousand, and \$(99) thousand for the three months ended September 30, 2018, and September 30, 2017, respectively. Accretion of unearned purchase discounts was \$605 thousand and \$1.3 million for the three months ended September 30, 2018, and September 30, 2017, respectively.

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

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

Table of Contents

The following table sets forth an analysis of volume and rate changes in interest income and interest expense on our average interest-earning assets and average interest-bearing liabilities during the three months ended September 30, 2018, compared to the same period in 2017, reported on a fully tax-equivalent basis assuming a 21% federal tax rate for 2018 and a 35% federal tax rate for 2017. The table distinguishes between the changes related to average outstanding balances (changes in volume holding the initial interest rate constant) and the changes related to average interest rates (changes in average rate holding the initial outstanding balance constant). The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

	Three Months Ended September 30, 2018 Compared to 2017 Change due to		
	Volume	Rate/Yield	Net
(in thousands)			
Increase (decrease) in interest income:			
Loans, tax equivalent	\$ 2,447	\$ (741)	\$ 1,706
Investment securities:			
Taxable investments	55	321	376
Tax exempt investments	(174)	(433)	(607)
Total investment securities	(119)	(112)	(231)
Federal funds sold and interest-bearing balances	(7)	—	(7)
Change in interest income	2,321	(853)	1,468
Increase (decrease) in interest expense:			
Savings and interest-bearing demand deposits	58	661	719
Certificates of deposit	161	845	1,006
Total deposits	219	1,506	1,725
Federal funds purchased and repurchase agreements	6	177	183
Federal Home Loan Bank borrowings	153	114	267
Other long-term debt	(238)	293	55
Total borrowed funds	(79)	584	505
Change in interest expense	140	2,090	2,230
Increase in net interest income	\$ 2,181	\$ (2,943)	\$ (762)
Percentage change in net interest income over prior period			(2.8)%

Interest income and fees on loans on a tax-equivalent basis in the third quarter of 2018 increased \$1.7 million, or 6.4%, compared with the same period in 2017. This increase includes the effect of the merger-related discount accretion of \$0.6 million on loans for the third quarter of 2018 compared to \$1.3 million of merger-related discount accretion for the third quarter of 2017. Average loans were \$155.7 million, or 7.0%, higher in the third quarter of 2018 compared with the third quarter of 2017, primarily resulting from new loan originations exceeding loan payments and payoffs. In addition to purchase accounting adjustments, the yield on our loan portfolio is affected by the amount of nonaccrual loans (which do not earn interest income), the mix of the portfolio (real estate loans generally have a lower overall yield than commercial and agricultural loans), the effects of competition and the interest rate environment on the amounts and volumes of new loan originations, and the mix of variable-rate versus fixed-rate loans in our portfolio. The increase in interest income on loans was primarily the result of the increase in average balance of loans between the third quarter of 2018 and the comparative period in 2017. The effects of this increase were partially offset by a decrease in the average yield on loans from 4.76% in the third quarter of 2017 to 4.74% in the third quarter of 2018, which was primarily attributable to a decrease in purchase accounting adjustments and the reduction in the federal income tax rate. Despite the increase in overall interest rates, we expect the yield on new and renewing loans to remain relatively flat in the markets we serve due to competitive pressures for quality credits.

Interest income on investment securities on a tax-equivalent basis totaled \$4.7 million in the third quarter of 2018 compared with \$5.0 million for the same period of 2017. The tax-equivalent yield on our investment portfolio in the third quarter of 2018 decreased to 2.99% from 3.09% in the comparable period of 2017, primarily due to the impact of the reduction in the federal corporate income tax rate from 35% in 2017 to 21% in 2018. The average balance of

investments in the third quarter of 2018 was \$627.3 million compared with \$635.4 million in the third quarter of 2017, a decrease of \$8.2 million, or 1.3%.

Interest expense on deposits increased \$1.7 million, or 59.5%, to \$4.6 million in the third quarter of 2018 compared with \$2.9 million in the same period of 2017. The increased interest expense on deposits was primarily due to an increase of 28 basis points in the weighted average rate paid on interest-bearing deposits to 0.85% in the third quarter of 2018, compared with 0.57% in the third quarter of 2017. An increase in average balances of interest-bearing deposits for the third quarter of 2018 of \$133.9 million compared with the same period in 2017, also contributed to increased expense on deposits. We expect to see some upward

Table of Contents

movement in deposit rates in future periods, as overall interest rate increases continue in our market footprint due to competition for deposits.

Interest expense on borrowed funds of \$1.5 million in the third quarter of 2018 was an increase of \$0.5 million, or 52.1%, from \$1.0 million in same period of 2017. Average borrowed funds for the third quarter of 2018 were \$30.7 million higher compared with the same period in 2017. A higher level of borrowed funds, primarily due to the \$31.8 million increase in the average level of FHLB borrowings combined with a \$3.9 million increase in the average level of federal funds purchased and repurchase agreements for the third quarter of 2018, compared to the same period in 2017, was enhanced by an increase in the weighted average rate on borrowed funds to 2.11% for the third quarter of 2018 compared with 1.56% for the third quarter of 2017. The increase in the weighted average rate was due to the interest rate on a portion of the Company's borrowings being tied to short-term interest rate indexes, which allows them to reprice upward rapidly in an increasing interest rate environment.

Provision for Loan Losses

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

We recorded a provision for loan losses of \$1.0 million in the third quarter of 2018, a decrease of \$3.4 million, or 78.3%, from \$4.4 million for the third quarter of 2017. The decrease was primarily due to the presence of specific provisions on large credits that occurred in 2017 that did not occur in 2018. Net loans charged off in the third quarter of 2018 totaled \$0.5 million, compared to \$0.4 million net loans charged off in the third quarter of 2017. We determined an appropriate provision based on our evaluation of the adequacy of the allowance for loan losses in relationship to a continuing review of problem loans, current economic conditions, actual loss experience and industry trends. We believed that the allowance for loan losses was adequate based on the inherent risk in the portfolio as of September 30, 2018; however, there is no assurance losses will not exceed the allowance, and any growth in the loan portfolio and the uncertainty of the general economy may require additional provisions in future periods.

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

Noninterest Income

	Three Months Ended September 30,			
	2018	2017	\$ Change	% Change
(dollars in thousands)				
Trust, investment, and insurance fees	\$ 1,526	\$ 1,454	\$ 72	5.0 %
Service charges and fees on deposit accounts	1,148	1,295	(147)	(11.4)
Loan origination and servicing fees	891	1,012	(121)	(12.0)
Other service charges and fees	1,502	1,625	(123)	(7.6)
Bank-owned life insurance income	399	344	55	16.0
Gain on sale or call of debt securities	192	176	16	9.1
Other gain	326	10	316	NM
Total noninterest income	\$ 5,984	\$ 5,916	\$ 68	1.1 %
Noninterest income as a % of total revenue*	17.2	% 17.8	%	

NM - Percentage change not considered meaningful.

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

Total noninterest income for the third quarter of 2018 increased \$0.1 million, or 1.1%, to \$6.0 million from \$5.9 million in the third quarter of 2017. The greatest increase was in other gain of \$0.3 million between the third quarter of 2018 and the third quarter of 2017, due primarily to increased gains on the sale of other real estate owned and derivative income. Other gain (loss) represents gains and losses on the sale other real estate owned, derivatives, premises and equipment, other assets, and the mark-to-market of equity securities. Trust, investment and insurance fees increased \$0.1 million, or 5.0%, to \$1.5 million for the third quarter of 2018, due to increased trust services activity. These increase were partially offset by a decrease of \$0.2 million, or 11.4%, in service charges and fees on deposit accounts to \$1.1 million for the third quarter of 2018, compared to \$1.3 million for the third

Table of Contents

quarter of 2017, primarily due to decreased non-sufficient funds charges on deposit accounts. Other service charges and fees decreased \$0.1 million, or 7.6%, to \$1.5 million in the third quarter of 2018 from \$1.6 million in the third quarter of 2017, primarily due to a cumulative adjustment change in how electronic transaction expenses are classified that was made in the third quarter of 2017. Loan origination and servicing fees decreased \$0.1 million, or 12.0%, from \$1.0 million for the third quarter of 2017 to \$0.9 million for the third quarter of 2018. This decrease was primarily due to a lower level of loans originated and sold on the secondary market in the third quarter of 2018 compared to the third quarter of 2017, which was a result of the general decrease in mortgage activity in the Company's markets.

Management's strategic goal is for noninterest income to constitute 25% of total revenues (net interest income plus noninterest income excluding gain/loss on securities and premises and equipment and impairment of investment securities) over time. For the three months ended September 30, 2018, noninterest income comprised 17.2% of total revenues, compared with 17.8% for the same period in 2017. Despite recent downward trends in this ratio, management expects to see gradual improvement in future periods due to the implementation of new management strategies in the origination of residential real estate loans, and continued growth in trust, investment and insurance fees. We expect this ratio to be positively impacted by the proposed acquisition of ATBancorp.

Noninterest Expense

	Three Months Ended September 30,			
	2018	2017	\$ Change	% Change
(dollars in thousands)				
Salaries and employee benefits	\$ 13,051	\$ 12,039	\$ 1,012	8.4 %
Net occupancy and equipment expense	3,951	2,986	965	32.3
Professional fees	1,861	933	928	99.5
Data processing expense	697	723	(26)	(3.6)
FDIC insurance expense	393	238	155	65.1
Amortization of intangible assets	547	759	(212)	(27.9)
Other operating expense	2,311	2,066	245	11.9
Total noninterest expense	\$ 22,811	\$ 19,744	\$ 3,067	15.5 %

Noninterest expense for the third quarter of 2018 was \$22.8 million, an increase of \$3.1 million, or 15.5%, from \$19.7 million for the third quarter of 2017. Salaries and employee benefits increased \$1.0 million, or 8.4%, from \$12.0 million for the third quarter of 2017 to \$13.1 million for the third quarter of 2018, primarily due to normal annual salary and personnel adjustments. The Company also realized an expense of \$0.3 million related to the retirement of the Company's Chief Credit Officer, which was effective August 31, 2018, which expense is included in salaries and employee benefits. Occupancy and equipment expense, net, increased \$1.0 million, or 32.3%, to \$4.0 million for the third quarter of 2018 compared to \$3.0 million for the third quarter of 2017, due primarily to a \$0.6 million writedown of the value of a former branch facility that is currently listed for sale. Professional fees increased \$0.9 million, or 99.5%, for the quarter ended September 30, 2018 compared to the quarter ended September 30, 2017, mainly due to expenses paid of \$0.6 million related to the previously announced merger agreement with ATBancorp. Partially offsetting these increases, amortization of intangible asset expense decreased \$0.2 million, or 27.9%, between the two periods.

Income Tax Expense

Our effective income tax rate, or income taxes divided by income before taxes, was 21.0% for the third quarter of 2018, which was lower than the effective tax rate of 23.4% for the third quarter of 2017. Income tax expense was \$1.8 million in the third quarter of 2018 compared to \$1.9 million for the same period of 2017. The primary reason for the decrease in income tax expense was the reduction in the maximum corporate federal income tax rate to 21% for 2018 compared to 35% for 2017 as a result of the Tax Act enacted by the U.S. government on December 22, 2017. We also realized \$0.4 million of historic tax credits in the third quarter of 2017 related to the remodel and restoration of the Company's headquarters building. We expect the reduction in the federal corporate income tax rate to contribute to higher net income levels in future periods.

Comparison of Operating Results for the Nine Months Ended September 30, 2018 and September 30, 2017

Summary

For the nine months ended September 30, 2018, we earned net income of _____ compared with _____ for the nine months ended September 30, 2017, an increase of 12.0%. The increase in net income was primarily due to a decrease in the provision for loan losses by \$2.6 million, or 39.2%, to \$4.1 million, compared to \$6.7 million for the first nine months of 2017. This decrease was primarily due to the recognition of individual impairments against certain large credits last year with no similarly large impairments in the nine months ended September 30, 2018. In addition, net interest income increased \$1.5 million, or 1.9%, for the first nine months of 2018 compared with the same period of 2017. The Company also realized a \$1.7 million decrease in _____

Table of Contents

income tax expense between the nine months ended September 30, 2018 and the same period in 2017, primarily due to the reduction in the maximum corporate federal income tax rate to 21% for 2018 compared to 35% for 2017.

Noninterest income increased by \$0.3 million, or 1.8%, between the first nine months of 2017 and 2018. These changes were partially offset by a \$3.7 million, or 6.1%, increase in noninterest expense between the comparative nine month periods, primarily due to an increase of \$1.9 million, or 5.4%, in salaries and employee benefits, primarily due to normal annual salary and personnel adjustments. Our annualized return on average assets for the first nine months of 2018 was 0.94% compared with 0.88% for the same period in 2017. Our annualized return on average shareholders' equity was 8.84% for the nine months ended September 30, 2018 versus 8.20% for the nine months ended September 30, 2017. The annualized return on average tangible equity was 12.00% for the first nine months of 2018 compared with 11.47% for the same period in 2017.

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

(dollars in thousands, except per share amounts)	As of and for the Nine Months Ended September 30,	
	2018	2017
Net Income	\$22,727	\$20,289
Average Assets	3,240,123	3,072,998
Average Shareholders' Equity	343,825	330,682
Return on Average Assets*	0.94	% 0.88
Return on Average Shareholders' Equity*	8.84	8.20
Return on Average Tangible Equity* ⁽¹⁾	12.00	11.47
Total Equity to Assets (end of period)	10.69	11.02
Tangible Equity to Tangible Assets (end of period) ⁽¹⁾	8.61	8.84
Book Value per Share	\$28.57	\$28.36
Tangible Book Value per Share ⁽¹⁾	22.50	22.20

* Annualized

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

We have traditionally disclosed certain non-GAAP ratios, including our return on average tangible equity and the ratio of our tangible equity to tangible assets, as well as adjusted noninterest income as a percentage of total revenue and tangible book value per share. We believe these financial measures provide investors with information regarding our financial condition and results of operations and how we evaluate them internally, such as presenting how management tracks adjusted noninterest income as a percentage of total revenue against its goal of 25%.

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

(dollars in thousands)	For the Nine Months Ended September 30,	
	2018	2017
Net Income:		
Net income	\$22,727	\$20,289
Plus: Intangible amortization, net of tax ⁽¹⁾	1,416	1,568
<i>Adjusted net income</i>	\$24,143	\$21,857
Average Tangible Equity:		
Average total shareholders' equity	\$343,825	\$330,682
Less: Average intangibles, net of amortization	(75,799)	(78,550)
Plus: Average deferred tax liability associated with intangibles	1,000	2,585
<i>Average tangible equity</i>	\$269,026	\$254,717
Return on Average Tangible Equity (annualized)	12.00	% 11.47

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

Table of Contents

(dollars in thousands)	For the Nine Months Ended September 30,		
	2018	2017	
Adjusted Noninterest Income:			
Noninterest income	\$ 17,143	\$ 16,836	
Less: Gain on sale or call of debt securities	(197)	(239)	
Other gain	(338)	(66)	
<i>Adjusted noninterest income</i>	\$ 16,608	\$ 16,531	
Total Revenue:			
Net interest income	\$ 79,255	\$ 77,764	
Plus: Noninterest income	17,143	16,836	
Less: Gain on sale or call of debt securities	(197)	(239)	
Other gain	(338)	(66)	
<i>Total Revenue</i>	\$ 95,863	\$ 94,295	
Adjusted Noninterest Income as a Percentage of Total Revenue⁽¹⁾	17.3	% 17.5	%

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

(dollars in thousands, except per share amounts)	As of September 30,		
	2018	2017	
Tangible Equity:			
Total shareholders' equity	\$ 349,189	\$ 346,563	
Plus: Deferred tax liability associated with intangibles	786	2,141	
Less: Intangible assets, net	(75,032)	(77,413)	
<i>Tangible equity</i>	\$ 274,943	\$ 271,291	
Tangible Assets:			
Total assets	\$ 3,267,965	\$ 3,144,199	
Plus: Deferred tax liability associated with intangibles	786	2,141	
Less: Intangible assets, net	(75,032)	(77,413)	
<i>Tangible assets</i>	\$ 3,193,719	\$ 3,068,927	
<i>Common shares outstanding</i>	12,221,107	12,218,528	
Tangible Book Value Per Share	\$ 22.50	\$ 22.20	
Tangible Equity/Tangible Assets	8.61	% 8.84	%

Net Interest Income

Our net interest income for the nine months ended September 30, 2018, was \$79.3 million, up \$1.5 million, or 1.9%, from \$77.8 million for the nine months ended September 30, 2017, primarily due to an increase of \$6.6 million, or 7.5%, in interest income. Loan interest income increased \$6.0 million, or 7.9%, to \$82.1 million for the first nine months of 2018 compared to the first nine months of 2017, primarily due to a \$157.1 million, or 7.2%, increase in the average balance of loans between the two periods. Loan interest income in 2018 also included the effect of a decrease in the discount accretion related to the merger in 2015 of the Company with Central Bancshares, Inc. ("Central"), to \$2.3 million for the nine months ended September 30, 2018, compared to \$3.8 million for the nine months ended September 30, 2017. Interest income on investment securities rose \$0.6 million, or 5.2%, to \$13.2 million for the first nine months of 2018 compared to the first nine months of 2017 primarily due to an increase of \$1.8 million in the average balance between the comparative periods. These income increases were partially offset by an increase of \$5.2 million, or 46.8%, in interest expense, to \$16.2 million for the nine months ended September 30, 2018, compared to \$11.0 million for the first nine months of 2017. Interest expense on deposits increased \$3.8 million, or 45.4%, to \$12.2 million for the nine months ended September 30, 2018 compared to \$8.4 million for the nine months ended September 30, 2017, as the average rate for deposits increased 21 basis points, and the average balance of interest-bearing deposits increased \$128.3 million, or 6.4%, between the two periods. Interest expense related to borrowings rose \$1.4 million, or 51.0% between the two periods, primarily due to a 42 basis point increase in average

rate for the first nine months of 2018 compared to the same period of 2017.

The Company posted a net interest margin, calculated on a fully tax-equivalent basis, of 3.64% for the first nine months of 2018, down 21 basis points from the net interest margin of 3.85% for the same period in 2017. For the first nine months of 2018 compared with 2017, the tax equivalent loan yield was unchanged between the two period, on a higher volume of average loans, coupled with a 15 basis point tax equivalent yield decrease on a higher average balance of investment securities, resulted in an overall 1 basis point decrease in the yield on earning assets. On the liability side of the balance sheet, a 21 basis point increase in

Table of Contents

the cost of deposit was due primarily to the increasing interest rate environment. This, combined with an increase in the cost of borrowed funds of 42 basis points, were the primary factors in a 23 basis point increase in the cost of interest-bearing liabilities for the first nine months of 2018 compared to the same period of 2017.

The following table shows consolidated average balance sheets, detailing the major categories of assets and liabilities, the interest income earned on interest-earning assets, the interest expense paid for interest-bearing liabilities, and the related yields and interest rates for the nine months ended September 30, 2018 and 2017, reported on a fully tax-equivalent basis assuming a 21% tax rate for 2018 and a 35% tax rate for 2017. Dividing annualized income or expense by the average balances of assets or liabilities results in average yields or costs. Average information is provided on a daily average basis.

(dollars in thousands)	Nine Months Ended September 30, 2018			2017		
	Average Balance	Interest Income/ Expense	Average Rate/ Yield	Average Balance	Interest Income/ Expense	Average Rate/ Yield
Average Interest-Earning Assets:						
Loans ⁽¹⁾⁽²⁾	\$2,339,357	\$ 82,910	4.74 %	\$2,182,275	\$ 77,386	4.74 %
Investment securities:						
Taxable investments	434,941	8,793	2.70	426,429	7,897	2.48
Tax exempt investments ⁽²⁾	210,817	5,619	3.56	217,524	7,190	4.42
Total investment securities	645,758	14,412	2.98	643,953	15,087	3.13
Federal funds sold and interest-bearing balances	3,078	39	1.69	5,636	51	1.21
Total interest-earning assets	\$2,988,193	\$ 97,361	4.36 %	\$2,831,864	\$ 92,524	4.37 %
Cash and due from banks	35,975			35,281		
Premises and equipment	77,483			74,960		
Allowance for loan losses	(30,135)			(22,625)		
Other assets	168,607			153,518		
Total assets	\$3,240,123			\$3,072,998		
Average Interest-Bearing Liabilities:						
Savings and interest-bearing demand deposits	\$1,423,431	\$ 4,187	0.39 %	\$1,340,521	\$ 2,778	0.28 %
Certificates of deposit	722,645	7,983	1.48	677,249	5,591	1.10
Total deposits	2,146,076	12,170	0.76	2,017,770	8,369	0.55
Federal funds purchased and repurchase agreements	105,223	931	1.18	85,197	277	0.43
Federal Home Loan Bank borrowings	132,718	1,873	1.89	104,579	1,321	1.69
Long-term debt and other	36,320	1,196	4.40	41,304	1,051	3.40
Total borrowed funds	274,261	4,000	1.95	231,080	2,649	1.53
Total interest-bearing liabilities	\$2,420,337	\$ 16,170	0.89 %	\$2,248,850	\$ 11,018	0.66 %
Net interest spread ⁽²⁾			3.47 %			3.71 %
Demand deposits	455,521			472,482		
Other liabilities	20,440			20,984		
Shareholders' equity	343,825			330,682		
Total liabilities and shareholders' equity	\$3,240,123			\$3,072,998		
Interest income/earning assets ⁽²⁾	\$2,988,193	\$ 97,361	4.36 %	\$2,831,864	\$ 92,524	4.37 %
Interest expense/earning assets	\$2,988,193	\$ 16,170	0.72 %	\$2,831,864	\$ 11,018	0.52 %
Net interest margin ⁽²⁾⁽³⁾		\$ 81,191	3.64 %		\$ 81,506	3.85 %

Non-GAAP to GAAP Reconciliation:

Tax Equivalent Adjustment:

Loans	\$ 769	\$ 1,251
Securities	1,167	2,491
Total tax equivalent adjustment	1,936	3,742
Net Interest Income	\$ 79,255	\$ 77,764

- Non-accrual loans have been included in average loans, net of unearned income. Amortized net deferred loans and net unearned discounts on acquired loans were included in the interest income calculations. The amortization of net deferred loans fees was \$(339) thousand, and \$(411) thousand for the nine months ended September 30, 2018, and September 30, 2017, respectively. Accretion of unearned purchase discounts was \$2.3 million and \$3.8 million for the nine months ended September 30, 2018, and September 30, 2017, respectively.
- (1)
- (2) Computed on a tax-equivalent basis, assuming a federal income tax rate of 21% for 2018 and 35% for 2017.
- (3) Net interest margin is tax-equivalent net interest income as a percentage of average interest-earning assets.

Table of Contents

The following table sets forth an analysis of volume and rate changes in interest income and interest expense on our average interest-earning assets and average interest-bearing liabilities during the nine months ended September 30, 2018, compared to the same period in 2017, reported on a fully tax-equivalent basis assuming a 21% tax rate for 2018 and a 35% tax rate for 2017. The table distinguishes between the changes related to average outstanding balances (changes in volume holding the initial interest rate constant) and the changes related to average interest rates (changes in average rate holding the initial outstanding balance constant). The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

(in thousands)	Nine Months Ended September 30, 2018 Compared to 2017 Change due to		
	Volume	Rate/Yield	Net
Increase (decrease) in interest income:			
Loans, tax equivalent	\$ 5,524	\$ —	\$ 5,524
Investment securities:			
Taxable investments	165	731	896
Tax exempt investments	(215)	(1,356)	(1,571)
Total investment securities	(50)	(625)	(675)
Federal funds sold and interest-bearing balances	(35)	23	(12)
Change in interest income	5,439	(602)	4,837
Increase (decrease) in interest expense:			
Savings and interest-bearing demand deposits	192	1,217	1,409
Certificates of deposit	389	2,003	2,392
Total deposits	581	3,220	3,801
Federal funds purchased and repurchase agreements	78	576	654
Federal Home Loan Bank borrowings	383	169	552
Other long-term debt	(198)	343	145
Total borrowed funds	263	1,088	1,351
Change in interest expense	844	4,308	5,152
Change in net interest income	\$ 4,595	\$ (4,910)	\$ (315)
Percentage change in net interest income over prior period			(0.4)%

Interest income and fees on loans on a tax-equivalent basis increased \$5.5 million, or 7.1%, in the first nine months of 2018 compared to the same period in 2017. This increase reflects the effect of the merger-related discount accretion for loans of \$2.3 million in the first nine months of 2018, compared to \$3.8 million of discount accretion in the first nine months of 2017. The increased income is due to average loan balances increasing \$157.1 million, or 7.2%, for the first nine months of 2018 compared to the same period in 2017, primarily resulting from loan originations exceeding loan payments and payoffs. The yield on loans in the first nine months of 2017 was 4.74%, the same as in the first nine months of 2018. The yield on our loan portfolio is affected by the amount of nonaccrual loans (which do not earn interest income), the mix of the portfolio (real estate loans generally have a lower overall yield than commercial and agricultural loans), the effects of competition and the interest rate environment on the amounts and volumes of new loan originations, and the mix of variable-rate versus fixed-rate loans in our portfolio. Despite the increase in overall interest rates, we expect the yield on new and renewing loans to remain relatively flat in the markets we serve due to competitive pressures for quality credits.

Interest income on investment securities on a tax-equivalent basis totaled \$14.4 million in the first nine months of 2018 compared with \$15.1 million for the same period of 2017. The tax-equivalent yield on our investment portfolio for the first nine months of 2018 decreased to 2.98% from 3.13% in the comparable period of 2017, primarily due to the impact of the reduction in the federal corporate income tax rate from 35% in 2017 to 21% in 2018. The average balance of investments in the first nine months of 2018 was \$645.8 million compared with \$644.0 million in the first nine months of 2017, an increase of \$1.8 million, or 0.3%.

Interest expense on deposits was \$12.2 million for the first nine months of 2018 compared with \$8.4 million for the same period in 2017. This increase was primarily due to the increase in general interest rates. Additionally, average interest-bearing deposits for the first nine months of 2018 increased \$128.3 million, or 6.4%, compared with the same period in 2017, due primarily to an increased focus by the Company on gathering new deposits. The weighted average rate paid on interest-bearing deposits was 0.76% for the first nine months of 2018 compared with 0.55% for the first nine months of 2017. We expect to see some upward movement in deposit rates in future periods, as overall interest rate increases continue in our market footprint due to competition for deposits.

Table of Contents

Interest expense on borrowed funds in the first nine months of 2018 was \$4.0 million, compared with \$2.6 million for the same period in 2017, an increase of \$1.4 million, or 51.0%. Average borrowed funds for the first nine months of 2018 were \$43.2 million higher compared with the same period in 2017. The increase in the average level of FHLB borrowings of \$28.1 million, or 26.9%, coupled with an increase in the average balance of federal funds purchased and repurchase agreements of \$20.0 million, or 23.5%, was partially offset by a \$5.0 million, or 12.1%, decrease in long-term debt and junior subordinated notes, all for the first nine months of 2018 compared to the first nine months of 2017. The weighted average rate on borrowed funds for the first nine months of 2018 was 1.95%, an increase of 42 basis points from 1.53% for the first nine months of 2017. The increase in the weighted average rate was due to the interest rate on a portion of the Company's borrowings being tied to short-term interest rate indexes, which allows them to reprice upward rapidly in an increasing interest rate environment.

Provision for Loan Losses

We recorded a provision for loan losses of \$4.1 million in the first nine months of 2018, compared to \$6.7 million for the same period of 2017, a decrease of \$2.6 million, or 39.2%. The decreased provision was primarily due to the presence of specific provisions on large credits that occurred in 2017 that did not occur in 2018. Net loans charged off in the first nine months of 2018 totaled \$0.8 million compared with \$2.0 million in the first nine months of 2017.

Noninterest Income

(dollars in thousands)	Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change
Trust, investment, and insurance fees	\$4,703	\$4,594	\$ 109	2.4 %
Service charges and fees on deposit accounts	3,474	3,835	(361)	(9.4)
Loan origination and servicing fees	2,738	2,532	206	8.1
Other service charges and fees	4,464	4,580	(116)	(2.5)
Bank-owned life insurance income	1,229	990	239	24.1
Gain on sale or call of debt securities	197	239	(42)	(17.6)
Other gain	338	66	272	NM
Total noninterest income	\$17,143	\$16,836	\$ 307	1.8 %
Adjusted noninterest income as a % of total revenue*	17.3	% 17.5	%	

NM - Percentage change not considered meaningful.

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

In the first nine months of 2018 total noninterest income increased \$0.3 million, or 1.8%, to \$17.1 million from \$16.8 million during the same period of 2017. This increase was primarily due to an increase in other gain of \$0.3 million, to \$0.3 million for the nine months ended September 30, 2018 compared to \$0.1 million for the same period of 2017. This increase was primarily due to increased gains on the sale of other real estate owned and derivative income. Loan origination and servicing fees increased \$0.2 million, or 8.1%, between the first nine months of 2018 and the same period of 2017. This increase was primarily due to the recovery of interest and collection expenses on a charged-off loan in the amount of \$0.2 million in the first quarter of 2018 and \$0.1 million of income related to the mark-to-market of our loan servicing portfolio, and despite a lower level of loans originated and sold on the secondary market for the first nine months of 2018 compared to the first nine months of 2017, a result of the general decrease in mortgage activity in the Company's markets. Bank-owned life insurance income increased \$0.2 million between the comparative 2017 and 2018 periods due to the purchase of an additional \$11.2 million of insurance in the fourth quarter of 2017. Trust, investment and insurance fees increased \$0.1 million, or 2.4%, to \$4.7 million for the first nine months of 2018, due to increased trust services activity. These increases were partially offset by a decrease in service charges and fees on deposit accounts, which decreased \$0.3 million, or 9.4%, to \$3.5 million for the first nine months of 2018 compared with \$3.8 million for the same period in 2017, primarily due to decreased non-sufficient funds charges on deposit accounts. Other service charges and fees decreased \$0.1 million, or 2.5%, in the nine months ended September 30, 2018 compared to the same period of 2017, primarily due to a cumulative adjustment change in how electronic transaction expenses are classified that was made in the third quarter of 2017.

Management's strategic goal is for noninterest income to constitute 25% of total revenues (net interest income plus noninterest income excluding gain/loss on securities and premises and equipment and impairment of investment securities) over time. For the nine months ended September 30, 2018, noninterest income comprised 17.3% of total revenues, compared with 17.5% for the same period in 2017. Despite recent downward trends in this ratio, management expects to see continued gradual improvement in future periods due to the implementation of new management strategies in the origination of residential real estate loans, and continued growth in trust, investment and insurance fees. We expect this ratio to be positively impacted by the proposed acquisition of ATBancorp.

Table of Contents**Noninterest Expense**

(dollars in thousands)	Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change
Salaries and employee benefits	\$37,647	\$35,712	\$1,935	5.4 %
Net occupancy and equipment expense	10,440	9,323	1,117	12.0
Professional fees	3,614	2,991	623	20.8
Data processing expense	2,076	1,982	94	4.7
FDIC insurance expense	1,104	957	147	15.4
Amortization of intangible assets	1,793	2,412	(619)	(25.7)
Other operating expense	7,026	6,666	360	5.4
Total noninterest expense	\$63,700	\$60,043	\$3,657	6.1 %

Noninterest expense increased to \$63.7 million for the nine months ended September 30, 2018, compared with \$60.0 million for the nine months ended September 30, 2017, an increase of \$3.7 million, or 6.1%, with salaries and employee benefits showing the greatest increase of \$1.9 million, or 5.4%, from \$35.7 million for the nine months ended September 30, 2017, to \$37.6 million for the nine months ended September 30, 2018, primarily due to normal annual salary and personnel adjustments. The Company also realized an expense of \$0.3 million related to the retirement of the Company's Chief Credit Officer, which was effective August 31, 2018, which was included in salaries and employee benefits. Occupancy and equipment expense increased \$1.1 million, or 12.0%, primarily due to the previously mentioned \$0.6 million writedown of the value of a former branch facility that is currently listed for sale. Professional fees increased \$0.6 million, or 20.8%, for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017, mainly due to expenses paid of \$0.6 million related to the previously announced merger agreement with ATBancorp. Data processing expense rose \$0.1 million, or 4.7%, for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017. Partially offsetting these increases, amortization of intangible asset expense decreased \$0.6 million, or 25.7%, for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017.

Income Tax Expense

Our effective tax rate, or income taxes divided by income before taxes, was 20.7% for the first nine months of 2018, and 27.3% for the first nine months of 2017. Income tax expense decreased to \$5.9 million in the first nine months of 2018 compared with \$7.6 million for the same period of 2017, primarily due to the reduction in the maximum corporate federal income tax rate to 21% for 2018 compared to 35% for 2017 as a result of the Tax Act enacted by the U.S. government on December 22, 2017. We expect the reduction in the federal corporate income tax rate to contribute to higher net income levels in future periods.

FINANCIAL CONDITION

Our total assets were \$3.27 billion at September 30, 2018, an increase of \$55.7 million, or 1.7% from December 31, 2017. Loans held for investment, net of unearned income, increased \$91.0 million, or 4.0%, from \$2.29 billion at December 31, 2017 to \$2.38 billion at September 30, 2018, combined with an increase in cash and cash equivalents of \$2.4 million, or 4.7%. These increases were partially offset by a decrease in investment securities of \$41.0 million, or 6.4%. Total deposits at September 30, 2018, were \$2.63 billion, an increase of \$26.9 million from December 31, 2017. The mix of deposits saw increases between December 31, 2017 and September 30, 2018 of \$23.4 million, or 3.3%, in certificates of deposit, and \$8.8 million, or 0.7%, in interest-bearing checking deposits. These increases were partially offset by a decrease of \$3.4 million, or 0.7%, in non-interest-bearing demand deposits, and a decrease of \$1.8 million, or 0.9%, in savings deposits. Between December 31, 2017 and September 30, 2018, federal funds purchased rose \$18.1 million, to \$19.1 million compared to \$1.0 million, while securities sold under agreements to repurchase declined \$27.3 million, due to normal cash need fluctuations by customers. FHLB borrowings rose \$28.0 million, or 24.3%, between the two dates. The overall increase in borrowings was the result of growth in the loan portfolio exceeding deposit growth. At September 30, 2018, long-term debt had an outstanding balance of \$8.8 million, a decrease of \$3.8 million, or 30.0%, from December 31, 2017, due to normal scheduled repayments.

Investment Securities

Investment securities totaled \$602.3 million at September 30, 2018, or 18.4% of total assets, a decrease of \$41.0 million, from \$643.3 million, or 20.0% of total assets, as of December 31, 2017. A total of \$407.8 million of the investment securities were classified as available for sale at September 30, 2018, compared to \$445.3 million at December 31, 2017. As of September 30, 2018, the portfolio consisted mainly of mortgage-backed securities and collateralized mortgage obligations (42.1%), obligations of states and political subdivisions (40.0%), corporate debt securities (16.5%), and obligations of U.S. government agencies (0.9%). Investment securities held to maturity were \$191.7 million at September 30, 2018, compared to \$195.6 million at December 31, 2017, and equity securities were \$2.8 million at September 30, 2018, compared to \$2.3 million at December 31, 2017.

Table of Contents**Loans**

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

(dollars in thousands)	September 30, 2018		December 31, 2017	
	Balance	% of Total	Balance	% of Total
Agricultural	\$ 103,207	4.4 %	\$ 105,512	4.6 %
Commercial and industrial	523,333	22.0	503,624	22.0
Commercial real estate:				
Construction and development	223,324	9.4	165,276	7.3
Farmland	85,735	3.6	87,868	3.8
Multifamily	126,663	5.3	134,506	5.9
Commercial real estate-other	818,068	34.4	784,321	34.3
Total commercial real estate	1,253,790	52.7	1,171,971	51.3
Residential real estate:				
One- to four-family first liens	342,755	14.4	352,226	15.4
One- to four-family junior liens	115,768	4.9	117,204	5.1
Total residential real estate	458,523	19.3	469,430	20.5
Consumer	38,796	1.6	36,158	1.6
Total loans	\$2,377,649	100.0 %	\$2,286,695	100.0 %

Loans held for investment, net of unearned income, (excluding loans held for sale) increased \$91.0 million, or 4.0%, from \$2.29 billion at December 31, 2017, to \$2.38 billion at September 30, 2018. The mix of loans saw increases between December 31, 2017 and September 30, 2018, primarily concentrated in construction and development, commercial real estate-other, and commercial and industrial. Decreases occurred primarily in residential real estate, multifamily, agricultural, and farmland. As of September 30, 2018, the largest category of loans was commercial real estate loans, comprising approximately 53% of the portfolio, of which 9% of total loans were construction and development, 5% of total loans were multifamily residential mortgages, and 4% of total loans were farmland. Commercial and industrial loans was the next largest category at 22% of total loans, followed by residential real estate loans at 19%, agricultural loans at 4%, and consumer loans at 2%. Included in these totals are \$17.5 million, net of a discount of \$0.9 million, or 0.7% of the total loan portfolio, in purchased credit impaired loans as a result of the merger between the Company and Central in 2015.

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

Premises and Equipment

As of September 30, 2018, premises and equipment totaled \$76.5 million, an increase of \$0.5 million, or 0.7%, from December 31, 2017. Additions from capital improvement projects, notably replacement branch locations in South St. Paul, Minnesota and Naples, Florida, offset the \$3.2 million effective balance decrease due to depreciation.

Goodwill and Other Intangible Assets

Goodwill was \$64.7 million at September 30, 2018 and December 31, 2017. Other intangible assets decreased \$1.7 million, or 13.8%, to \$10.4 million at September 30, 2018 compared to \$12.0 million at December 31, 2017, due primarily to amortization. See Note 6. "Goodwill and Intangible Assets" to our consolidated financial statements for additional information.

Deposits

Total deposits as of September 30, 2018 were \$2.63 billion, an increase of \$26.9 million, from December 31, 2017. Interest-bearing checking deposits were the largest category of deposits at September 30, 2018, representing approximately 47.0% of total deposits. Total interest-bearing checking deposits were \$1.24 billion at September 30, 2018, an increase of \$8.8 million, or 0.7%, from December 31, 2017. Included in interest-bearing checking deposits at September 30, 2018 were \$37.2 million of brokered deposits in the Insured Cash Sweep (ICS) program, a decrease of

\$10.7 million, or 22.4%, from \$47.9 million at December 31, 2017. Non-interest bearing demand deposits were \$458.6 million at September 30, 2018, a decrease of \$3.4 million, or 0.7%, from \$462.0 million at December 31, 2017. Savings deposits were \$211.6 million at September 30, 2018, a decrease of \$1.8 million, or 0.9%, from \$213.4 million at December 31, 2017. Total certificates of deposit were \$725.2 million at September 30, 2018, up \$23.4 million, or 3.3%, from \$701.8 million at December 31, 2017. Included in total certificates of deposit at September 30, 2018

Table of Contents

was \$9.1 million of brokered deposits in the Certificate of Deposit Account Registry Service (CDARS) program, an increase of \$3.8 million, or 72.5%, from December 31, 2017. Based on recent experience, management anticipates that many of the maturing certificates of deposit will be renewed upon maturity, as the interest rate environment has begun to trend upward. Approximately 85.7% of our total deposits were considered “core” deposits as of September 30, 2018. Approximately 85.7% of our total deposits were considered “core” deposits as of September 30, 2018.

Debt***Federal Funds Purchased***

Federal funds purchased were \$19.1 million September 30, 2018 as of December 31, 2017, an increase of \$18.1 million. The principal function of these funds is to maintain short-term liquidity. See Note 8. “Short-Term Borrowings” to our consolidated financial statements for additional information related to our federal funds purchased.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase declined \$27.3 million, or 28.4%, to \$68.9 million September 30, 2018 s of December 31, 2017. Securities sold under agreements to repurchase are agreements in which the Company acquires funds by selling investment securities to another party under a simultaneous agreement to repurchase the same investment securities at a specified price and date. The Company enters into repurchase agreements and also offers a demand deposit account product to customers that sweeps their balances in excess of an agreed upon target amount into overnight repurchase agreements. As such, the balance of these borrowings vary according to the liquidity needs of the customers participating in these sweep accounts. See Note 8. “Short-Term Borrowings” to our consolidated financial statements for additional information related to our securities sold under agreements to repurchase.

Federal Home Loan Bank Borrowings

FHLB borrowings totaled \$143.0 million September 30, 2018 as of December 31, 2017, an increase of \$28.0 million, or 24.3%. We utilize FHLB borrowings as a supplement to customer deposits to fund interest-earning assets and to assist in managing interest rate risk. See Note 10. “Federal Home Loan Bank Borrowings and Long-Term Debt” 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 \$23.9 million as of September 30, 2018, substantially unchanged from December 31, 2017. See Note 9. “Junior Subordinated Notes Issued to Capital Trusts” to our consolidated financial statements for additional information related to our junior subordinated notes.

Long-term Debt

Long-term debt in the form of a \$35.0 million unsecured note, of which \$25.0 million was drawn upon, payable to a correspondent bank was entered into on April 30, 2015 in connection with the payment of the merger consideration at the closing of the Central merger, of which \$8.8 million was outstanding as of September 30, 2018. See Note 10. “Federal Home Loan Bank Borrowings and Long-Term Debt” to our consolidated financial statements for additional information related to our long-term debt.

Table of Contents**Nonperforming Assets**

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

(in thousands)	90 Days or More Past Due and Still Accruing Interest	Troubled Debt Restructure	Nonaccrual	Total
September 30, 2018				
Agricultural	\$ —	\$ 2,502	\$ 662	\$ 3,164
Commercial and industrial	—	492	11,208	11,700
Commercial real estate:				
Construction and development	—	—	100	100
Farmland	—	—	2,367	2,367
Multifamily	—	—	—	—
Commercial real estate-other	—	3,724	4,816	8,540
Total commercial real estate	—	3,724	7,283	11,007
Residential real estate:				
One- to four- family first liens	171	636	1,277	2,084
One- to four- family junior liens	—	—	413	413
Total residential real estate	171	636	1,690	2,497
Consumer	—	—	86	86
Total	\$ 171	\$ 7,354	\$ 20,929	\$ 28,454

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

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

Our nonperforming assets (which include nonperforming loans and OREO) totaled \$29.0 million as of September 30, 2018, an increase of \$3.1 million, or 12.1%, from December 31, 2017. The balance of OREO at September 30, 2018 was \$0.5 million, down \$1.5 million, from \$2.0 million of OREO at December 31, 2017. During the first nine months of 2018, the Company had a net decrease of 17 properties in other real estate owned. All of the OREO property was acquired either through foreclosures or through settlement agreements, and we are actively working to sell all

properties held as of September 30, 2018. OREO is carried at appraised value less estimated cost of disposal at the date of acquisition. Additional discounts could be required to market and sell the properties, resulting in a write down through expense.

Nonperforming loans increased from \$23.9 million, or 1.04% of loans held for investment, net of unearned income, at December 31, 2017, to \$28.5 million, or 1.20%, at September 30, 2018. At September 30, 2018, nonperforming loans consisted of \$20.9 million in nonaccrual loans, \$7.4 million in troubled debt restructures ("TDRs") and \$0.2 million in loans past due 90

Table of Contents

days or more and still accruing interest. This compares to nonaccrual loans of \$14.8 million, TDRs of \$8.9 million, and loans past due 90 days or more and still accruing interest of \$0.2 million at December 31, 2017. Nonaccrual loans increased \$6.1 million between December 31, 2017, and September 30, 2018, primarily due to \$8.7 million of loans being added to nonaccrual status, partially offset by \$1.8 million of payments and net charge-offs of \$0.8 million. The balance of TDRs decreased \$1.5 million between these two dates, primarily due to payments of \$1.2 million collected from TDR status borrowers, and two loans totaling \$0.3 million moving to non-disclosed status. Loans 90 days or more past due and still accruing interest were largely unchanged between December 31, 2017, and September 30, 2018. Loans past due 30 to 89 days and still accruing interest (not included in the nonperforming loan totals) increased to \$9.1 million at September 30, 2018, compared with \$8.4 million at December 31, 2017. The Company had net loan charge-offs of \$0.8 million in the nine months ended September 30, 2018, or an annualized 0.05% of average loans outstanding, compared to net charge-offs of \$2.0 million, or an annualized 0.12% of average loans outstanding, for the same period of 2017.

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

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

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

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

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

changes in credit grades of 5 or higher as well as all impaired loans, the related allowances and OREO.

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

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

Table of ContentsRestructured Loans

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

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

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

During the nine months ended September 30, 2018, the Company restructured one loan by granting concessions to a borrower experiencing financial difficulties.

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

We consider all TDRs, regardless of whether they are performing in accordance with their modified terms, to be impaired loans when determining our allowance for loan losses. A summary of restructured loans as of September 30, 2018 and December 31, 2017 is as follows:

(in thousands)	September 30, 2018	December 31, 2017
Restructured Loans (TDRs):		
In compliance with modified terms	\$ 7,354	\$ 8,870
Not in compliance with modified terms - on nonaccrual status or 90 days or more past due and still accruing interest	4,509	4,778
Total restructured loans	\$ 11,863	\$ 13,648

Allowance for Loan Losses

Our ALLL as of September 30, 2018 was \$31.3 million, which was 1.32% of total loans as of that date. This compares with an ALLL of \$28.1 million as of December 31, 2017, which was 1.23% of total loans as of that date. Gross charge-offs for the first nine months of 2018 totaled \$1.6 million, while there were \$0.8 million in recoveries of previously charged-off loans. The increase in the allowance for loan losses was primarily due to loan growth (excluding loans held for sale) of \$91.0 million for the nine months ended September 30, 2018, combined with some indicated weakness in the agricultural sector. The ratio of annualized net loan charge offs to average loans for the first nine months of 2018 was 0.05% compared to 0.51% for the year ended December 31, 2017. As of September 30, 2018, the ALLL was 109.9% of nonperforming loans compared with 117.6% as of December 31, 2017. Based on the inherent risk in the loan portfolio, management believed that as of September 30, 2018, the ALLL was adequate; however, there is no assurance losses will not exceed the allowance, and any growth in the loan portfolio or uncertainty in the general economy will require that management continue to evaluate the adequacy of the ALLL and make additional provisions in future periods as deemed necessary.

There were no changes to our ALLL calculation methodology during the first nine months of 2018. Classified and impaired loans are reviewed per the requirements of FASB ASC Topic 310.

The Bank uses a rolling 20-quarter annual average historical net charge-off component for its ALLL calculation. One qualitative factor table is used for the entire bank. Differences in regional (Iowa, Minnesota/Wisconsin, Florida and Colorado)

Table of Contents

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

We monitor the loan to value (“LTV”) ratio of all loans in our portfolio, and those loans in excess of internal and supervisory guidelines are presented to the Bank’s board of directors on a quarterly basis. At September 30, 2018, there were 25 owner-occupied 1-4 family loans with a LTV ratio of 100% or greater. In addition, there were 124 home equity loans without credit enhancement that had a LTV ratio of 100% or greater. We have the first lien on 6 of these equity loans and other financial institutions have the first lien on the remaining 118. Additionally, there were 165 commercial real estate loans without credit enhancement that exceeded the supervisory LTV guidelines. No additional allocation of the ALLL is made for loans that exceed internal and supervisory guidelines.

We review all impaired and nonperforming loans individually on a quarterly basis to determine their level of impairment due to collateral deficiency or insufficient cash-flow based on a discounted cash-flow analysis. At September 30, 2018, TDRs were not a material portion of the loan portfolio. We review loans 90 days or more past due that are still accruing interest no less than quarterly to determine if there is a strong reason that the credit should not be placed on non-accrual. The Bank’s board of directors has reviewed these credit relationships and determined that these loans and the risks associated with them were acceptable and did not represent any undue risk.

Capital Resources

Total shareholders’ equity was \$349.2 million as of September 30, 2018, compared to \$340.3 million as of December 31, 2017, an increase of \$8.9 million, or 2.6%. This increase was primarily attributable to net income of \$22.7 million for the first nine months of 2018. This increase was partially offset by the payment of \$7.2 million in common stock dividends, and a \$6.5 million decrease in accumulated other comprehensive income due to market value adjustments on investment securities available for sale. In addition, there was a \$0.4 million increase in treasury stock due to the repurchase of 33,998 shares of Company common stock at a cost of \$1.1 million, partially offset by the issuance of 35,494 shares of Company common stock in connection with stock compensation plans during the first nine months of 2018. The total shareholders’ equity to total assets ratio was 10.69% at September 30, 2018, up from 10.59% at December 31, 2017. The tangible equity to tangible assets ratio (a non-GAAP financial measure) was 8.61% at September 30, 2018, compared with 8.44% at December 31, 2017. Book value was \$28.57 per share at September 30, 2018, an increase from \$27.85 per share at December 31, 2017. Tangible book value per share (a non-GAAP financial measure) was \$22.50 at September 30, 2018, an increase from \$21.67 per share at December 31, 2017.

Our Tier 1 capital to risk-weighted assets ratio was 11.06% as of September 30, 2018 and was 10.96% as of December 31, 2017. Risk-based capital guidelines require the classification of assets and some off-balance-sheet items in terms of credit-risk exposure and the measuring of capital as a percentage of the risk-adjusted asset totals. Management believed that, as of September 30, 2018, the Company and the Bank met all capital adequacy requirements to which we were subject. As of that date, the Bank was “well capitalized” under regulatory prompt corrective action provisions.

The Company and the Bank are subject to the Basel III regulatory capital reforms (the “Basel III Rules”) and the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). The Basel III Rules are

applicable to all banking organizations that are subject to minimum capital requirements, including federal and state banks and savings and loan associations, as well as to bank and savings and loan holding companies, other than “small bank holding companies” (generally bank holding companies with consolidated assets of less than \$3 billion which are not publicly traded companies). In order to be a “well-capitalized” depository institution, a bank must maintain a Common Equity Tier 1 capital ratio of 6.5% or more; a Tier 1 capital ratio of 8% or more; a Total capital ratio of 10% or more; and a leverage ratio of 5% or more. A capital conservation buffer, comprised of Common Equity Tier 1 capital, is also established above the regulatory minimum capital requirements. This capital conservation buffer is being phased in, which began January 1, 2016 at 0.625% of risk-weighted assets, was 1.25% of risk-weighted assets in 2017, is 1.875% of risk-weighted assets in 2018, and further increases to the final level of 2.5% on January 1, 2019.

At

58

Table of Contents

September 30, 2018, the Company's institution-specific capital conservation buffer necessary to avoid limitations on distributions and discretionary bonus payments was 4.18%, while the Bank's was 3.97%.

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

<i>(in thousands)</i>	At September 30, 2018	At December 31, 2017
Tier 1 capital		
Total shareholders' equity	\$ 349,189	\$ 340,304
Less: Net unrealized gains on securities available for sale	9,090	2,602
Disallowed Intangibles	(74,164)	(73,340)
<i>Common equity tier 1 capital</i>	\$ 284,115	269,566
Plus: Junior subordinated notes issued to capital trusts (qualifying restricted core capital)	23,865	23,793
<i>Tier 1 capital</i>	\$ 307,980	\$ 293,359
<i>Risk-weighted assets</i>	\$ 2,784,408	\$ 2,677,721
Tier 1 capital to risk-weighted assets	11.06	% 10.96
Common Equity Tier 1 capital to risk-weighted assets	10.20	% 10.07

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

	Actual		For Capital Adequacy Purposes*		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)						
At September 30, 2018						
Consolidated:						
Total capital/risk based assets	\$ 339,258	12.18 %	\$ 274,960	9.875 %	N/A	N/A
Tier 1 capital/risk based assets	307,980	11.06	219,272	7.875	N/A	N/A
Common equity tier 1 capital/risk based assets	284,115	10.20	177,506	6.375	N/A	N/A
Tier 1 capital/adjusted average assets	307,980	9.65	127,606	4.000	N/A	N/A
MidWestOne Bank:						
Total capital/risk based assets	\$ 332,218	11.97 %	\$ 274,163	9.875 %	\$ 277,633	10.00 %
Tier 1 capital/risk based assets	300,940	10.84	218,636	7.875	222,107	8.00
Common equity tier 1 capital/risk based assets	300,940	10.84	176,991	6.375	180,462	6.50
Tier 1 capital/adjusted average assets	300,940	9.45	127,441	4.000	159,302	5.00
At December 31, 2017						
Consolidated:						
Total capital/risk based assets	\$ 321,459	12.00 %	\$ 247,689	9.250 %	N/A	N/A
Tier 1 capital/risk based assets	293,359	10.96	194,135	7.250	N/A	N/A
Common equity tier 1 capital/risk based assets	269,566	10.07	153,969	5.750	N/A	N/A
Tier 1 capital/adjusted average assets	293,359	9.48	123,831	4.000	N/A	N/A
MidWestOne Bank:						
Total capital/risk based assets	\$ 322,679	12.08 %	\$ 247,010	9.250 %	\$ 267,038	10.00 %
Tier 1 capital/risk based assets	294,620	11.03	193,603	7.250	213,631	8.00
Common equity tier 1 capital/risk based assets	294,620	11.03	153,547	5.750	173,575	6.50
Tier 1 capital/adjusted average assets	294,620	9.53	123,678	4.000	154,598	5.00

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

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

On February 15, 2018, 32,460 restricted stock units were granted to certain officers of the Company, and on May 15, 2018, 5,720 restricted stock units were granted to members of the board of directors of the Company. On June 15, 2018, 6,780 restricted stock units were granted to certain officers of the Company. Additionally, during the first nine months of 2018, 28,525 shares of common stock were issued in connection with the vesting of previously awarded grants of restricted stock units, of which 2,731

Table of Contents

shares were surrendered by grantees to satisfy tax requirements, and 960 nonvested restricted stock units were forfeited. In the first nine months of 2018, 9,700 shares of common stock were issued in connection with the exercise of previously issued stock options, and no options were forfeited.

Liquidity

Liquidity management involves meeting the cash flow requirements of depositors and borrowers. We conduct liquidity management on both a daily and long-term basis, and adjust our investments in liquid assets based on expected loan demand, projected loan maturities and payments, expected deposit flows, yields available on interest-bearing deposits, and the objectives of our asset/liability management program. We had liquid assets (cash and cash equivalents) of \$53.4 million as of September 30, 2018, compared with \$51.0 million as of December 31, 2017. Interest-bearing deposits in banks at September 30, 2018, were \$4.2 million, a decrease of \$1.3 million from \$5.5 million at December 31, 2017. Debt securities classified as available for sale, totaling \$407.8 million and \$445.3 million as of September 30, 2018 and December 31, 2017, respectively, could be sold to meet liquidity needs if necessary. Additionally, the Bank maintains unsecured lines of credit with several correspondent banks and secured lines with the Federal Reserve Bank Discount Window and the FHLB that would allow us to borrow funds on a short-term basis, if necessary. Management believed that the Company had sufficient liquidity as of September 30, 2018 to meet the needs of borrowers and depositors.

Our principal sources of funds between December 31, 2017 and September 30, 2018 were FHLB borrowings, deposits, and federal funds purchased. While scheduled loan amortization and maturing interest-bearing deposits in banks are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by economic conditions, the general level of interest rates, and competition. We utilize particular sources of funds based on comparative costs and availability. This includes fixed-rate FHLB borrowings that can at times be obtained at a more favorable cost than deposits of comparable maturity. We generally manage the pricing of our deposits to maintain a steady deposit base but from time to time may decide, as we have done in the past, not to pay rates on deposits as high as our competition.

As of September 30, 2018, we had \$8.8 million of long-term debt outstanding to an unaffiliated banking organization. See Note 10. "Federal Home Loan Bank Borrowings and Long-Term Debt" to our consolidated financial statements for additional information related to our long-term debt. We also have \$23.9 million of indebtedness payable under junior subordinated debentures issued to subsidiary trusts that issued trust preferred securities in pooled offerings. See Note 9. "Junior Subordinated Notes Issued to Capital Trusts" to our consolidated financial statements for additional information related to our junior subordinated notes.

Inflation

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

Off-Balance-Sheet Arrangements

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

Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total

commitment amounts do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. As of September 30, 2018, outstanding commitments to extend credit totaled approximately \$511.9 million.

Commitments under standby and performance letters of credit outstanding totaled \$15.5 million as of September 30, 2018. We do not anticipate any losses as a result of these transactions, and expect to have sufficient liquidity to fulfill outstanding credit commitments and letters of credit.

Table of Contents

Residential mortgage loans sold to others are predominantly conventional residential first lien mortgages originated under our usual underwriting procedures, and are most often sold on a nonrecourse basis. At September 30, 2018, there were approximately \$1.1 million of mandatory commitments with investors to sell not yet originated residential mortgage loans. We do not anticipate any losses as a result of these transactions.

Special Cautionary Note Regarding Forward-Looking Statements

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

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

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

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

• asset/liability matching risks and liquidity risks;

• the costs, effects and outcomes of existing or future litigation;

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

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

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

Table of Contents

the effects of cyber-attacks;

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

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

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

Liquidity Risk

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

Net cash inflows from operating activities were \$31.0 million in the first nine months of 2018, compared with \$34.0 million in the first nine months of 2017. Net income before depreciation, amortization, and accretion is generally the primary contributor for net cash inflows from operating activities.

Net cash outflows from investing activities were \$62.4 million in the first nine months of 2018, compared to net cash outflows of \$76.5 million in the comparable nine-month period of 2017. In the first nine months of 2018, net cash outflows related to the net increase in loans were \$92.3 million for the first nine months of 2018, compared with \$100.9 million of net cash outflows for the same period of 2017. Investment securities transactions resulted in net cash inflows of \$31.7 million, compared to inflows of \$24.2 million during the same period of 2017.

Net cash inflows from financing activities in the first nine months of 2018 were \$33.8 million, compared with net cash inflows of \$41.4 million for the same period of 2017. The largest financing cash inflows during the nine months ended September 30, 2018 were a net increase of \$28.0 million in FHLB borrowings, an increase of \$26.9 million in deposits, and an increase of \$18.1 million in federal funds purchased. Uses of cash were a decrease of \$27.3 million in securities sold under agreements to repurchase, \$7.2 million to pay dividends, and \$3.8 million of payments on long-term debt.

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

These acceptable sources of liquidity include:

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

Federal Funds Lines:

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

62

Table of Contents

preferable and federal funds sold exposure to any one customer is continuously monitored. The current federal funds purchased limit is 10% of total assets, or the amount of established federal funds lines, whichever is smaller. Currently, the Bank has unsecured federal funds lines totaling \$150.0 million, which lines are tested annually to ensure availability.

FHLB Borrowings:

FHLB borrowings provide both a source of liquidity and long-term funding for the Bank. Use of this type of funding is coordinated with both the strategic balance sheet growth projections and interest rate risk profile of the Bank. Factors that are taken into account when contemplating use of FHLB borrowings are the effective interest rate, the collateral requirements, community investment program credits, and the implications and cost of having to purchase incremental FHLB stock. As of September 30, 2018, the Bank had \$143.0 million in outstanding FHLB borrowings, leaving \$137.3 million available for liquidity needs, based on collateral capacity. These borrowings are secured by various real estate loans (residential, commercial and agricultural).

Brokered Deposits:

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

Brokered Repurchase Agreements:

Brokered repurchase agreements may be established with approved brokerage firms and banks. Repurchase agreements create rollover risk (the risk that a broker will discontinue the relationship due to market factors) and are not used as a long-term funding solution, especially when used to fund long-term assets. Collateral requirements and availability are evaluated and monitored. The current policy limit for brokered repurchase agreements is 10% of total assets. There were no outstanding brokered repurchase agreements at September 30, 2018.

Federal Reserve Bank Discount Window:

The Federal Reserve Bank Discount Window is another source of liquidity, particularly during difficult economic times. The Bank has a borrowing capacity with the Federal Reserve Bank of Chicago limited by the amount of municipal securities pledged against the line. As of September 30, 2018, the Bank had municipal securities with an approximate market value of \$12.6 million pledged for liquidity purposes, and had a borrowing capacity of \$11.4 million.

Interest Rate Risk

Interest rate risk is defined as the exposure of net interest income and fair value of financial instruments (interest-earning assets, deposits and borrowings) to movements in interest rates. The Company's results of operations depend to a large degree on its net interest income and its ability to manage interest rate risk. The Company considers interest rate risk to be one of its more significant market risks. The major sources of the Company's interest rate risk are timing differences in the maturity and re-pricing characteristics of assets and liabilities, changes in the shape of the yield curve, changes in customer behavior and changes in relationships between rate indices (basis risk). Management measures these risks and their impact in various ways, including through the use of income simulation and valuation analyses. The interest rate scenarios used in such analysis may include gradual or rapid changes in interest rates, spread narrowing and widening, yield curve twists and changes in assumptions about customer behavior in various interest rate scenarios. A mismatch between maturities, interest rate sensitivities and prepayment characteristics of assets and liabilities results in interest-rate risk. Like most financial institutions, we have material interest-rate risk exposure to changes in both short-term and long-term interest rates, as well as variable interest rate indices (e.g., the prime rate or LIBOR). There has been no material change in the Company's interest rate profile between

September 30, 2018 and December 31, 2017. The mix of earning assets and interest-bearing liabilities has remained stable over the period.

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

Table of Contents

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

Net Interest Income Simulation:

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

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

	Immediate Change in Rates			
(dollars in thousands)	-200	-100	+100	+200
September 30, 2018				
Dollar change	\$(2,873)	\$(729)	\$55	\$(361)
Percent change	(2.8)%	(0.7)%	0.1 %	(0.4)%
December 31, 2017				
Dollar change	\$(2,873)	\$(729)	\$55	\$(361)
Percent change	(2.8)%	(0.7)%	0.1 %	(0.4)%

As of September 30, 2018, 37.4% of the Company's earning asset balances will reprice or are expected to pay down in the next twelve months, and 64.4% of the Company's deposit balances are low cost or no cost deposits.

Economic Value of Equity:

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

Interest Rate Gap:

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

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

Under the supervision and with the participation of certain members of our management, including our chief executive officer and chief financial officer, we completed an evaluation of the effectiveness of the design and operation of our

disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2018. Based on this evaluation, our chief executive officer and chief financial officer have concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report with respect to timely

Table of Contents

communication to them and other members of management responsible for preparing periodic reports of material information required to be disclosed in this report as it relates to the Company and our consolidated subsidiaries. The effectiveness of our or any system of disclosure controls and procedures is subject to certain limitations, including the exercise of judgment in designing, implementing, and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events, and the inability to eliminate misconduct completely. As a result, there can be no assurance that our disclosure controls and procedures will prevent all errors or fraud or ensure that all material information will be made known to appropriate management in a timely fashion. By their nature, our or any system of disclosure controls and procedures can provide only reasonable assurance regarding management's control objectives.

Changes in Internal Control over Financial Reporting

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

The Company has made the following addition to the risk factors set forth in Part I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the period ended December 31, 2017:

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

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

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

On October 16, 2018, the Board of Directors of the Company approved a new share repurchase program, allowing for the repurchase of up to \$5.0 million of common stock through December 31, 2020. The new repurchase program replaces the Company's prior repurchase program, pursuant to which the Company had repurchased 33,998 shares of common stock for approximately \$1.1 million since the plan was announced in July 2016. The prior program had authorized the repurchase of \$5.0 million of stock and was due to expire on December 31, 2018.

There were no repurchases of stock in the third quarter of 2018.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

65

Table of Contents

Item 5. Other Information.

None.

66

Table of Contents**Item 6. Exhibits.**

Exhibit Number	Description	Incorporated by Reference to:
<u>2.1</u>	Agreement and Plan of Merger between MidWestOne Financial Group, Inc. and ATBancorp, dated August 21, 2018	Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on August 22, 2018
<u>10.1</u>	Release and Waiver of Claims between MidWestOne Financial Group, Inc. and Kent L. Jehle, dated as of August 31, 2018	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 4, 2018
<u>31.1</u>	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a)	Filed herewith
<u>31.2</u>	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a)	Filed herewith
<u>32.1</u>	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
<u>32.2</u>	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith

Table of Contents

SIGNATURES

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

**MIDWESTONE FINANCIAL GROUP,
INC.**

Dated: November 5, 2018 By: /s/ CHARLES N. FUNK
Charles N. Funk
President and Chief
Executive Officer
(Principal Executive
Officer)

By: /s/ BARRY S. RAY
Barry S. Ray
Senior Vice
President and Chief
Financial Officer
(Principal Financial
and Accounting
Officer)