

2011 ANNUAL REPORT

OUR OPERATING PRINCIPLES:

Take good care of our customers

HIRE AND RETAIN EXCELLENT EMPLOYEES

ALWAYS CONDUCT YOURSELF WITH THE UTMOST INTEGRITY

WORK AS ONE TEAM

LEARN CONSTANTLY SO WE CAN CONTINUALLY IMPROVE

TO OUR SHAREHOLDERS

CHARLES N. FUNK, President & CEO

KEVIN W. MONSON, Chairman



This space is reserved each year to succinctly communicate in direct terms about the corporate events of the prior year as well as our thoughts on the future. Some letters are easier to write than others but this year's letter contains positive and exciting news for our shareholders. 2011 was a good year for MidWestOne Financial Group, Inc. It was a year of record earnings for your company. It was a year of deposit and loan growth. It was a year in which the company's TARP obligations were completely repaid from internal funds. It was a year of significantly increased dividends and share repurchases. And, most importantly, it was a year in which we continued to build a strong foundation for the future.

When ISB Financial Corp. merged with the "former" MidWestOne in 2008, we assumed many synergies and efficiencies would occur. What we did not forecast was the worst recession in our lifetime and dealing with the recession certainly impeded earnings progress for the new company. Nevertheless, one must give credit to our staff as they never took their "eye off the ball" and continued to plant the seeds of efficiency that finally began to emerge in 2011. 2011 earnings available to common shareholders improved to \$12,672,000, a 36.8% improvement over 2010 earnings of \$9,262,000. Better yet, basic earnings per share of \$1.47 is an all time record for your company. \$1.47 per share is a 36.1% improvement over \$1.08 in 2010 and handily surpasses the prior peak of \$1.39 per share in 2004.

Among the positive surprises in 2011 was the healthy growth of our balance sheet. Total assets and deposits each increased more than 7% and we ended the year just under \$1.7 billion in total assets, at \$1,695,000,000. Our

bank loan portfolio grew more than \$48 million or 5.1%, to more than \$986 million at year-end. Most of this growth occurred in the last half of 2011 with the strongest quarter being the fourth. We tire of hearing the press and some politicians say “banks aren’t making loans” while MidWestOne and many other community banks in Iowa and throughout the nation increased their loan portfolios in 2011.

MidWestOne continues to enjoy asset quality metrics that are better than our peers, whether viewed on a regional or national scale. At year-end 2011, our non-performing bank loans as a percentage of total bank loans stood at 1.84%, down from 2.11% a year earlier. Our total level of non-performing bank loans stood at \$18.1 million, down from \$19.8 million a year earlier. Other real estate owned increased by less than \$200,000, from \$3.9 million at year-end 2010 to \$4.0 million at year-end 2011. We are pleased that our net charged off loans fell to 0.30% of total loans in 2011, down from 0.50% in 2010. Through the financial crisis, our net charge-offs have never exceeded 0.50% of loans. The allowance for loan losses in the bank portfolio remained strong at 1.59% of total loans at year-end. Overall, we believe this is exceptional performance and thank the many in our company who have had a hand in this success.

Our capital ratios are strong, with tangible common equity to tangible assets standing at 8.68% at year-end. All regulatory capital ratios are well above the minimum levels set by our regulators. Our liquidity levels remain very strong with the closely watched loan to deposit ratio standing at 79.5% at year-end. Our strong capital and liquidity metrics afford us flexibility as we evaluate options to expand in the coming years.

As we look to the future, we believe the ingredients for success in banking and financial services will not be much different than in the past. To be sure, our industry is changing, but the basic formula for success in our industry is centered around the ability to collect deposits and make sound loans. Increasingly, banks such as ours must develop and increase the contribution to bottom line earnings from non-interest income. And we must never become complacent in our search for further operating efficiencies.

Our company has traditionally done a bit better than the typical community

bank in terms of the ability to generate non-interest income as a percentage of total operating revenues. Our long term goal is 30% and we are far short of the goal, with the 2011 number coming in at 22.8%. MidWestOne’s major components of non-interest income in the future will be the fees associated with residential real estate lending, trust services, investment services and commissions from our insurance agencies. We are very focused on improving each of these areas and bringing MidWestOne services to more customers throughout our geographic footprint. Unfortunately, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and other regulatory pronouncements have impeded our ability to recover fees for consumer banking services we provide and we expect this component of the income statement to remain flat or decline in the years ahead.

We continue to make very good progress at becoming more efficient and the best measure of this is evident in our non-interest expense line. In 2009, our non-interest expense was \$45,579,000. This number fell to \$43,289,000 in 2010 and fell again to \$42,235,000 in 2011. While not disclosed in this report, our subsidiary bank, MidWestOne Bank, saw its efficiency ratio fall below 60% for the first time in many years. The efficiency ratio is one metric that measures bank efficiency and the fact that our bank crashed the 60% barrier is very positive. Our goal is to improve our company-wide efficiency each year and we have set a five year goal of 55% for MidWestOne Bank. It is critical that we continue to improve our efficiency each year, not only within the Bank, but also in the holding company.

We see two increasingly problematic issues that come from Washington, D.C. The first is the Federal Reserve’s continued maintenance of a “zero interest rate policy.” While the Fed’s policymakers are clearly well meaning, this policy, now in its fifth year, has served to put tremendous pressure on bank net interest margins. It is our opinion that the longer this policy is maintained, the more risk will find its way into the commercial banking system as banks are explicitly or implicitly encouraged to take on more risk in order to maintain profit margins. This is an important issue that all bank managements must confront and, frankly, we see few good solutions to this problem.

The second, is regulatory over-reach. Sadly, for the past three years, we’ve written about this and, yet again, no progress has been made on this front in the past year. We have more—not less—paper required to originate a mortgage loan. It still takes nearly an hour to properly open a new account because of all of the required information we must collect. We’ve added one more compliance position in the company during the past year. Our bankers are spending more time checking boxes and filling out required forms and less time in front of customers. It is the world in which we live and we continue to look hard for better ways to comply without inconveniencing our customers.

Since our 2008 merger, we’ve used this letter to communicate on progress in satisfying our four main constituencies—our customers, our employees, our communities, and our shareholders. We believe the news is compelling that we’ve improved our standing with each group over the past twelve months but we’ll let them (and you) be the ultimate arbiters of that statement.

OUR CUSTOMERS: We are fortunate that we live in the State of Iowa, which has not seen the extreme economic duress other states have seen over the past few years. Unemployment ended the year at 5.6% in Iowa, the lowest level in two years. That does not mean, however, that all of our customers have escaped economic hardship. At year-end, MidWestOne Bank had 18 customers with home properties in foreclosure. We serve 19 communities and have 2,152 residential real estate loans on our books as of year-end. Only 18 (0.84%) of those properties were in foreclosure. As you might expect, we take great care to exhaust all possible avenues before entering foreclosure. When we are working with many of our past due home mortgage borrowers, it may be Jason Swestka, Second Vice President, who is the bank representative talking to the customer. Jason practices a few rather simple rules: Always treat the customer with respect, always give the customer every opportunity to try to continue to pay on the loan even if it is a partial payment, and always try to put our customer on the best possible path to succeed. As Jason would say, “We will work with you if you will work with us.” Our 77-year-old mission statement is to

(LEFT TO RIGHT)
JEFF JOHNSON
FRAN KATKO
JASON SWESTKA



“take care of our customers and those who should be” and Jason excels in working with a segment of our customer base that is under daily pressure.

Fran Katko, Service Associate Managing Officer, will retire in May after taking care of our customers and serving our employees for 26 years in our Oskaloosa office. Fran understands that every customer interaction is an opportunity to live our mission statement. It is an opportunity to provide courteous and efficient service and send the satisfied customer on his/her way. It is an opportunity to suggest a service, such as mobile banking or the OneCard, that might make the customer’s life simpler. It might be an opportunity to put her arm around a customer’s shoulder and ask how a family member who has been ill is doing. Fran’s contribution to the company goes well beyond serving our customers. Fran manages our service associates in Oskaloosa and is a constant source of encouragement to them. She is a mentor. She is a teacher. And, perhaps most importantly, she is a friend. Fran says that “it is important that my work is accurate and completed on time” and that her employees know “I expect the same from them.”

OUR COMMUNITIES: MidWestOne is a community bank. We cannot succeed unless our communities prosper. We know we have an obligation to do more than write “donation” checks (we do that, too; more than \$329,000 in 2011). We expect our officers to be engaged in their respective communities. We serve on boards and we raise funds for organizations we love. In short, we do whatever needs to be done to move our communities ahead. Jeff Johnson is our Sigourney Market Manager and a ten year veteran of MidWestOne. In addition to overseeing the coordination of numer-

ous bank efforts to help the community, Jeff sits on the Sigourney City Council and chairs its Finance Committee. He is a past President and sits on the Sigourney Economic Development Corporation. And if that isn’t enough, he is the Treasurer of First Resource Corp., which provides services to the disabled in a ten county region in Southeast Iowa. The Sigourney community is clearly better because of Jeff Johnson!

OUR EMPLOYEES: Employees such as Jason, Fran and Jeff are what make our company great. One thing that this trio has in common is that they have continued to increase their contribution to the bank with each passing year. They have chosen to pursue their careers at MidWestOne and they’ve found tangible ways to make a difference in the lives of their customers, their co-workers, and their communities. We chose to highlight them in this year’s letter, but we could have chosen dozens of others who have made strong contributions to the success of our company. We also focus on service excellence stories later in this report as a means of displaying the continual commitment our employees make toward serving our customers.

We have a talented staff. And we are grateful for their good work. We remain focused on internal staff development and we offer various opportunities for our employees to sharpen and improve their skills. The MidWestOne Leadership Institute is in its third year and we already have 23 “alumni” who have benefitted from this leadership training. All of our employees receive “EDGE” (Exceptional Deeds through Genuine Effort) training within the first few months of their hire. But we also know that it takes more than “top down” corporate programs to sustain an engaged and talented staff. That is why we continue

to work with all of our managers and supervisors to assure that we reward and recognize achievement and encourage accountability at all levels. To assure continued success, we believe we must develop our culture and give our employees the tools they need to succeed.

OUR SHAREHOLDERS: Our shareholders received tangible rewards in 2011. Following a year of exceptional stock price performance in 2010, our stock price declined 3% in 2011. This decline was significantly less than the average publicly traded bank stock. Repaying our TARP obligations in July without raising additional capital was one of our achievements. Immediately following this repayment, we raised our dividend to common stock shareholders by 20% and raised it another 42% in January, 2012. We also commenced a share repurchase program and repurchased more than 102,000 shares of our stock during the last six months of 2011 at an average price of \$14.66, well below our tangible book value. This returned \$1.5 million to our shareholders and we believe that this is a very good investment your company has made in its future.

We are excited about our future and we hope you are as well. Thank you for your support and your encouragement. You’re the Ones for whom we will diligently work to exceed your expectations.

Charles N. Funk
 President & CEO

Kevin W. Monson
 Chairman

BUILDING ON BEDROCK VALUES

KEVIN W. MONSON
CHAIRMAN OF THE BOARD

“Our emphasis has always been to share with the community, do quality work, provide great service, and develop lifelong relationships,” says Kevin Monson, president and CEO of Neumann Monson Architects in Iowa City.

But wait: Is he talking about architecture or community banking? In fact, Monson explains, “MidWestOne’s philosophy and the way our firm does business are very much aligned”—which is among the reasons Kevin Monson is so well suited to his new role as chairman of the MidWestOne Board of Directors.

A board member since 2006, Monson says he was surprised and humbled when MidWestOne President & CEO Charles Funk and former board chairman W. Richard Summerwill approached him about becoming chair. But he readily accepted, despite some trepidation about stepping into the shoes of his well-known predecessor.

“Dick Summerwill is a stalwart fixture in the banking community in Iowa, and certainly one of the most revered bankers in Iowa City,” he says. “I’m going to be a far different chairman. But thanks to Charlie’s leadership, we have a fantastic staff in place—a team of people who understand the challenges ahead, know where we’re going, and are committed to delivering great service to our customers.

“That’s why I joined the MidWestOne board in the first place,” he continues. “We treat people like Iowans here, and I like that. We are locally controlled, and we care about and give back to the communities we serve. My mission as board chair is to make sure we stay firmly grounded in our communities and continue to be viewed as a true community asset. By working together, we can help our customers and our communities grow, be more competitive, and become better at everything they do.”

Monson’s focus on customer service is a natural extension of his architectural practice. “I love being able to create something for clients that they never dreamed possible, and having them be delighted by the results,” he says. “Building projects require so many different talents, and I enjoy working on large teams. Everyone involved gets a huge amount of pride and satisfaction in creating something that’s unique and that lasts.”

A “farm kid” from Forest City, Iowa, Monson’s desire to create can be traced back to childhood, when he was drawn to the idea of building shelter. He remembers constructing “little hovels” out of discarded objects and machine parts. In college, he found architecture to be “a great combination of science and artistic expression and discovery, and that balance intrigued me.” After earning a degree in architecture from Iowa State University and working for another local firm, he and two partners formed Neumann Monson Architects in 1977.

“When our firm was looking for a bank,” Monson recalls, “we really wanted to have a relationship with people we knew and trusted, people who cared about the community and cared about us. It was important to bank with someone who would look after our best interests but also set limits, so we could grow smartly and sustainably. We chose what was then Iowa State Bank & Trust Company, now MidWestOne.”

Neumann Monson Architects has become increasingly well known for its leading-edge work on projects that incorporate energy conservation and sustainability. “To me, sustainability is about people, and about creating a healthy environment in which people have the tools and conditions that allow them to outperform what they’ve done in the past,” Monson explains. “Of course our buildings have to be beautiful and affordable and function well—but if they also focus on the human dimension of sustainability, the dividends will be huge.”

Monson clearly values the dividends he’s gained through his relationship with MidWestOne. “Working with the board and staff has been a wonderfully educational opportunity for me,” he says. “I know we face great challenges in the future, and we need to be very fluid in the face of growing change. But at the same time, our key values are unchanging and non-negotiable. Those values have given us the backbone to weather storms as they come and go, while continuing to serve our communities. MidWestOne has a rock-solid foundation, we’re working as one, and we’re very optimistic about the future.”



TAKE GOOD CARE OF OUR
CUSTOMERS

“I just acted on instinct.”



It was a cold, rainy, windy Saturday morning in November 2011 when an elderly customer pulled up to the drive-in window at MidWestOne Bank in Sigourney. As she placed three checks in the teller drawer, a gust of wind tore the top check away and sent it wheeling through the air.

Inside the teller window—five steps down from the main bank lobby, which is closed on Saturdays—MidWestOne Service Associate Don Banning watched the check fly up to Main Street and turn north. “I didn’t even have time to think and just acted on instinct,” he recalls. “I raced up the steps, hollered at my colleague to unlock the front door, and chased down the check. It got away from me a couple of times, but it finally got a little wet and then I could grab it.”

“While I’m doing this, the customer is still sitting in her car by the window, worrying about the process she’s going to have to go through to replace that check. She was really kind of glad to see me show up,” he says in characteristic understatement. Banning is a retired educator who works at MidWestOne on a part-time basis. “We’re talking about a retired man, yes,” he says. “But I’m in pretty good shape!”

Banning lives in North English and also works part-time in the MidWestOne office there. “My primary job is customer service,” he says. “We’re taught to go the extra mile.” Even in the wind, rain, cold, and on Saturdays.

DON BANNING, MidWestOne Service Associate



MIKE FINLAYSON, MidWestOne
MIKE DRAPER, RAYGUN

SPOTLIGHT ON SERVICE

In 1934, when Ben Summerwill, Sr. formed the bank that would become MidWestOne, he wisely advised his staff to focus on providing good customer service. Seventy-seven years later, MidWestOne and its employees live by five core Operating Principles—and customer service remains at the very top of the list:

- Take good care of our customers
- Hire and retain excellent employees
- Always conduct yourself with the utmost integrity
- Work as one team
- Learn constantly so we can continually improve

This year's Annual Report—the first in a five-part series—highlights the ways in which our employees truly deliver “above and beyond” service. Although we've chosen to feature just a few of our communities in this report, they are emblematic of the entire MidWestOne family. For staff in every MidWestOne location, first-rate service is second nature.

Next year, our Annual Report will focus on another of MidWestOne's five Operating Principles. We look forward to sharing more employee-customer stories that illustrate our commitment to excellence in everything we do. As we say, at MidWestOne . . . You're the One.

When philosophies align

When Mike Draper made plans to expand RAYGUN—his irreverent and highly successful Des Moines T-shirt store—into downtown Iowa City, he knew he needed a local banking partner. And he had one very important qualification. “I'm sure there are better ways to pick a bank,” Draper admits, “but for me, it's all about how easy the people are to work with.”

Referred to MidWestOne by his Iowa City landlord, Draper met with Second Vice President and Retail Managing Officer Mike Finlayson about a business loan. “Mike's sales team is phenomenal,” Draper says. “From our very first meeting, everyone at MidWestOne has listened to our needs and been very agreeable. That's why MidWestOne is our main bank today.”

Draper's sales career started in college. During his senior year at the University of Pennsylvania, he and a friend began selling T-shirts to college students in major cities on the East Coast. “It was the front lines of

capitalism,” Draper recalls. “Much of what we use at RAYGUN today, from sales techniques to marketing to the design of our shirts, stems from what I learned selling T-shirts on the street.”

When he returned to Iowa in 2005 and opened RAYGUN in downtown Des Moines, Draper worked with a number of banks and quickly learned how not to do business. “Any banking issue you have is bound to be serious, so you want to talk to someone who knows what's going on and has the power to help you,” he says. He was frustrated when banking staff were uninformed or unable to assist.

That's why his MidWestOne experience has been so positive, and also happens to align with RAYGUN's own philosophy. “We don't have a secret ingredient other than our people,” Draper says. “We hire staff almost entirely on attitude and train them to be as helpful as possible. That kind of service makes the difference.”

TAKE GOOD CARE OF OUR
CUSTOMERS

What it means to be a community bank

MidWestOne customer Greg Martin of West Liberty spent much of the 2011 Independence Day weekend boat shopping. On Saturday, July 2, he found what he was looking for. But it

was a holiday weekend, the banks were closed, the boat was in Illinois, and the cautious seller was reluctant to accept either Martin's personal check or a cashier's check. Now what?

"I called Cindy at home and asked her if we could make this work," Martin says, referring to Cindy Mays, Market President at the MidWestOne West Liberty office. Mays responds: "I've been in banking for 35 years. In a small town where you know everybody, if someone's in a pinch over the weekend, I'm always happy to help."

The personal service that MidWestOne customers have come to expect, says Martin, caught the Chicago-area boat seller by surprise. "I told him my bank was willing to cut him a check, and he simply could not believe a bank was going to open up over the 4th of July weekend just for me. He wanted to drive out here and see for himself.

"So I gave him directions and we met in the bank parking lot on Sunday morning," Martin continues. "Cindy had made some calls, and she and Service Associate Cathy Simon opened the bank, cut the cashier's check, and hand-delivered it to the guy. He was just amazed. Cindy kind of ribbed him about it—she said, 'You're obviously banking at the wrong place.'"

That afternoon, Martin brought the boat back to Iowa and by Monday, July 4, he and his family were happily plying the waters of Coralville Lake. Meanwhile, Mays sees nothing out of the ordinary in this story. "To me, customer service is about meeting my customers' needs with a smile and open arms and an open heart. That's what it means to be a community bank."

"[The boat-seller from Chic she said, 'You're obviously



CINDY MAYS, MidWestOne

GREG MARTIN, MidWestOne customer

“...our best customer service is to ensure customer protection.”

In his position as a Personal Banker at MidWestOne Bank's downtown Iowa City office, John Schickedanz deals with many University of Iowa students—one of whom needed his help more than she knew.

The student came into the bank at the start of the 2011 fall semester. Over the summer, she had completed a website revision for an online employer. She received a paycheck of nearly \$3,000, a sum that would allow her to pay tuition without relying on student loans. She was eager to open a MidWestOne account and excited about starting classes debt-free.

“She was a really nice young woman, and I saw no red flags as we went through the account-opening process,” Schickedanz explains. “But when I took the check from her to make the deposit, I realized something wasn't right.” He noticed that key features were missing, including microprint on the front of the check and the “Original Document” text on the back.

“I called the bank that had issued the check and it turned out to have been stolen,” Schickedanz says. “This student was trying to make an honest day's pay and she'd done all the work, but the entire set-up was fraudulent. She ended up not being able to pay her tuition and it was a terrible situation. If the check had gone through, she would have had to reimburse the bank.”



JOHN SCHICKEDANZ, MidWestOne

Fortunately, a hard-won lesson had a softer landing: With the student's permission, MidWestOne contacted the University, explained what had happened, and the UI agreed to extend the student's tuition-payment deadline so she could start fall classes as planned.

“After it was all over, the student came back into the bank and was so thankful for our help,” Schickedanz says. “Sometimes, our best customer service is to ensure customer protection.”

ago] was just amazed. Cindy kind of ribbed him about it — banking at the wrong place.”

MIDWESTONE FINANCIAL GROUP, INC. AND MIDWESTONE BANK
BOARDS OF DIRECTORS

Row One:

Richard R. Donohue
Managing Principal,
TD&T Financial Group, P.C.
MOFG and MidWestOne Bank
Board Member

Barbara Kniff-McCulla
CEO, KLK Construction
MOFG and MidWestOne Bank
Board Member

Richard J. Schwab
Investor, Entrepreneur, and Builder
MidWestOne Bank Board Member

Tracy S. McCormick
Past Vice President, Investment
Banking, JP Morgan and Co.
MOFG Board Member

Robert D. Wersen
President, Interpower Corporation
MOFG Board Member

Row Two:

Suzanne Summerwill,
Retired Bank Executive,
MidWestOne Bank
MidWestOne Bank Board Member

Robert J. Latham
Chairman and President, Latham
and Associates, Inc.
MOFG and MidWestOne Bank
Board Member

John S. Koza
Retired Bank Executive,
MidWestOne Bank
MOFG and MidWestOne Bank
Board Member

Stephen L. West
President, West Music Company, Inc.
MOFG and MidWestOne Bank
Board Member

Row Three:

Kevin W. Monson
Chairman, Managing Partner,
Neumann Monson Architects, PC
MOFG and MidWestOne Bank
Board Member

Charles N. Funk
President & CEO, MidWestOne
Financial Group, Inc. and President
& CEO, MidWestOne Bank

John P. Pothoven
Retired Bank Executive,
MidWestOne Bank
MOFG and MidWestOne Bank
Board Member

Charles S. Howard
Retired Bank Executive,
MidWestOne Bank
MOFG Board Member

R. Scott Zaiser
Owner, Zaiser's Landscaping, Inc.
MOFG and MidWestOne Bank
Board Member



MIDWESTONE FINANCIAL GROUP, INC. **OFFICERS**

Kevin W. Monson
Chairman

Charles N. Funk
President & Chief Executive Officer

Susan R. Evans
Chief Operating Officer

Gary J. Ortale
Executive Vice President, Chief
Financial Officer & Treasurer

Kent L. Jehle
Executive Vice President & Chief
Credit Officer

James M. Cantrell
Vice President & Chief Risk Officer

Gregory W. Turner
Vice President & Head of Wealth
Management

Kenneth R. Urmie
Secretary

Not pictured:
W. Richard Summerwill
Retired Bank Executive,
MidWestOne Bank
Director Emeritus of MOFG
and MidWestOne Bank



MIDWESTONE FINANCIAL GROUP, INC.
EXECUTIVE OFFICERS (LEFT TO RIGHT)

Kent L. Jehle, Executive Vice President & Chief Credit Officer

Susan R. Evans, Chief Operating Officer

Gary J. Ortale, Executive Vice President, Chief Financial Officer & Treasurer

FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share amounts)

YEAR-END BALANCES

	2011	2010	2009
Assets	\$ 1,695,244	\$ 1,581,259	\$ 1,534,783
Investment Securities	536,116	465,986	370,912
Loans	986,173	938,035	966,998
Loan Pools	52,186	68,005	85,186
Deposits	1,306,642	1,219,328	1,179,868
Shareholders' Equity	156,494	158,466	152,208

AVERAGE BALANCES

Assets	\$ 1,628,253	\$ 1,559,035	\$ 1,543,307
Investment Securities	507,466	415,571	347,965
Loans	953,392	955,562	990,540
Loan Pools	59,972	78,150	92,456
Deposits	1,262,705	1,192,751	1,170,113
Shareholders' Equity	158,146	157,190	147,544

RESULTS OF OPERATIONS

Net Interest Income	\$ 48,798	\$ 47,865	\$ 45,115
Provision for Loan Losses	3,350	5,950	7,725
Noninterest Income	14,716	14,907	12,519
Noninterest Expense	42,235	43,289	45,579
Income Before Income Taxes	17,929	13,533	4,330
Net Income	13,317	10,130	4,409

PER COMMON SHARE

Net Income – Basic	\$ 1.47	\$ 1.08	\$ 0.42
Net Income – Diluted	1.47	1.07	0.42
Dividends	0.22	0.20	0.30
Book Value	18.35	18.39	17.69
Tangible Common Equity Per Share	17.15	15.27	14.42
Closing Share Price	14.62	15.11	8.74

ASSET QUALITY

Bank Loans Past Due 30–89 Days	\$ 7,001	\$ 10,482	\$ 10,075
Non-performing Bank Loans	18,106	19,781	13,879
Net Charge Offs	2,841	4,740	4,745

RATIOS

Return on Average Equity	8.42%	6.44%	2.99%
Return on Average Tangible Common Equity	9.51	7.66	3.64
Return on Average Assets	0.82	0.65	0.29
Net Interest Margin	3.34	3.43	3.27
Efficiency Ratio	62.94	64.44	71.92
Average Equity as a % of Average Assets	9.71	10.08	9.56
Allowance for Bank Loan Losses as a % of Bank Loans	1.59	1.62	1.44
Net Bank Loan Charge-offs as a % of Average Bank Loans	0.30	0.50	0.48
Non-performing Bank Loans as a % of Bank Loans	1.84	2.11	1.44

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share amounts)

ASSETS	DECEMBER 31, 2011	DECEMBER 31, 2010
Cash and due from banks	\$ 28,155	\$ 13,720
Federal funds sold and other short-term investments	4,468	6,803
Cash and cash equivalents	32,623	20,523
Securities available for sale	534,080	461,954
Securities held to maturity	2,036	4,032
Loans held for sale	1,955	702
Loans	986,173	938,035
Allowance for loan losses	(15,676)	(15,167)
Loans, net	970,497	922,868
Loan pool participations, net	50,052	65,871
Premises and equipment, net	26,260	26,518
Accrued interest receivable	10,422	10,648
Other intangible assets, net	10,247	11,143
Bank owned life insurance	27,723	26,772
Other real estate owned	4,033	3,850
Other assets	25,316	26,378
Total assets	\$ 1,695,244	\$ 1,581,259
LIABILITIES AND SHAREHOLDERS' EQUITY	DECEMBER 31, 2011	DECEMBER 31, 2010
Liabilities		
Deposits:		
Non-interest-bearing demand	\$ 161,287	\$ 129,978
Interest-bearing checking	499,905	442,878
Savings	71,823	74,826
Certificates of deposit under \$100,000	346,858	380,082
Certificates of deposit \$100,000 and over	226,769	191,564
Total deposits	1,306,642	1,219,328
Federal funds purchased and securities sold under agreements to repurchase	57,207	50,194
Federal Home Loan Bank borrowings	140,014	127,200
Long-term debt	15,464	15,464
Accrued expenses and other liabilities	19,423	10,607
Total liabilities	1,538,750	1,422,793
Shareholders' Equity		
Preferred stock, no par value, with a liquidation preference of \$1,000 per share; authorized 500,000 shares; issued and outstanding no shares as of December 31, 2011 and 16,000 shares as of December 31, 2010	-	15,767
Capital stock, common, \$1 par value; authorized 15,000,000 shares; 8,690,398 shares issued at December 31, 2011 and 2010	8,690	8,690
Additional paid-in capital	80,333	81,268
Treasury stock, at cost; 160,868 shares and 75,608 shares at December 31, 2011 and 2010, respectively	(2,312)	(1,052)
Retained earnings	66,299	55,619
Accumulated other comprehensive income (loss)	3,484	(1,826)
Total shareholders' equity	156,494	158,466
Total liabilities and shareholders' equity	\$1,695,244	\$1,581,259

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in thousands, except per share amounts)

	YEARS ENDED DECEMBER 31,		
	2011	2010	2009
INTEREST INCOME			
Loans	\$ 52,163	\$ 54,731	\$ 58,697
Loan pool participations	1,108	2,631	1,809
Securities:			
Taxable securities	10,934	9,667	8,797
Tax-exempt securities	4,339	3,912	3,997
Federal funds sold and other short-term investments	37	40	58
Total interest income	68,581	70,981	73,358
INTEREST EXPENSE			
Interest-bearing checking	3,891	4,260	4,501
Savings	200	183	213
Certificates of deposit	11,231	13,137	16,897
Federal funds purchased and securities sold under agreements to repurchase	272	303	464
Federal Home Loan Bank advances	3,494	4,650	5,450
Long-term debt	657	534	658
Other borrowings	38	49	60
Total interest expense	19,783	23,116	28,243
Net interest income	48,798	47,865	45,115
Provision for loan losses	3,350	5,950	7,725
Net interest income after provision for loan losses	45,448	41,915	37,390
NONINTEREST INCOME			
Trust, investment, and insurance fees	4,537	4,556	4,180
Service charges on deposit accounts	3,702	4,042	3,988
Mortgage origination and servicing fees	2,691	3,506	2,770
Bank-owned life insurance income	951	685	778
Securities gains, net	490	453	813
Investment securities impairment losses	-	(189)	(2,404)
Other income	2,345	1,854	2,394
Total noninterest income	14,716	14,907	12,519
NONINTEREST EXPENSE			
Salaries and employee benefits	23,194	23,170	23,152
Net occupancy and equipment	6,537	6,566	6,961
Data processing	1,670	1,702	1,844
FDIC insurance	1,612	2,850	3,244
Amortization of intangible assets	896	1,029	1,141
Other expenses	8,326	7,972	9,237
Total noninterest expense	42,235	43,289	45,579
Income before income taxes	17,929	13,533	4,330
Income tax expense (benefit)	4,612	3,403	(79)
Net income	\$ 13,317	\$ 10,130	\$ 4,409
Less: Preferred stock dividends and discount accretion	645	868	779
Net income available to common shareholders	\$ 12,672	\$ 9,262	\$ 3,630
EARNINGS PER COMMON SHARE			
Basic	\$ 1.47	\$ 1.08	\$ 0.42
Diluted	\$ 1.47	\$ 1.07	\$ 0.42

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(dollars in thousands, except per share amounts)

YEARS ENDED DECEMBER 31, 2011, 2010, AND 2009	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME		TOTAL
Balance, December 31, 2008	\$ -	\$ 8,690	\$ 80,757	\$ (1,215)	\$ 43,683	\$ (1,573)		\$ 130,342
Effect of adoption of FASB ASC 320 on retained earnings, net of tax	-	-	-	-	3,266	-		3,266
Net income	-	-	-	-	4,409	-		4,409
Dividends paid on common stock (\$0.30 per share)	-	-	-	-	(2,602)	-		(2,602)
Dividends paid on preferred stock	-	-	-	-	(620)	-		(620)
Release/lapse of restriction on RSUs (2,278 shares)	-	-	(32)	32	-	-		-
Issuance of preferred shares (16,000 shares)	15,642	-	-	-	-	-		15,642
Common Warrants Issued	-	-	358	-	-	-		358
Preferred stock discount accretion	57	-	-	-	(57)	-		-
Stock compensation	-	-	96	-	-	-		96
Other comprehensive income, net of tax	-	-	-	-	-	1,317		1,317
Balance, December 31, 2009	\$ 15,699	\$ 8,690	\$ 81,179	\$ (1,183)	\$ 48,079	\$ (256)		\$ 152,208
Net income	-	-	-	-	10,130	-		10,130
Dividends paid on common stock (\$0.20 per share)	-	-	-	-	(1,722)	-		(1,722)
Dividends paid on preferred stock	-	-	-	-	(800)	-		(800)
Stock options exercised (3,953 shares)	-	-	(23)	53	-	-		30
Release/lapse of restriction on RSUs (5,604 shares)	-	-	(78)	78	-	-		-
Preferred stock discount accretion	68	-	-	-	(68)	-		-
Stock compensation	-	-	190	-	-	-		190
Other comprehensive income (loss), net of tax	-	-	-	-	-	(1,570)		(1,570)
Balance, December 31, 2010	\$ 15,767	\$ 8,690	\$ 81,268	\$ (1,052)	\$ 55,619	\$ (1,826)		\$ 158,466
Net income	-	-	-	-	13,317	-		13,317
Dividends paid on common stock (\$0.22 per share)	-	-	-	-	(1,891)	-		(1,891)
Dividends paid on preferred stock	-	-	-	-	(513)	-		(513)
Stock options exercised (6,832 shares)	-	-	(17)	97	-	-		80
Release/lapse of restriction on RSUs (10,850 shares)	-	-	(138)	141	-	-		3
Preferred stock discount accretion	233	-	-	-	(233)	-		-
Redemption of preferred stock (16,000 shares)	(16,000)	-	-	-	-	-		(16,000)
Repurchase of common stock warrant	-	-	(1,000)	-	-	-		(1,000)
Repurchase of common stock (102,190 shares)	-	-	-	(1,498)	-	-		(1,498)
Stock compensation	-	-	220	-	-	-		220
Other comprehensive income, net of tax	-	-	-	-	-	5,310		5,310
Balance, December 31, 2011	\$ -	\$ 8,690	\$ 80,333	\$ (2,312)	\$ 66,299	\$ 3,484		\$ 156,494

SHARE PRICE

2010	HIGH	LOW	CASH DIVIDEND DECLARED
First Quarter	\$ 11.94	\$ 7.70	\$ 0.05
Second Quarter	\$ 17.00	\$ 11.26	\$ 0.05
Third Quarter	\$ 15.70	\$ 12.37	\$ 0.05
Fourth Quarter	\$ 15.95	\$ 13.91	\$ 0.05

2011	HIGH	LOW	CASH DIVIDEND DECLARED
First Quarter	\$ 15.45	\$ 13.62	\$ 0.05
Second Quarter	\$ 14.89	\$ 12.20	\$ 0.05
Third Quarter	\$ 15.00	\$ 13.75	\$ 0.06
Fourth Quarter	\$ 15.15	\$ 13.66	\$ 0.06

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