

2012 ANNUAL REPORT

OUR OPERATING PRINCIPLES:

TAKE GOOD CARE OF OUR CUSTOMERS

**Hire and retain excellent employees**

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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



# 2012

was a banner year for your company. It was a year of growth, a year of unprecedented financial achievements and, perhaps most importantly, a year in which MidWestOne Financial Group, Inc. continued to build on its 78-year-old mission statement of “taking care of our customers... and those who should be.” In this year’s annual shareholders letter, we will discuss our accomplishments and much more as we report on 2012’s successes and what we see as we look toward the future.

In a year in which the nation’s commercial banks improved profitability as they recovered from the Great Recession of 2008–09, MidWestOne continued to post improved operating results. Our assets grew by almost \$100 million during

2012 and we ended the year with \$1.793 billion in total assets, up 5.8% from December 31, 2011. Partly due to the generous liquidity provided by the Bernanke-led Federal Reserve, banks of all sizes had access to plentiful deposit growth in 2012 and MidWestOne was no exception as deposits increased a robust 7.1% or \$93.1 million to \$1.4 billion at year-end 2012. In this ultra-low interest rate environment, however, deposit growth is less than desirable if not accompanied by loan growth. We were pleased with 2012 from a loan growth standpoint as we increased outstanding bank loans \$49.1 million or 5.0% to \$1.035 billion at year-end 2012. This latter metric is especially noteworthy during a time of extremely sluggish economic growth.

Our goal is for growth that leads to improved profitability.  
This is exactly what occurred in 2012.

As frequent readers of this letter know, however, we believe bigger does not always mean better. In other words, our goal is for growth that leads to improved profitability. This is exactly what occurred in 2012. Net income improved to \$16,751,000 from \$13,317,000 in 2011. Return on assets improved to 0.97% for the year with return on tangible common equity moving up to 11.09%. After setting a company record with earnings of \$1.47 per share in 2011, MidWestOne set another all-time record with earnings per share of \$1.97 in 2012. However, the preceding numbers only tell part of the story. In the second quarter of 2012, we booked two one-time transactions (discussed in more detail below) that cumulatively reduced our net income by \$1,286,000. Without these transactions, our return on assets climbed to 1.05% and the return on tangible common equity moved up to 11.92%. Similarly, the closely tracked efficiency ratio at MOFG fell to 58.82% in 2012 when the two one-time transactions are excluded. A year ago, we reported that our five year goal for MidWestOne Bank was a 55.00% efficiency ratio. We are pleased to report that the bank’s efficiency ratio was 55.00% in 2012, again, when the two one-time transactions are excluded! These numbers please us and that is especially true when we reflect back to the “dark days” of 2008–09 when our company was dealing with a complex merger and the Great Recession. To summarize, in 2012, MidWestOne grew, it improved its profitability and, perhaps most importantly, set itself up with a strong foundation for a promising future.

The year of 2012 was a very good one, in general, for most Iowa commercial banks as profitability of the banks in this state far surpassed national averages. To be sure, Iowans are blessed with an economy that never weakened as much as the national economy in 2008 and 2009. While there have been

some rough spots in several regions of our state, it is certainly fair to say Iowa’s problems have been less severe than in other parts of the nation. That is the good news. The more challenging news is that Iowa has many more banks than the average state. Despite being 30th in population among the 50 states, Iowa has the 4th highest number of bank charters. This ensures a very competitive banking landscape and Iowa banks tend to have lower net interest margins than their national counterparts. With that as a backdrop, it is noteworthy that the company’s growth in its net interest margin drove growth in its earnings in 2012. Propelled by better-than-expected balance sheet growth as well as much improved performance from our ever diminishing loan pool participations, the net interest margin improved to 3.46% for 2012 compared to 3.34% in 2011. This equated to an improvement in net interest income of \$4,552,000. Ask any of our bankers about MidWestOne’s “flywheel” and you will receive a simple answer: “collecting deposits and making good loans”. It is our flywheel that provided this increased momentum in net interest income.

Since our 2008 merger, we’ve been very intentional in discussing our desire to increase non-interest income to 30% of total revenues. We’ve fallen further from the 30% goal as time has passed. The reasons are straightforward. The balance sheet has simply grown faster than the non-interest revenue stream. However, that is not to say that progress has been absent from our fee generating entities. Wealth Management at MidWestOne consists of our subsidiary bank’s Trust Department, its Investment Services department, and the bank’s sister company, MidWestOne Insurance Services. The Trust Department’s performance has been remarkably consistent for the past four years with revenues increasing 7.7% annually and net income, on average, 14% each year. Most impressively, this department

has continued to operate with a profit margin that has hovered around 40%. Investment Services has also built an impressive record, especially in 2011 and 2012 with the two-year increase in revenues at 31% while net income has advanced by 28% in this period. As we have discussed in prior annual reports and annual meetings, our insurance subsidiary has battled a soft property/casualty market and merger-related challenges for the past three years. We have been pushing hard for financial improvement. We continue to believe the future is promising for this division of MidWestOne. At some point in the future, however, we will be challenged with an economy where balance sheet growth does not come as easily as it did in 2012. This will be the time when our shareholders will reap the benefits of our focus on these non-interest income producing entities.

The other key driver of future fee income at MidWestOne is our Home Mortgage Center. For more than a century, making 1-4 family real estate loans has been a key to the success of nearly all community banking institutions and 2012 was no exception. MidWestOne customers benefitted from our Home Mortgage Center in a big way in 2012. We closed 1,501 residential real estate loans totaling \$224,136,749 in 2012. Income from mortgage origination and loan servicing fees climbed 33.0% from 2011 to \$3,578,000.

As described above, our financial results included two large one-time items recorded in the second quarter. MidWestOne Bank sold its Iowa City Home Mortgage Center property to the University of Iowa and, in so doing, recorded a one-time gain of \$4,047,000. The UI saw its School of Music flooded in 2008 and will build its new School of Music on this property. As we look to the future, we moved our operations one and one-half blocks south and we will soon be breaking ground on a new Operations

## COMMUNITY IMPACT GRANT

The steam heated food serving cart, pictured, may not seem too out-of-the-ordinary for a school cafeteria, but it wasn't an item that Lincoln Elementary in Iowa City possessed until just this year. Using grant money obtained from the MidWestOne Bank Community Impact Grant, the school was able to replace its 20-year-old food heating lamp system with this \$3,600 rolling steam-tray cart. The cart better displays the food, keeps all items at a consistent temperature, and provides for a safer lunchroom experience for the children.

MidWestOne created the \$50,000 Community Impact Grant to challenge bank staff to dream up innovative ideas that they could put into action to impact their community. The 19 markets that make up MidWestOne Bank each were offered the opportunity to submit an internal application and compete against each other to receive a one-time \$50,000 grant for their community project.

The winning application came from the Iowa City area market and was titled "The Healthy Kids Initiative." This project combined the efforts of the Iowa City Community School District, the United Way of Johnson County, the University of Iowa School of Dentistry, and over 100 MidWestOne employees to establish school gardens, farmer fairs, lunchroom upgrades, fruit deliveries, free toothbrushes, and free dental screenings. Throughout the year, over 5,000 elementary students will receive at least one direct benefit as a result of this program.

Due to the success of the Community Impact Grant, MidWestOne will announce the second \$50,000 recipient in May 2013.



**From left:** Matt Fettkether, Ann Langenfeld (School Principal), Peggy Doerge, Alison Demory (School District Food Service Director), Todd Means, and Jenny Olson.

Center at that location. We believe this move was good for our community and good for MidWestOne.

The other large one-time event was the termination of the old ISB&T Pension Plan which resulted in a loss of \$6,088,000. This pension was frozen at December 31, 2007 in anticipation of our merger in 2008 but continued to drain resources as interest rates on plan assets fell and future obligations to plan participants rose. Thus, we made the difficult decision to terminate the pension plan. Taking the long term view, this proved to be a very good move. Simply stated, pensions and other defined benefit plans are increasingly unaffordable and this is true in the public sector as well as in the private sector.

We are pleased to report that MidWestOne continued to shine in the area of asset quality. Net charged-off loans for the full year were just 0.21% of total loans. Throughout the recent financial crisis, this number was never in excess of 0.50% for an entire calendar year. At year-end 2012, our non-performing bank loans were just 1.03% of total bank loans. We continued to maintain what we believe is an appropriate loan loss reserve and this reserve, at year-end 2012, stood at 1.54% of total bank loans. More significantly, this reserve was essentially 150% of non-performing loans at year-end. We have always believed that the quickest way to banking oblivion is to become sloppy in our loan underwriting practices or to fail to provide adequately for anticipated loan losses.

We believe that our four key constituencies did very well in 2012. We have used this space in previous years to describe the progress made by our customers, our employees, our communities, and our shareholders. In our corporate world-view, a community bank cannot succeed now, or in the future, unless each one of these constituencies thrives.

**OUR CUSTOMERS:** MidWestOne customers were well-served in 2012. Ours is a competitive industry and our customers have many product choices from many financial services institutions. For that reason, we must not only provide competitive pricing but competitive products. You have already read about the many home loans made to our customers as well as the solid growth numbers in our deposit and loan balances. But let's drill a little deeper to see how we are doing. Twice each year, we survey our customers to see how we are doing at providing excellent customer service. This year's results are, succinctly, consistently at a high level. Nine out of ten surveyed indicated they were either "satisfied" or "very satisfied" with MidWestOne Bank and four out of five would recommend MidWestOne to a friend or family member. These surveys provide valuable feedback for how we may improve in various areas, but also give us a great opportunity to recognize our employees who are providing outstanding service.

There were many factors that led to the Great Recession of 2008-09. One of them was a growing financial

illiteracy among financial consumers. We believe that community banks must take a leading role in educating not only these financial consumers but also their customers in financial matters. We do this in many ways. We teach our school-children in elementary schools throughout our geographic footprint the importance of saving. We sponsor classes for first-time home buyers to assure that wise financial decisions are made. And, we initiated the Hands On Advice blog on our website, MidWestOne.com. Hands on Advice is financial advice—intended to be both timely and timeless—written by MidWestOne employees. We invite you to go to our website and click on Hands on Advice to see for yourself. Hands On Advice was featured and honored in the September 2012 issue of the *ABA Bank Marketing* magazine.

The bottom line here is that each one of our employees comes to work each day and sees our mission statement in a prominent place in their office. In 2013, we continue to be driven by the notion that we must "take care of our customers... and those who should be" just as we have since the bank was founded in 1934.

**OUR EMPLOYEES:** Our second operating principle is to "hire and retain excellent employees". We have featured this operating principle in this year's report and you will read of the successes of several outstanding employees. Every annual report will, at some point, feature the words "our employees are our most important asset." For some companies, it seems that this is little more than a mindless statement. At MidWestOne, we believe that our people are the one element that can differentiate us from our competitors.

Each year on Columbus Day, we close our offices and assemble for Rally Day. Rally Day is a company-wide celebration featuring outstanding speakers, employee reward and recognition, the CEO's overview of the company, as well as fun and games. When we survey our employees, more than 97% of them believe this is a worthwhile endeavor.

We have continued to invest in the MidWestOne Leadership Institute and 2012 marked the third class of graduates, with twelve persons completing the class. A fourth class has just started and we look forward to exposing this group of leaders to the tenets of effective leadership. We also have continued to invest in our "EDGE" customer service principles and note that our investment in this class has surpassed \$250,000 since our 2008 merger. Each MidWestOne employee has been through EDGE training. We also believe that a new employee's initiation into a company is very important. For that reason, we have invested considerable time

and effort into the new employee orientation day-long classes. Comments received by attendees indicate that this day has helped them more fully appreciate the new company for which they are working as well as provide many answers to questions before they become questions.

We are always delighted when our employees win awards for community or industry service. We had many award winners in our employee base during 2012. Two deserve special mention. Elsewhere in this report, you will read of the extraordinary national honor won by our Chief Operating Officer, Susan R. Evans. As one of the "25 Women to Watch" in US banking, Sue was accorded an honor that few ever attain. We believe she is only the second Iowan to be so honored. And Senior Vice President, Gregory W. Turner was recognized by the NorthWestern Financial Review as one of the outstanding young bankers in the Upper Midwest. In the preceding paragraphs, you read of the achievements of our Wealth Management division and this success is a direct result of Greg's outstanding leadership. We know that when our employees receive these types of honors, so, too, is MidWestOne honored.

**OUR COMMUNITIES:** When we survey our customers each year, we find that we are well known for the outstanding support given to our communities. Our employees volunteer. We coach youth soccer teams. We sit on foundation and not-for-profit boards. We chair school boards. If there is a job to be done in the community, chances are you will see at least one MidWestOne employee in a leadership role.

In 2012, we decided to take community involvement one step further. As the company's earnings increased, we looked for a "breakthrough" way to give back to the communities that have so generously given to us. We started the MidWestOne Community Impact Grant. Through this special project, we committed \$50,000 to one project for one year and asked all MidWestOne Bank markets to apply and compete for the grant. In its first year, the Iowa City market submitted the winning request. The \$50,000 is being applied to the Healthy Kids Initiative in coordination with the United Way of Johnson County, the Iowa City Community School District, and the University of Iowa College of Dentistry to support healthy eating habits, sustainable gardens at elementary schools, and dental hygiene. We also expect 100% volunteer participation from our Iowa City area employees to assist in these efforts. We've committed to the unique grant again in 2013 and look forward to reviewing the applications.

We do believe this company is a survivor and that our conservative nature, our strong balance sheet, and our core operating principles ensure a bright future for MidWestOne.

**OUR SHAREHOLDERS:** As the company's earnings have improved, so, too, have the results that have accrued to our shareholders. We have long said that we cannot control the price of our stock; rather, we can do our best to post good financial results knowing that the stock price will normally follow financial performance. As such, MOFG common stock showed a 40% increase during calendar year 2012. Better yet, it has handily outperformed our regional peers on both a one-year and a three-year time frame. In addition, we increased the dividend twice during 2012 and, again, in early 2013. Two years ago, our common stock dividend was \$0.20 per share annually; today, it currently stands at \$0.50 per share. We also repurchased our stock when we believed it was trading at a level significantly below enterprise value. Since 2011, the company has repurchased 206,708 shares of common stock at an average price of \$16.00.

One reason that we have been able to show these results and tangible rewards to our shareholders is that we continue to take great pride in the strength of our balance sheet. At year-end, our tangible common equity (TCE) was 9.22% of tangible assets. In times of uncertainty, we believe TCE is the first line of defense for our shareholders. Our balance sheet is primarily funded with core deposits, giving us stability when times are unsettled. And we have never believed that our path to success was in leveraging our balance sheet through an excessively high loan-to-deposit ratio. At its current level of 76.7%, we believe we have room to prudently expand this number "into the 80's" as quality loan opportunities are uncovered. Our pledge to you is to continue to maintain a strong balance sheet.

One thing we have always noted about turning the page to a new year: there are always clouds on the horizon. These clouds are seen by everyone

and we see them as challenges to be overcome. What are this year's clouds? First and foremost, the low interest rate policy that has been promulgated by the Bernanke-Fed is proving to be increasingly challenging to our industry. Our net interest margins will become harder to maintain the longer interest rates stay at these levels. As this letter is being written, we note that interest rates have been steadily rising, but whether this is the start of a new trend or just a counter trend rally remains to be seen. What we do know for sure is that the longer interest rates stay this low, the more challenging it will be for banks of all sizes.

The regulatory climate continues to be brutal. We quote from a recent *Des Moines Register* article on banking: "Small community banks are bowing under the weight of a raft of new regulations inspired largely by the misconduct at larger institutions." We could not have said it better. There is an anti-bank sentiment in our regulatory agencies as they try to comply with the regulations enacted under the Dodd-Frank Wall Street Reform and Consumer Protection Act. How does this affect the average customer? By lessening the availability of credit! Because of the onslaught of new regulation surrounding home loans, credit is, and will continue to be, less available to consumers than it was even five years ago. New onerous regulation on basic banking services, such as checking accounts and wire transfers, forces customers to seek other options. Smaller banks cannot comply with this increasing regulation and are beginning to pull back on basic service offerings. At MidWestOne, we added six new positions in 2012 that dealt with compliance matters and oversight. Our preference, of course, is to add jobs in the areas of customer service, business development and support. The next time you hear a politician extoll the virtues of Dodd-Frank, tell that person that increasing regulation

continues to be a threat to the business of community banking.

We continue to field questions about consolidation in our industry. Consolidation has been occurring for the past five years, but not at the rate that was originally predicted. We still believe that a wave of consolidation is coming in our industry. We are hesitant, however, to predict that the wave is imminent in Iowa. Iowa banks, generally, outperform their counterparts in most other states and, as such, there is not as much motivation for consolidation as exists in other, more "battle weary" states. We do believe this company is a survivor and that our conservative nature, our strong balance sheet, and our core operating principles ensure a bright future for MidWestOne.

It is our great privilege to lead this company. We have taken comfort in the strong support from our shareholders before and after our 2008 merger. Great companies are not built overnight. We believe we have established a solid foundation for building a great and enduring company. You're the Ones for whom we will diligently work, for whom we diligently build as we strive to exceed your expectations.



Charles N. Funk  
President & CEO



Kevin W. Monson  
Chairman



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

**Front Row:**

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

**Robert D. Wersen:** President, Interpower Corporation, MOFG and 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

**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

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

**Back Row:**

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

**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

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

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

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

**W. Richard Summerwill**

Retired Bank Executive, MidWestOne Bank, Director Emeritus of MOFG and MidWestOne Bank

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



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

**Gary J. Ortale,** Executive Vice President, Chief Financial Officer & Treasurer  
**Susan R. Evans,** Chief Operating Officer  
**Kent L. Jehle,** Executive Vice President & Chief Credit Officer

# Worth watching



## SEW GENEROUS

Last year, Sue Evans published her personal “60 Things to Do Before I Turn 60” list in *MidWestOne’s* employee newsletter, and asked co-workers to add items to the list that would benefit local nonprofits. The winning idea came from a *MidWestOne* staff member who suggested that Sue—an accomplished seamstress—make a quilt to be auctioned by Iowa City’s Domestic Violence Intervention Program (DVIP). Sue loved the idea and took it a step further. “I got together a band of women to sew ‘dream cases,’” she explains, “so that every person who comes to the DVIP shelter can pick out a colorful, brand-new pillow case, as well as a new pillow provided by *MidWestOne*. It’s been a very fun labor of love.”

## “THIS WAS NOT AN AWARD FOR ME;

this was an award for the bank. I wish I could have loaded everyone onto that plane and taken the entire bank with me to New York City!”

In October 2012, *MidWestOne’s* Chief Operating Officer Sue Evans was named one of “25 Women to Watch” by *American Banker* magazine in its annual list of the “Most Powerful Women in Banking.” In selecting Sue for the award, the magazine cited her responsibilities for revenue generation, setting strategy, developing new business lines, and installing a bank-wide customer relationship management system.

Sue flew to New York City to receive her honor at a gala awards ceremony at the Waldorf Astoria. “I was truly humbled to be in a crowd of 650 powerful people in a city that’s known as the financial center of the world,” she recalls.

“Typically, this award goes to women from larger banks, and you see the same names year after year. But I think when they looked at *MidWestOne*, our record profits and our culture that made an impact. We also have four females in executive management, which is a third of our team, and that got noticed as well.”

In fact, the culture to which Sue refers—including the operating principle that reminds *MidWestOne* staff to “Hire and Retain Excellent Employees”—was responsible for capturing the attention of *American Banker*. That’s because *MidWestOne* President & CEO Charles Funk decided it was time for Sue’s accomplishments to be recognized by the rest of the banking world, and he nominated her for the award.

Sue says she was gratified that the nomination came from the bank’s management team, particularly because it reflects her own philosophy about employee development and recognition. “I’m really proud of that fact that if we see an opening or an opportunity for advancement, we look inside first,” she says.

“Over the past few years, we’ve really made a point of mentoring and encouraging individual employees, and asking ourselves, ‘What’s the next step for them, and how can we help get them there?’ If they have good leadership and communication skills, we’re going to push them to succeed.”

If Sue has her way, many of the women and men to watch in the banking industry’s future are working at *MidWestOne* today—and being inspired by Sue’s powerful example of what it means to be an excellent employee.



HIRE AND RETAIN  
EXCELLENT EMPLOYEES

## Five for the future

IN JANUARY 2013, MidWestOne Bank was named “Best Place for Young Professionals to Work” by the Empowered Professionals of the Iowa City Area (ePIC). That’s quite a distinction in a competitive employment market with considerable appeal for recent college graduates. Yet ePIC’s founders see brain-drain as a serious and ongoing challenge. Three years ago, with the assistance of the Iowa City Area Chamber of Commerce, they formed ePIC to more fully engage younger workers in the community.

Brent Hawkins, one of ePIC’s original members, is a poster child for the kind of young professional that ePIC hopes to keep in the community. Brent was born in Iowa City and graduated from Coe College in Cedar Rapids, but found himself “stagnating” after a couple of post-college jobs in retail and banking. He relocated to Texas and the Twin Cities before realizing he wanted to be closer to home.

After moving back to Iowa City, Brent was hired in May 2010 as Retail Managing Officer at MidWestOne’s Keokuk Street location, where he describes his main role as building strong relationships with customers and staff.

As for ePIC, Brent explains that the founding members met to discuss “why so many young people and recent graduates want to leave this area, when we offer so many opportunities here. We decided that one solution would be to provide ways to connect and get involved with the community through volunteerism.”

Not so coincidentally, MidWestOne also has long recognized the value of encouraging employees to serve as community volunteers. That philosophy, along with the bank’s commitment to staff development, promotion from within, and other employee-centered practices, helped MidWestOne win ePIC’s first “Best Place to Work” award.

“When I heard about the award, I thought it sounded just right,” says Assistant Retail Managing Officer Angie Brown, who works in MidWestOne’s Clinton Street office. “There are so many opportunities here for growth and engagement.”

Angie’s story is the reverse of Brent’s route to the bank. She grew up in Grimes, Iowa; graduated from Buena Vista University in Storm Lake; and moved to Iowa City for a change of scene. She was hired as a Service Associate in 2004 and was named to her current position in 2011.

“I really appreciate the bank’s focus on getting out in the community,” says Angie, who volunteers for the local American Heart Association and helped launch its new Outreach Committee. “Every few months we pick an event, set up a booth, and talk to women about heart health. I enjoy it a lot, and I’m grateful to MidWestOne COO Sue Evans for suggesting I get involved.”

Mark Sandvig shares Angie’s enthusiasm for volunteerism. A native of Laurens, Iowa, Mark joined MidWestOne five years ago and is now Retail Managing Officer at the bank’s Coralville office. He volunteered for

the campus-based Optimist Club while enrolled in the UI’s Tippie College of Business. After graduation he sought out the Iowa City Noon Optimist Club and served for two years as club president. He also volunteers as a teacher with Junior Achievement.

“One of the things that attracted me to the UI was that Iowa City has all the amenities of a larger city, but still has that small-community feel,” Mark says. “At MidWestOne, we want our customers to feel like we’re their community bank. That’s something I take a lot of pride in.”

Like Mark, Melissa Payne is a UI graduate who volunteers for Junior Achievement and other community organizations—but unlike many of

her MidWestOne coworkers, she came to banking not with a business background, but a degree in psychology. “It’s actually very helpful in my work with customers and staff,” says Melissa, who is the Service Center Managing Officer at the bank’s corporate headquarters.

Melissa is a native of Clear Lake, Iowa, and joined the bank in 2005. Today, she supervises the bank’s “call center”—a staff of eight employees who handle the thousands of calls that come into the bank each month. “It requires constant learning, and I really enjoy coaching my team to make sure we’re delivering great customer service,” says Melissa. “Hiring and retaining excellent employees is some-

thing I take to heart, and I appreciate how much the bank invests in training to help us develop as professionals.”

When Scott Jamison joined MidWestOne as North Liberty Retail Managing Officer in late 2012, he already felt like part of the community. “I’d met Brent Hawkins through ePIC, I was in Optimist Club with Mark Sandvig, and Angie Brown and I both graduated from Buena Vista University,” he says. “I was meant to be here!”

A native of Oelwein, Iowa, Scott moved to Iowa City in 2011. He, too, has been honored by ePIC, receiving the organization’s 2012 “Young Professional Volunteer of the Year” award for his out-sized efforts on behalf of many local organizations, including the

Optimist Club, Summer of the Arts, North Liberty’s Blues & BBQ event, and ePIC’s Civic Committee.

“When the bank was recognized by ePIC as best employer, and then Scott won the volunteer award, it was like having MidWestOne sweep the Oscars,” Brent laughs. “These awards are a real tribute to the bank’s culture, to the personal attention given to every employee, and to our genuine commitment to giving back to the community.”

**Above:** From left: Angie Brown, Brent Hawkins, Melissa Payne, Mark Sandvig, and Scott Jamison.



HIRE AND RETAIN  
EXCELLENT EMPLOYEES

“I love working with people and making them feel good about their entire MidWestOne experience. We’re all on the same team, and we’re all working toward the same goal of meeting our customers’ needs.”

Diane Mathes, Personal Banker Associate, Oskaloosa

# Team spirit

**EMPLOYEES ARE HAPPIEST** and most productive when they feel part of a supportive and like-minded team. At MidWestOne’s Oskaloosa location, that team includes two long-time employees who definitely think alike—and the bank’s customers are the beneficiaries of their shared focus on service.

Vice President and Retail Managing Officer Sandy Bailey has been with MidWestOne for 21 years. At the company’s annual employee Rally last fall, President & CEO Charles Funk surprised her with the 2012 President’s Award, recognizing Sandy’s above-and-beyond commitment to customers, as well as her achievements in leading the Oskaloosa team to significant growth in deposits and market share.

“The award came as quite a surprise,” Sandy says. “The bank does a great job of recognizing its employees, and I’m grateful. But to be honest, it’s the job itself that I find most rewarding. I care about people, I enjoy getting to know them and hearing their stories, and I want to make a difference.”

One way in which Sandy makes a difference is in hiring staff members who’ll be a good fit for her team. “We

look for people who enjoy working with the public, who want to be successful, and who embody our values,” she says. “And it’s made easier by the fact that we have such strong role models on the bank’s management team. My own boss, Barb Finney, sets a terrific example, and she’s been a wonderful mentor to me.”

Sandy’s thoughts are echoed by her coworker, Diane Mathes, a Personal Banker Associate. The two colleagues have worked together for more than 15 years. “Sandy is incredibly supportive, and she always makes time for you, no matter how busy she might be,” Diane says. The admiration is mutual. “Diane is truly passionate about taking care of our customers,” says Sandy. “She always goes the extra mile.”

Diane’s role at the bank gives her the opportunity to interact with a wide variety of clients, which she thoroughly enjoys. “I love working with people and making them feel good about their entire MidWestOne experience,” she explains. “And I honestly can’t imagine a better group of coworkers. I know it’s a cliché, but we’re like family. We’re all on the same team, and we’re all working toward the same goal of meeting our customers’ needs.”



## SPOTLIGHT ON STAFF

MidWestOne and its employees live by five core **Operating Principles**. Maintaining an exceptional workforce devoted to serving our customers is among the principles we practice every day:

- 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 second in a five-part series—highlights our approach to hiring and retaining excellent employees. Our goal is to ensure that MidWestOne staff members embrace our values, enjoy coming to work every day, are motivated to do their best, and are inspired to give back to their communities. Ultimately, our success depends on the quality, integrity, and dedication of our employees. And we’re proud of every one of them.

Next year, our Annual Report will focus on another of MidWestOne’s five Operating Principles. We look forward to sharing stories that illustrate our commitment to excellence in everything we do, for our staff and for our customers. As we say, at MidWestOne . . . You’re the *One*.



## HIRE AND RETAIN EXCELLENT EMPLOYEES

# The people person

### HIRING AND RETAINING EXCELLENT EMPLOYEES

begins with an eye for talent. In the case of Vice President and Trust Officer John Chadima, MidWestOne—then Iowa State Bank & Trust Company—didn't have to look more than a block away, to Iowa Book & Supply.

John is proud of the fact that his entire career has been spent at just two companies, both of which are located along Clinton Street in downtown Iowa City. "Many of my friends say, 'John, that is just pathetic,'" he laughs. "But my bank clients say, 'John, that shows us you are a very stable person, and we like that.'

"This is going to sound crazy, but I always wanted to be a banker," says John, an Iowa City native whose irrepressible energy and humor are far removed from the solemn-banker stereotype. "I think it came from reading Arthur Hailey's *The Moneychangers* in high school, when I was working at the bookstore."

After John graduated from the University of Iowa with a degree in financial economics, he attended a lecture about an author's experience in the trust department of a large Chicago bank. "I found his stories about client relationships to be fascinating," John recalls, "and that planted the seed for my career in trust."

With encouragement from his boss at the book store, John applied for and was hired as a teller in 1981. "I'd been there about two months when a retired bank employee stopped me and said, 'John, I've noticed something interesting. Even when other tellers are free, customers will wait longer in line just to talk to you.' She saw in me an ability that I hadn't yet realized."

John joined the bank's trust department in 1990, and he remains grateful for the opportunity to work with a diverse array of customers. "I don't know everything about banking, but I love pulling together a team of experts to create solutions. When my customers ask what my role is on the team, I just say, 'I'm here to make you happy.'

"There's a reason MidWestOne has kept me around for 32 years," he continues, "and it's not because of my technical and numerical skills. It's because I can relate to our customers and those who should be. I'm a banker who hates numbers, but I love people."

"When my customers ask what my role is on the team, I just say, 'I'm here to make you happy.'"



## FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share amounts)

<b>YEAR-END BALANCES</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Assets	\$1,792,819	\$1,695,244	\$1,581,259
Securities	590,210	536,116	465,986
Loans	1,035,284	986,173	938,035
Loan Pool Participations	37,784	52,186	68,005
Deposits	1,399,733	1,306,642	1,219,328
Shareholders' Equity	173,932	156,494	158,466

<b>AVERAGE BALANCES</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Assets	\$1,721,792	\$1,628,253	\$1,559,035
Securities	562,889	507,466	415,571
Loans	1,001,259	953,392	955,562
Loan Pool Participations	44,507	59,972	78,150
Deposits	1,335,476	1,262,705	1,192,751
Shareholders' Equity	165,429	158,146	157,190

<b>RESULTS OF OPERATIONS</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net Interest Income	\$ 53,350	\$ 48,798	\$ 47,865
Provision for Loan Losses	2,379	3,350	5,950
Noninterest Income	20,082	14,716	14,907
Noninterest Expense	48,960	42,235	43,289
Income Before Income Taxes	22,093	17,929	13,533
Net Income	16,751	13,317	10,130

<b>PER COMMON SHARE</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net Income - Basic	\$ 1.97	\$ 1.47	\$ 1.08
Net Income - Diluted	1.96	1.47	1.07
Dividends	0.36	0.22	0.20
Book Value	20.51	18.35	18.39
Tangible Common Equity	19.39	17.15	15.27
Closing Share Price	20.51	14.62	15.11

<b>ASSET QUALITY</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Bank Loans Past Due 30-89 Days	\$ 6,141	\$ 7,001	\$ 10,482
Non-Performing Bank Loans	10,654	18,106	19,781
Net Charge Offs	2,098	2,841	4,740

<b>RATIOS</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Return on Average Equity	10.13 %	8.42 %	6.44 %
Return on Average Tangible Common Equity	11.09	9.51	7.66
Return on Average Assets	0.97	0.82	0.65
Net Interest Margin	3.46	3.34	3.43
Efficiency Ratio	67.32	62.94	64.44
Average Equity as a % of Average Assets	9.61	9.71	10.08
Allowance for Bank Loan Losses as a % of Bank Loans	1.54	1.59	1.62
Net Bank Loan Charge-offs as a % of Average Bank Loans	0.21	0.30	0.50
Non-performing Bank Loans as a % of Bank Loans	1.03	1.84	2.11

## SHARE PRICE

<b>2011</b>	<b>HIGH</b>	<b>LOW</b>	<b>CASH DIVIDEND DECLARED</b>
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

<b>2012</b>	<b>HIGH</b>	<b>LOW</b>	<b>CASH DIVIDEND DECLARED</b>
First Quarter	\$19.36	\$14.41	\$ 0.085
Second Quarter	\$22.20	\$18.76	\$ 0.085
Third Quarter	\$23.25	\$20.58	\$ 0.095
Fourth Quarter	\$22.50	\$19.31	\$ 0.095

## CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

<b>ASSETS</b>	<b>DECEMBER 31, 2012</b>	<b>DECEMBER 31, 2011</b>
Cash and due from banks	\$ 30,197	\$ 28,155
Federal funds sold and other short-term investments	16,994	4,468
<b>Cash and cash equivalents</b>	<b>47,191</b>	<b>32,623</b>
Securities available for sale	557,541	534,080
Securities held to maturity	32,669	2,036
Loans held for sale	1,195	1,955
Loans	1,035,284	986,173
Allowance for loan losses	(15,957)	(15,676)
<b>Loans, net</b>	<b>1,019,327</b>	<b>970,497</b>
Loan pool participations, net	35,650	50,052
Premises and equipment, net	25,609	26,260
Accrued interest receivable	10,292	10,422
Intangible assets, net	9,469	10,247
Bank-owned life insurance	28,676	27,723
Other real estate owned	3,278	4,033
Other assets	21,922	25,316
<b>Total assets</b>	<b>\$1,792,819</b>	<b>\$1,695,244</b>

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>DECEMBER 31, 2012</b>	<b>DECEMBER 31, 2011</b>
<b>Liabilities</b>		
Deposits:		
Non-interest-bearing demand	\$ 190,491	\$ 161,287
Interest-bearing checking	582,283	499,905
Savings	91,603	71,823
Certificates of deposit under \$100,000	312,489	346,858
Certificates of deposit \$100,000 and over	222,867	226,769
<b>Total deposits</b>	<b>1,399,733</b>	<b>1,306,642</b>
Federal funds purchased and securities sold under agreements to repurchase	68,823	57,207
Federal Home Loan Bank borrowings	120,120	140,014
Long-term debt	15,464	15,464
Accrued expenses and other liabilities	14,747	19,423
<b>Total liabilities</b>	<b>1,618,887</b>	<b>1,538,750</b>

<b>Shareholders' Equity</b>	<b>DECEMBER 31, 2012</b>	<b>DECEMBER 31, 2011</b>
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, 2012 and 2011	-	-
Capital stock, common, \$1 par value; authorized 15,000,000 shares; 8,690,398 shares issued at December 31, 2012 and 2011	8,690	8,690
Additional paid-in capital	80,383	80,333
Treasury stock, at cost; 209,910 shares and 160,868 shares at December 31, 2012 and 2011, respectively	(3,316)	(2,312)
Retained earnings	79,995	66,299
Accumulated other comprehensive (loss)	8,180	3,484
<b>Total shareholders' equity</b>	<b>173,932</b>	<b>156,494</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$1,792,819</b>	<b>\$1,695,244</b>

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in thousands, except per share amounts)

	YEARS ENDED DECEMBER 31,		
	2012	2011	2010
<b>INTEREST INCOME</b>			
Loans	\$51,355	\$52,163	\$54,731
Loan pool participations	1,978	1,108	2,631
Securities:			
Taxable securities	10,836	10,934	9,667
Tax-exempt securities	5,078	4,339	3,912
Federal funds sold and other short-term investments	55	37	40
<b>Total interest income</b>	<b>69,302</b>	<b>68,581</b>	<b>70,981</b>
<b>INTEREST EXPENSE</b>			
Interest-bearing checking	3,007	3,891	4,260
Savings	143	200	183
Certificates of deposit	8,814	11,231	13,137
Federal funds purchased and securities sold under agreements to repurchase	204	272	303
Federal Home Loan Bank advances	3,094	3,494	4,650
Long-term debt	656	657	534
Other borrowings	34	38	49
<b>Total interest expense</b>	<b>15,952</b>	<b>19,783</b>	<b>23,116</b>
<b>Net interest income</b>	<b>53,350</b>	<b>48,798</b>	<b>47,865</b>
<b>Provision for Loan Losses</b>	<b>2,379</b>	<b>3,350</b>	<b>5,950</b>
<b>Net interest income after provision for loan losses</b>	<b>50,971</b>	<b>45,448</b>	<b>41,915</b>
<b>NONINTEREST INCOME</b>			
Trust, investment, and insurance fees	4,995	4,537	4,556
Service charges on deposit accounts	3,247	3,702	4,042
Mortgage origination and servicing fees	3,578	2,691	3,506
Bank-owned life insurance income	953	951	685
Securities gains, net	805	490	453
Investment securities impairment losses	-	-	(189)
Other income	6,504	2,345	1,854
<b>Total noninterest income</b>	<b>20,082</b>	<b>14,716</b>	<b>14,907</b>
<b>NONINTEREST EXPENSE</b>			
Salaries and employee benefits	30,684	23,194	23,170
Net occupancy and equipment	6,246	6,537	6,566
Data processing	1,679	1,670	1,702
FDIC insurance	1,224	1,612	2,850
Amortization of intangible assets	778	896	1,029
Other expenses	8,349	8,326	7,972
<b>Total noninterest expense</b>	<b>48,960</b>	<b>42,235</b>	<b>43,289</b>
<b>Income before income taxes</b>	<b>22,093</b>	<b>17,929</b>	<b>13,533</b>
<b>Income Taxes</b>	<b>5,342</b>	<b>4,612</b>	<b>3,403</b>
<b>Net income</b>	<b>\$16,751</b>	<b>\$13,317</b>	<b>\$10,130</b>
<b>Less: Preferred stock dividends and discount accretion</b>	<b>-</b>	<b>645</b>	<b>868</b>
<b>Net income available to common shareholders</b>	<b>\$16,751</b>	<b>\$12,672</b>	<b>\$9,262</b>
<b>EARNINGS PER COMMON SHARE</b>			
Basic	\$ 1.97	\$ 1.47	\$ 1.08
Diluted	\$ 1.96	\$ 1.47	\$ 1.07

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(dollars in thousands, except per share amounts)

YEARS ENDED DECEMBER 31, 2012, 2011, AND 2010	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK	RETAINED EARNINGS	ACCUMULATED OTHER	TOTAL
						COMPREHENSIVE INCOME	
<b>Balance, December 31, 2009</b>	<b>\$15,699</b>	<b>\$8,690</b>	<b>\$81,179</b>	<b>\$(1,183)</b>	<b>\$48,079</b>	<b>\$ (256)</b>	<b>\$152,208</b>
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, net of tax	-	-	-	-	-	(1,570)	(1,570)
<b>Balance, December 31, 2010</b>	<b>\$15,767</b>	<b>\$8,690</b>	<b>\$81,268</b>	<b>\$(1,052)</b>	<b>\$55,619</b>	<b>\$ (1,826)</b>	<b>\$158,466</b>
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
<b>Balance, December 31, 2011</b>	<b>\$ -</b>	<b>\$8,690</b>	<b>\$80,333</b>	<b>\$(2,312)</b>	<b>\$66,299</b>	<b>\$ 3,484</b>	<b>\$156,494</b>
Net income	-	-	-	-	16,751	-	16,751
Dividends paid on common stock (\$0.36 per share)	-	-	-	-	(3,055)	-	(3,055)
Stock options exercised (55,986 shares)	-	-	(16)	593	-	-	577
Release/lapse of restriction on RSUs (15,810 shares)	-	-	(200)	213	-	-	13
Repurchase of common stock (104,518 shares)	-	-	-	(1,810)	-	-	(1,810)
Stock compensation	-	-	266	-	-	-	266
Other comprehensive income, net of tax	-	-	-	-	-	4,696	4,696
<b>Balance, December 31, 2012</b>	<b>\$ -</b>	<b>\$8,690</b>	<b>\$80,383</b>	<b>\$(3,316)</b>	<b>\$79,995</b>	<b>\$ 8,180</b>	<b>\$173,932</b>

### TRANSFER AGENT/ DIVIDEND PAYING AGENT

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433 South Carlton Avenue  
Wheaton, Illinois, 60187-9904

### GENERAL COUNSEL

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Chicago, Illinois 60606-3465

### INDEPENDENT PUBLIC ACCOUNTING FIRM

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2500 Ruan Center  
Des Moines, Iowa 50309

## MIDWEST ONE BANK

<b>Belle Plaine</b>	802 13th Street	319-444-2842
<b>Burlington</b>	3225 Division Street	<b>319-754-6526</b>
<b>Cedar Falls</b>	4510 Prairie Parkway	319-277-2500
<b>Conrad</b>	120 West Center Street	641-366-2165
<b>Coralville</b>	110 First Avenue	319-356-5800
<b>Davenport</b>	101 W. Second St., Suite 100	563-322-9900
<b>Fairfield</b>	58 East Burlington Avenue	641-472-6511
<b>Fairfield</b>	2408 West Burlington Avenue	641-472-2424
<b>Fort Madison</b>	926 Avenue G	319-372-3991
<b>Iowa City</b>	102 South Clinton Street	319-356-5800
<b>Iowa City</b>	509 South Dubuque Street	319-356-5960
<b>Iowa City</b>	1906 Keokuk Street	319-356-5800
<b>Iowa City</b>	2233 Rochester Avenue	319-356-5800
<b>Melbourne</b>	202 Main Street	641-482-3105
<b>North English</b>	10030 Highway 149	319-664-3311
<b>North Liberty</b>	465 Hwy 965 NE, Suite A	319-356-5800
<b>Oskaloosa</b>	124 South First Street	641-673-8303
<b>Oskaloosa</b>	222 First Avenue East	641-673-8303
<b>Ottumwa</b>	116 West Main Street	641-682-8355
<b>Parkersburg</b>	1001 Highway 57	319-346-1645
<b>Pella</b>	700 Main Street	641-628-4356
<b>Pella</b>	500 Oskaloosa Street	641-628-4356
<b>Sigourney</b>	112 North Main Street	641-622-2381
<b>Waterloo</b>	3110 Kimball Avenue	319-232-5513
<b>West Liberty</b>	305 West Rainbow Drive	319-627-2100

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**En Español 319-688-3938**

## MIDWEST ONE INSURANCE SERVICES, INC.

<b>Butler-Brown Insurance</b>		
<b>Oskaloosa</b>	309 High Avenue East	641-673-8603
<b>Cook &amp; Son Agency</b>		
<b>Pella</b>	700 Main Street	641-628-4904
<b>MidWestOne Insurance Agency</b>		
<b>Cedar Falls</b>	4510 Prairie Parkway	319-277-2500
<b>Conrad</b>	120 West Center Street	641-366-2165
<b>Melbourne</b>	202 Main Street	641-482-3105
<b>Parkersburg</b>	1001 Highway 57	319-346-1645

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**NASDAQ Symbol: MOFG**

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